

# **E-12 EDUCATION FUNDING REFORM PROPOSAL Revised Draft #1**

**Commissioner's Working Group on School Funding  
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# GOALS

1. Improve the adequacy, equity, and stability of pre K-12 education funding;
2. Simplify education funding;
3. Preserve local control;
4. Close the achievement gap;
5. Promote high achievement for all students;
6. Direct resources closest to students, teachers and the classroom.

# WORKING ASSUMPTIONS

1. The state's \$5.0 billion budget shortfall for the FY 2012 - 2013 biennium, and the projected shortfall of \$4.4 billion for the FY 2014 – 2015 biennium, will preclude large increases in E-12 education funding in the near future.
2. Despite the state's gloomy budget outlook, state policy makers and the public put a high priority on E-12 education.
3. Given the above, it is assumed for purposes of this working group that E-12 funding will not be reduced in the near future, but will increase by a modest amount.
4. Therefore, the working group should focus on identifying and developing options that will most effectively advance the education funding reform goals outlined above, given a modest influx of new state funding (\$20 - \$200 million range).
5. It is further assumed that there will not be an increase in state total property tax levies for E-12 education, and that changes creating large "losers" will not be acceptable.

# MDE FUNDING REFORM PROPOSAL

## Revised Draft #1

1. Investing in early learning, with resources targeted first to all-day kindergarten for students living in poverty;
2. Lessening reliance on local referenda by rolling a portion of referendum revenue into the basic general education formula to provide a more adequate, uniform and stable funding base for all districts and charter schools, and reduce funding disparities;
3. Re-establishing a uniform levy to support the general education formula by consolidating existing school levies, without an overall increase in school levies;
4. Simplifying education funding by eliminating unnecessary formulas and simplifying how students are counted for funding purposes;

# MDE FUNDING REFORM PROPOSAL

## Revised Draft #1 (Continued)

5. Reforming the calculation of compensatory education revenue to target funding more directly based on need as measured by statewide assessments of student learning;
6. Rolling integration funding into the general education program, with resources targeted to close the achievement gap;
7. Allocating a portion of general education revenue to schools with outstanding levels of growth in student performance, with a portion of the funds used to maintain the outstanding performance and a portion used to disseminate best practices to other schools.
8. Reforming special education funding, including equitable sharing of excess special education costs between the resident school district and the serving school district or charter school for open-enrolled students.
9. Recognizing regional cost differences by rolling a portion of referendum revenue into a new location equity levy

# 1. Investing in Early Learning: All-Day Kindergarten

## **Governor's budget includes the following recommendation:**

- Beginning in FY 2013, provide all-day K funding for students eligible for free or reduced-price lunches who participate in a free all-day K program open to all kindergarteners at their school.
- Participation in the program would be optional.
- School districts and charter schools could choose to provide this option at one or more school sites.
- Aid would equal the product of the average daily membership of students eligible for free or reduced price lunches participating in the program times the general education formula allowance times 0.388 (the difference between a 1.0 pupil unit weight and the current 0.612 pupil unit for kindergarten students).
- The balance of program costs not funded through all day kindergarten aid would be funded using other non-fee resources from the school district or charter school's general fund.
- State aid cost is \$32 million in FY 2013, \$49 million in FY 2014 and \$52 million in FY 2015.

# 1. Investing in Early Learning: Early Childhood Quality Rating & Improvement System

## **Governor's budget includes the following recommendation:**

- Fund classroom observation of teachers and feedback as part of a proposed statewide early childhood quality rating and improvement system.
- This is one strategy in achieving the governor's agenda to raise the profile of early childhood education and support for high quality teaching.
- Teachers would be assessed in three areas: emotional climate, instructional support and classroom organization.
- Appropriation request is \$2 million in FY 2012 and \$2 million in FY 2014.

## 2. Roll a Portion of Referendum Revenue into the Basic Formula

### Goals:

- Provide a more adequate, uniform and stable funding base for all districts and charter schools.
- Lessen reliance on local referenda, and reduce funding disparities.

### Background:

- Inflation-adjusted basic formula allowance has declined by \$352 – \$808 / PU over the past 8 years, depending on the measure of inflation used
  - Districts have used referendums to offset the reduction in real basic formula revenue; inflation-adjusted referendum revenue has increased by \$362 - \$462 / PU over the past 8 years.
  - Not all districts have been able to pass referendums, and districts with strong tax bases have passed higher referendums than districts with lower tax bases. This has resulted in an increase in revenue disparities among districts, from 19% in FY 2003 to 30% in FY 2011.
  - Referendum Revenue was rolled into the basic formula in FY 2003 (\$415) and in FY 1995 (\$100)
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## 3. Re-establish A Uniform General Education Levy

### Goals:

- Provide a more stable source of funding to support the basic general education formula
- In conjunction with referendum roll-in, ensure that all districts have access to an adequate basic funding level with uniform local tax effort throughout the state.
- No increase in total school levies. The uniform general education levy would replace reductions in other school levies (e.g., referendum).

