

**MINNESOTA DEPARTMENT OF EDUCATION DRAFT E-12 EDUCATION FINANCE REFORM PROPOSAL  
Compared with New Minnesota Miracle Bill and Other Bills and Study Reports**

Topic	MDE Draft Proposal	New Minnesota Miracle Bill	Other Bills and Study Reports
<b>Goals</b>	<p><b>Goals:</b></p> <ul style="list-style-type: none"> <li>• Improve the adequacy, equity, and stability of E-12 education funding.</li> <li>• Simplify education funding.</li> <li>• Preserve local control.</li> <li>• Close the achievement gap.</li> <li>• Promote high achievement for all students.</li> </ul>	<p><b>Goals:</b></p> <ul style="list-style-type: none"> <li>• Adequate funding for all public school students.</li> <li>• Equitable funding formulas.</li> <li>• More fair funding system.</li> <li>• Simplified funding system.</li> <li>• Scalable to allow for phase-in over time.</li> </ul> <p><b>Characteristics:</b></p> <ul style="list-style-type: none"> <li>• Sets basic per pupil formula high enough to cover districts’ basic instructional needs while having other component formulas match specific additional needs.</li> <li>• Fully funds state’s share of special education costs.</li> <li>• Increases options for school district facility needs.</li> <li>• Restores equalization in school property tax system.</li> <li>• Provide substantial property tax relief.</li> </ul>	<p><b>Investing in our Future (Governor Pawlenty Task Force):</b></p> <ul style="list-style-type: none"> <li>• Funding should be rationally determined, learning-linked, student-oriented, reflect cost of instructional services and account for student characteristics and unique cost factors.</li> <li>• Elevate accountability.</li> <li>• Foster community and educator involvement.</li> <li>• Value choice.</li> <li>• Sustain progress toward funding equity.</li> <li>• More understandable.</li> <li>• Block funding to increase district flexibility and responsiveness.</li> <li>• Allow for voter-approved referendums.</li> <li>• Minnesota Education Innovation Allocation for innovative endeavors.</li> </ul> <p><b>PS Minnesota Report:</b></p> <ul style="list-style-type: none"> <li>• <b>Central Premise:</b> A good school funding formula should have a rational link to student needs, be based on research, and be supported by data.</li> <li>• <b>Critical Characteristics:</b> <ul style="list-style-type: none"> <li>+ Target achievement</li> <li>+ Sensitive to property wealth differentials</li> <li>+ Account for student and district differences</li> <li>+ Permit local discretion</li> <li>+ Provide resources to meet capital obligations</li> <li>+ Equalize access to construction</li> <li>+ Fund a sufficient base (reduced reliance on levies)</li> <li>+ Build base on an equalized blend of resources</li> </ul> </li> </ul> <p><b>Choices for Change (Governor Ventura Working Group):</b></p> <p><b>Goal:</b> Ensure the best public education for every child in Minnesota, and a governance structure that delivers improved learning for students and the best bang for the buck for taxpayers.</p>

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<b>General Strategy</b>	<ul style="list-style-type: none"> <li>Identify key structural reforms that will build the foundation for ongoing improvement of the E-12 education finance system.</li> <li>Prioritize investments that should be made in the short term with limited resources, given the state's current budget deficit, and other investments, in priority order, that should follow when additional resources are available.</li> <li>Priorities reexamined biennially, and new investments made to meet highest priorities within constraints of overall state budget and spending targets.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a specific proposal to implement the recommendations of the PS Minnesota report, defining the parameters of a school finance system that would provide "adequate funding" for all public school students.</li> <li>Long-term commitment made to adequacy formula at front end of process</li> <li>Difference between "adequate funding" and current funding phased in proportionately over a number of years.</li> </ul>	<p><b>Investing in Our Future and Follow-up APA and PS Minnesota reports:</b></p> <ul style="list-style-type: none"> <li>Define overall level of resources needed to provide an adequate public education for all students.</li> <li>Develop a broad framework for school finance reform.</li> </ul> <p><b>Choices for Change:</b> Governor's budget proposal to 2001 Legislature; major elements enacted included elimination of general education levy and \$415/PU roll-in of referendum into general education formula.</p>