### Background:

- A uniform general education levy was an integral part of Minnesota's general education funding formula from its inception in the 1950s through 2002.
- Growing reliance on referendum levies to fund basic education, together with a decline in state equalization of referendum levies over the past 8 years, has led to growing disparity across Minnesota in tax rates needed to fund a basic education program.

## 4. Simplify Education Funding

### Goal:

- Eliminate unnecessary complexity, making it easier for policy makers, school districts and the general public to understand and evaluate how schools are funded and to set and manage budgets.

### Changes to Consider:

- Simplify student weightings
- Separate declining enrollment funding from pupil weighting system
- Eliminate obsolete / inequitable funding categories:
  - Training & experience revenue
  - Equity revenue (in combination with referendum roll-in)
  - Transition revenue
  - Charter Lease Aid Grandfather
- Reduce the number of separate categoricals

### Background:

- Current pupil weights are overly complex and don't reflect actual expenditure patterns
- Current complexity makes it difficult for stakeholders to understand and evaluate funding system

# 5. Reform Basic Skills Funding

## Goal:

- Align funding more closely with educational need to better support high academic achievement for all students and closing achievement gaps.

## Changes to Consider:

- Allocate a portion of compensatory revenue based directly on need as measured by statewide assessments of student learning (e.g., portion of students not proficient).
- Eliminate 80% cap in compensatory concentration formula
- Roll extended time funding into compensatory formula and allocate based on concentration of poverty and students not proficient.
- Extend eligibility for LEP funding from 5 to 7 years

## Background:

- Poverty has long been used as an indirect measure of need for basic skills programs; reliable data directly measuring the number of students who are not proficient and in need of basic skills programs has only recently become available
- Extended time formula rewards districts that choose to serve high-need students through an extension of the school day or year. Districts that choose to provide more intensive services during the regular school calendar do not receive this funding. Rolling this funding into the compensatory education formula would provide more flexibility to local districts to determine most effective strategies to close achievement gaps.

# 6. Reform Integration Funding

## **Goal:**

- Align funding more closely with need to better support achieving integrated schools and closing the achievement gap.

## **Changes to Consider:**

- Roll integration funding into the basic skills portion of general education revenue and allocate based on the number of students of color in each district.
- Better define uses of integration revenue to support achieving integrated schools and closing the achievement gap.

## **Background:**

- Integration funding per student of color varies widely among districts; some districts with low concentrations of these students receive much higher funding than other districts with much higher concentrations.
- Uses of integration revenue have not been well-defined.

# 7. Allocate a Portion of Funding Based on Student Performance

## Goal:

- Reward schools with outstanding student performance and facilitate dissemination of best practices to other schools.

## Governor's budget includes the following recommendation:

- Establish a noncompetitive grant program to recognize schools with outstanding growth in student achievement and enable these schools to provide best practices training or disseminate best practices information to other schools.
- The top 20% of schools in the percent of tested students making exceptional growth in reading and math will be eligible for a grant. The amount of the grant will vary, depending on the percent of tested students making high growth.
- Up to 50% of the grant may be used at the school to maintain the school's excellent performance. The remainder of the grant must be used to provide best practices training or to disseminate best practices information to other schools.
- Participation for eligible schools is optional; to qualify for a grant, school districts and charter schools with eligible schools must accept the award and submit a budget to the Department of Education.
- State cost is \$4.9 million in FY 2012, \$7.0 million in FY 2013 and later.

## 8. Reform Special Education Funding

### **Goal:**

- Simplify special education funding, and align it more closely with other components of Minnesota's education funding system, which are student-driven.
- Improve equity and strengthen cost containment incentives by requiring the serving district or charter school to share a portion of unfunded costs with the resident school district.

### **Changes to Consider:**

- Calculate an allowance for special education services based on FY 2011 state special education funding per adjusted ADM student in the district. Allocate base funding for future years equal to the lesser of the allowance times current year adjusted ADM or 70% of current year special education expenditures.
  - Allocate increases in state special education funding over the FY 2011 level based on a combination of total enrollment and enrollment of students in selected high-cost special education categories.
  - Instead of allowing the serving district or charter school to bill the resident school district for 100% of unfunded special education costs, require the serving school district or charter school to cover 10 - 20% of unfunded costs, with an exception provided for charter schools with an extremely high concentration of special education students.
  - Continue to provide state excess cost aid.
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## 8. Reform Special Education Funding (Continued)

### Background:

- The state's special education formula is very complex and is not aligned well with the state's general education formula.
- Most other states use a pupil-driven formula for funding special education, in combination with an excess cost formula.
- The current practice of requiring the resident district to cover 100% of unfunded special education costs is a disincentive for efficient service provision in districts serving nonresident student and in charter schools.

## 9. Roll A Portion Of Referendum Revenue Into A New Location Equity Levy

### Goal:

- Adjust for differences in the cost of delivering equivalent education services due to geographic location

### Changes to Consider:

- Roll a portion of referendum revenue into a new location equity allowance (Approximately \$400 / pupil)
- Location equity revenue would be funded through an equalized levy spread on referendum market value

### Background:

- The average FY 2011 referendum revenue for metro area districts is \$683 more per student (ADM) than for nonmetro districts
  - A portion of referendum revenue for metro area districts is currently used to pay for regional cost differences
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