<b>Funding Targets</b>	<p>Total Funding: \$20 - \$200 million per year, in the short term, depending on state budget situation.</p> <p>State Aids: \$20 - \$200 million per year</p> <p>Levies: No change in state total levy from current law</p> <p>Phase-in: Depends on overall state budget Situation. Would provide foundation for future investments, but no predetermined schedule</p>	<p>Total Funding: \$2.4 billion per year + inflation</p> <p>State Aids: \$3.2 billion per year + inflation</p> <p>Levies: \$800 million property tax relief per year</p> <p>Phase-in: Would be phased in over X years</p>	<ul style="list-style-type: none"> <li>Governor's budget: \$36M state aid for biennium, \$95 M in tails</li> <li>House: -\$23 M biennium, -\$5 M tails</li> <li>Senate: -35 M for biennium, -227 M tails</li> </ul> <p>Pay 2012 property taxes, change from current law:</p> <ul style="list-style-type: none"> <li>Governor: -\$1 million</li> <li>House: \$ 0</li> <li>Senate: -\$18 million</li> </ul>
<b>Referendum Revenue Roll-In</b>	<ul style="list-style-type: none"> <li>\$400 per pupil unit of referendum revenue rolled into basic formula to stabilize funding and improve equity by reducing reliance on voter approved referendum levies.</li> <li>Referendum levy reduction offset by new uniform general education levy.</li> </ul>	<ul style="list-style-type: none"> <li>\$500 per pupil of referendum revenue rolled into separate referendum offset formula to stabilize funding and improve equity by reducing reliance on voter approved referendum levies.</li> <li>Roll-in provides property tax relief to districts with existing referendums.</li> </ul>	<p><b>Choices for Change</b> report recommended that \$415 per pupil unit of referendum revenue be rolled into basic formula to stabilize funding and improve equity by reducing reliance on voter approved referendum levies (Enacted by 2001 Legislature).</p> <p><b>PS Minnesota</b> noted that adequate funding of base costs and adjustments "should significantly reduce the need for school districts to rely on operating referenda to support basic instructional costs."</p>
<b>Uniform General Education Levy</b>	<ul style="list-style-type: none"> <li>Uniform general education levy of approximately \$477 million would replace \$232 million of referendum levies rolled into the basic formula, and \$245 million of other levies (operating capital, equity, transition, integration and safe schools levies) that would be consolidated into the general education levy.</li> <li>The levy would be spread partly on tax capacity and partly on referendum market value, reflecting current mix, to minimize distributional changes.</li> </ul>	<ul style="list-style-type: none"> <li>No Uniform General Education Levy.</li> <li>Referendum roll-in paid for with additional state aid.</li> <li>Operating capital levy replaced with state aid.</li> <li>Transition and equity levies eliminated and rolled into formula.</li> </ul>	<p><b>PS Minnesota</b> recommended that "a new general education levy, equalized with state and local resources, should be used to adequately fund the base costs in the new formula".</p> <p>E-12 bills passed by <b>Minnesota Senate</b> in 2005, 2007 and 2009 included uniform general education levy (called "consolidated levy").</p> <ul style="list-style-type: none"> <li>Operating capital, equity and transition levies repealed and rolled into uniform general education levy.</li> <li>Did not include referendum roll-in.</li> </ul>

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<b>Equity and Transition Roll-In</b>	<ul style="list-style-type: none"> <li>Equity and Transition revenues rolled into general education formula.</li> <li>Elimination of equity and transition levies offset by new general education levy.</li> </ul>	<ul style="list-style-type: none"> <li>Equity and Transition revenues rolled into general education formula.</li> <li>Roll-in provides property tax relief to districts with existing equity and transition revenue.</li> </ul>	
<b>Pupil Accounting Simplified</b>	<ul style="list-style-type: none"> <li>Grades 1-6 &amp; Handicapped K=1.0; K=.5; Gr 7-12=1.2 (simplifies weights, but not as much as Miracle bill).</li> <li>Funds all day K for students eligible for free or reduced price lunch.</li> <li>Uses students served for all formulas.</li> <li>Formulas adjusted for pupil unit weighting changes.</li> </ul>	<ul style="list-style-type: none"> <li>All Grade Levels at 1.0.</li> <li>Funds all-day K.</li> <li>Continues to use resident pupil count to drive referendum revenue; students served for other formulas.</li> <li>Formulas adjusted for pupil unit weighting changes.</li> </ul>	<b>PS Minnesota</b> recommended that all students be weighted at 1.0.
<b>Declining Enrollment</b>	<ul style="list-style-type: none"> <li>Eliminates adjusted marginal cost pupil units (AMCPU), which include funding for declining enrollment in the base student count</li> <li>Separate component for declining enrollment.</li> <li>PU loss from prior year x 23% x formula allowance.</li> <li>Other formulas based on current count.</li> </ul>	<ul style="list-style-type: none"> <li>Eliminates adjusted marginal cost pupil units (AMCPU), which include funding for declining enrollment in the base student count.</li> <li>Separate component for declining enrollment.</li> <li>3-year average PU loss x formula allowance.</li> <li>Other formulas based on current count.</li> </ul>	<b>PS Minnesota</b> recommended that the funding formula “more fully address the real impact of declining enrollment on school district budgets.”
<b>Formula Allowance</b>	<ul style="list-style-type: none"> <li>About \$6,000/Adjusted Pupil Unit (depends on funding target)</li> </ul>	<ul style="list-style-type: none"> <li>\$7,500/Unweighted Pupil</li> </ul>	<b>PS Minnesota</b> noted that its consultant recommended a basic formula of \$5,938 (in FY 2005 dollars)
<b>Basic Skills (Compensatory, LEP, Extended Time, Integration)</b>	<ul style="list-style-type: none"> <li>Continues sliding scale formula with no minimum; eliminates cap on concentration at 80% poverty.</li> <li>Extended time funding rolled into compensatory education formula.</li> <li>Poverty concentration continues to be calculated at building level.</li> <li>Compensatory formula modified to include component based on concentration of students not proficient on state tests – 90% of funds allocated based on poverty and 10% based on percent of nonproficient students.</li> <li>Integration formula modified to target funds more directly to districts with high concentrations of protected group students, and is included in basic skills component of general education revenue; all districts with an integration plan receive the lesser of \$585 per student of color or cost of integration plan; Minneapolis receives additional \$100 per student of color.</li> <li>Eligibility for LEP funding extended from 5 to 7 years.</li> </ul>	<ul style="list-style-type: none"> <li>Sliding scale concentration formula with \$2,500 minimum per free/reduced-price lunch eligible pupil eliminates cap on concentration at 80% poverty.</li> <li>Continues extended time formula and links allowance to formula allowance.</li> <li>Compensatory revenue allocations based on poverty concentration at district level.</li> <li>Proficiency not used to calculate compensatory funding.</li> <li>No change in integration formula.</li> <li>5-year cap on eligibility for LEP revenue eliminated.</li> </ul>	<b>PS Minnesota</b> noted that its consultant (APA) recommended an add-on weight of .75 for students eligible for free or reduced-price lunches and an add-on weight of .90 for LEP students. PS Minnesota also recommended elimination of the 5-year limit on funding for LEP students.
<b>Gifted and Talented</b>	<ul style="list-style-type: none"> <li>Separate formula eliminated; \$ rolled into formula</li> <li>Reserve requirement retained.</li> </ul>	<ul style="list-style-type: none"> <li>Separate formula eliminated; \$ rolled into formula.</li> <li>Reserve requirement retained.</li> </ul>	

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<b>Regional Cost Adjustments</b>	<ul style="list-style-type: none"> <li>Referendum allowance between \$400 and \$800/PU for metro districts rolled into location equity levy.</li> <li>Location equity levy does not require voter approval for renewal.</li> <li>Grandfather portion of referendum cap reduced by amount of location equity allowance.</li> <li>Equalized at same level as Tier 1 of referendum.</li> </ul>	<p>Location equity index created using composite wage data; varies from .9 to 1.05.</p> <ul style="list-style-type: none"> <li>Provides additional \$248 million for metro area districts.</li> <li>Funded with state aid.</li> </ul> <p>Sparsity funding – Keeps requirement that qualifying schools both serve a small number of students and are a minimum distance from next nearest schools. Lowers minimum distance for elementary sparsity from 19 to 15 miles.</p>	<p><b>PS Minnesota</b> stated that a good funding formula “should account for unique characteristics of individual districts such as cost variances due to factors like geographic remoteness, declining enrollment, and market-based labor cost differentials”.</p>
<b>Innovation Revenue</b>	<ul style="list-style-type: none"> <li>Governor’s Excellence in Education Award (\$7 million/year) -- Additional funding provided to schools with &gt; 40% of tested students with high achievement gain (top 20% of schools); at least 50% of funds must be used to disseminate best practices to other schools; up to 50% may be used at the site to maintain the school’s excellent performance.</li> <li>Achievement Gap Innovation Fund - \$3 million/year in competitive grants to promote innovative approaches for closing the achievement gap and improving achievement of all students; priority given to projects involving innovative use of technology to close the achievement gap.</li> </ul>	<ul style="list-style-type: none"> <li>5% of basic revenue reserved for innovation.</li> <li>Must be used to implement evidence-based innovation premised on research-based practices that improve student performance.</li> <li>Districts with low growth must file a plan with MDE describing how funds will be used and report annually.</li> </ul>	<p><b>Choices for Change</b> recommended creation of a statewide program that provides financial rewards and recognition for schools that markedly increase student achievement, and pilot innovative performance funding initiatives in several schools around the state that tie receipt of state education funds to demonstrating upward trends in student achievement.</p> <p><b>Investing in our Future</b> recommended that funding be linked to student performance, and recommended a Minnesota Education Innovation allocation to “provide school districts and schools the opportunity to receive state funds for innovative endeavors that link learning to funding.”</p>
<b>Pension Offset</b>	<ul style="list-style-type: none"> <li>Eliminate pension adjustment, except that districts with smaller than average reduction under current law allowed to retain the difference from state average.</li> </ul>	<ul style="list-style-type: none"> <li>Eliminate pension adjustment.</li> </ul>	
<b>Q Comp</b>	<ul style="list-style-type: none"> <li>No new districts added to Q Comp.</li> </ul>	<ul style="list-style-type: none"> <li>Eliminated.</li> </ul>	
<b>Referendum Revenue – Open-Enrolled Students</b>	<ul style="list-style-type: none"> <li>Referendum calculations based on adjusted (served) student count.</li> <li>Allowances adjusted to avoid revenue windfall/loss.</li> </ul>	<ul style="list-style-type: none"> <li>No change from current law.</li> </ul>	
<b>Training and Experience</b>	<ul style="list-style-type: none"> <li>Eliminated (has been phasing out since 1997; only \$200K remains statewide).</li> </ul>	<ul style="list-style-type: none"> <li>Eliminated.</li> </ul>	
<b>Levy Equalization</b>	<ul style="list-style-type: none"> <li>No change proposed in short-term, due to state budget shortfall and assumption of zero levy target; however, equalization should be strengthened and made more stable in longer term.</li> </ul>	<ul style="list-style-type: none"> <li>Referendum and debt service equalization strengthened and stabilized by linking equalizing factors to state average tax base/student.</li> </ul>	<p><b>PS Minnesota</b> included levy equalization as one of the characteristics of a good funding formula.</p>

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<p><b>Special Education</b></p>	<p>Replace current special education aid formula with the following:</p> <ul style="list-style-type: none"> <li>• Calculate an allowance for special education services based on the district’s FY 2011 state special education funding per adjusted ADM student. 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.</li> <li>• Continue to increase state total special education-regular funding by 4.6% per year. Allocate increases over the FY 2011 level based on the following: <ul style="list-style-type: none"> <li>-- For low-cost/high-incidence special education services, provide funding using a census-based approach – 85% based on enrollment and 15% based on poverty.</li> <li>--for high-cost/low-incidence special education services, allocate funding based on an allowance per student by primary disability category, with variations for cost differences among categories.</li> </ul> </li> <li>• Continue to provide state excess cost aid as at present.</li> </ul>	<ul style="list-style-type: none"> <li>• Full funding of current formula – eliminate proration (cost is approximately \$90 million per year).</li> </ul>	<p>Elements of proposed special education funding formula are taken from:</p> <ul style="list-style-type: none"> <li>• Federal special education formula under IDEA, which includes a base allocation equal to the amount received by an LEA for the last year of the previous federal formula, and allocates 85% of the increase over the base level using total enrollment and 15% of using poverty.</li> <li>• South Dakota special education formula, which includes: <ul style="list-style-type: none"> <li>-- For low-cost/high-incidence special education services, an allocation based on total district enrollment.</li> <li>--for high-cost/low-incidence special education services, an allocation based on an allowance per student by primary disability category with variations for cost differences among categories.</li> <li>-- An excess cost fund for extraordinary costs.</li> </ul> </li> </ul> <p>For a review of state special education funding formulas used in FY 2009, see <i>Financing Special Education: State Funding Formulas</i>; Project Forum, National Association of State Directors of Special Education, April 2010. Minnesota is one of 5 states using a percentage reimbursement approach. The most common type of special education funding formula in FY 2009 was student weights (19 states), while 7 states used a census-based approach.</p> <p>The <b>Choices for Change</b> report identified student – weights and census based formulas as options to be considered for reforming state special education finance.</p> <p><b>PS Minnesota</b> recommended full funding of the current reimbursement-based formula.</p>
<p><b>Special Education Tuition Billing</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• No change to current law.</li> </ul>	<p><b>PS Minnesota</b> recommended “development of a funding stream that reimburses districts directly for tuition costs incurred by students using state-sponsored choice initiatives”.</p>

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<b>Facilities Funding</b>	<ul style="list-style-type: none"> <li>No change proposed in short-term, due to state budget shortfall and assumption of zero levy target; however, adequacy and equity of facilities funding needs to be strengthened and made more stable in longer term.</li> </ul>	<ul style="list-style-type: none"> <li>Increases debt service equalization aid.</li> <li>Provides an agricultural school bond credit to lessen the impact of school building projects on agricultural lands.</li> <li>Adds \$50 per pupil unit to operating capital revenue for technology purposes.</li> <li>For districts not in alternative facilities program, \$600/pupil unit state aid for deferred maintenance and health and safety needs replaces current revenue for these purposes.</li> </ul>	<p><b>PS Minnesota</b> included “equalized access to the acquisition of new and/or remodeled school facilities while also providing incentives for collaboration and sharing of resources when possible” as one of the characteristics of a good funding formula.</p>
<b>Transportation Funding</b>	<ul style="list-style-type: none"> <li>No change proposed in short-term; adequacy and equity of funding needs to be reviewed in longer term.</li> </ul>	<ul style="list-style-type: none"> <li>Creates new hazardous pupil transportation aid</li> <li>Districts determine hazardous conditions</li> <li>Total aid limited to not more than 20% of district’s to and from transportation costs</li> <li>State aid of 5% of district’s total transportation costs for bus purchase.</li> </ul>	<p><b>PS Minnesota</b> noted that “a rationale school funding formula provides resources sufficient to secure a safe and efficient system of transportation for Minnesota’s students,” and listed elements of such a system.</p>