Minnesota Department of Education
Program Finance Division

May 18, 2011

****DRAFT****

PRE K-12 EDUCATION FINANCE REFORM PROPOSAL

	Funding Component	Current Formula	Proposed Formula
1	Pupil Weights	Handicapped K =1.25, K =.612, Gr 1-3 = 1.115, Gr 4-6 = 1.06, Gr 7-12= 1.30	Handicapped K =1.0, K =.5, Gr 1-6 = 1.0, Gr 7-12= 1.2
2	Formulas based on pupil units	Basic revenue, operating capital, sparsity, transportation sparsity	Formulas adjusted to neutralize impact of change in pupil unit weights
3	Declining enrollment	Marginal cost pupil units – use 77% of current count and 23% of last yr count. Applies to all funding components	Separate component for declining enroll. PU loss x 28% x Formula allowance. Other formulas based on current count.
4	Resident vs Adjusted (served) pupil units	Adjusted (served) used for most purposes; Resident pupil units used for operating referendum	Adjusted (served) used for all purposes.
5	Referendum revenue for open enrolled students	Referendum calculations based on resident student count. Resident district retains levy portion; aid portion follows the student.	Referendum calculations based on adjusted (served) student count. Referendum allowances adjusted to neutralize impact on total revenue for each district. Separate adjustment for open enrolled students eliminated.
6	Pension Offset	Negative adjustment for most district to offset changes in employer contribution rates for TRA & PERA	Eliminate pension adjustment, except that districts with smaller than average reduction under current law allowed to retain the difference from state average
7	Safe Schools Levy	Separate $30 / PU levy + $10 / PU levy for members of intermediate districts to be allocated to the intermediates $3/PU set-aside for licensed support staff; MOE requirement for licensed support staff.	Roll the $30 levy into the general education formula, to be set aside for safe schools purposes. $10 levy for intermediates remains separate.
8	Equity, Training & Experience	Includes separate funding components for equity, training & experience. T&E has been largely phased out (phase-out began in 1997). Equity revenue is intended to reduce the gap between high and low-referendum districts	These components rolled into basic formula.

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9	Gifted & Talented Revenue	Separate component of general education revenue; $12 /PU; reserved.	Roll the $12 into the formula allowance; require districts to set aside $12 of basic revenue for gifted & talented.
10	Referendum offset	N/A	Referendum allowances reduced by $400/ Pupil; equivalent amount added to formula allowance
11	Formula Allowance	$5,124 / Adjusted Marginal cost Pupil Unit	$6,290 / Adjusted Pupil Unit • $5,124 converted to $5,600 to adjust for change in pupil weights and roll-ins. • $400 added for referendum offset. • $290 added to bring formula up to inflation-adjusted funding level from FY 2003 (based on CPI). • $5,600 + $400 + $290 = $6,290.
12	General Educ Levies	• No Basic Levy - Repealed in 2001 • Separate General Education Levies for Operating Capital, T&E, Equity, & Transition • Separate categorical levies for safe schools and integration.	• Basic levy reinstated – uniform rate based partly on referendum market value and partly on tax capacity, replacing the portion of referendum levy rolled into the basic formula, and levies for operating capital, T&E, equity, transition, safe schools and integration.
13	Basic Skills, Extended Time, Integration	• Basic Skills currently includes Compensatory and LEP revenues • Compensatory formula based on poverty concentration by building; 80% cap applies. • LEP funding based on 5 year eligibility cap; formula provides $700 / ELL student + concentration aid on sliding scale - $250/ELL student in districts with > 11.5% ELL students • Extended time formula based on extra hours; • Integration formula with various funding levels per total pupil unit based on concentration of students of color and integration plan	• Extended time funding rolled into compensatory education formula. • Compensatory formula continues to be calculated based on concentration of students eligible for free & reduced price lunches at building level with 80% cap; rates are increased proportionately for roll-in of extended time. • Districts are provided added flexibility to allocate up to 10% of revenue based on low performance or for innovative measures to reduce the achievement gap. • Integration formula modified to provide all districts with an integration plan the lesser of $600 per student of color or cost of integration plan; Minneapolis receives additional $150 per student of color as transition revenue. • Integration funding included in general education revenue as a component of basic skills formula; all aid/no levy; • Eligibility for LEP funding extended from 5 to 7 years. • LEP Concentration sliding scale formula extended to provide $350 / ELL student for districts with > 16% ELL students

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14	Regional Cost Adjustment	N/A	• $400 per pupil of referendum revenue rolled into new regional equity levy for districts in 7 county metro area. • $200 per pupil of referendum levy rolled into regional equity levy for nonmetro regional center districts (>2,000 ADM). • Regional equity levy equalized at same level as first tier of referendum. • Regional equity aid equal to 1% of formula allowance for metro districts and 0.5% of formula allowance for nonmetro regional center districts provided to balance out proposed funding changes among regions. • Regional equity aid and levy allowances linked to general education formula allowance.
15	Special Education Formula	• Expenditure reimbursement formula with statewide cap.	• No immediate change recommended. • Study implications of a census-based formula for high incidence/ low cost disabilities with a weighted pupil formula for low incidence/high cost disabilities; continue to provide excess cost aid as safety net.
16	Special Education Tuition	• Resident district covers 100% of unfunded costs for open enrolled students	• Resident district covers 90% of unfunded costs for open enrolled students; serving district or charter school covers 10% of unfunded costs.
17	Charter School Lease Aid	• Lesser of 90% of cost or $1,200 /PU; grandfather aid up to $1,500 /PU for certain schools	• Eliminate grandfather aid; reduce formula to lesser of 85% of cost or $1,133 / PU
18	Revenue Phase-In	N/A	• Phase-in period depends on funding available. • Revenue for the first year of implementation is calculated using both old and new formulas. Increase /PU is divided by number of years of phase-in to determine annual increase. Revenue for later years is calculated using new formula, minus transition for portion of phase-in not yet completed. • Example: $400/PU increase with 4 year phase-in: deduct transition adjustment of $300/PU in year 1, $200/PU in year 2, $100/PU in year 3 from new formula calculation.

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19	Levy Phase-in	N/A	• Phase-in period depends on balance between achieving greater taxpayer equity through uniform tax levies and ensuring minimal impact on taxpayers. Could be same as revenue phase-in period, faster or slower. • For the first year of implementation, calculate what the levy would have been under the old formula and what it is under the new formula. Transition adjustment equals the difference between the two levy amounts – may be positive or negative – divided by the number of years of transition. • Levies are calculated using new formula plus or minus transition adjustment. General education aid is adjusted to offset transition adjustment (no net impact on general education revenue). • Example: $100,000 increase in levy with 4 year phase-in: deduct transition adjustment of $75,000 in first year, $50,000 in second year, and $25,000 in third year. General education aid increased by $75,000 first year, $50,000 second year, and $25,000 third year to offset levy adjustment. • Example: $100,000 decrease in levy with 4 year phase-in: add transition adjustment of $75,000 in first year, $50,000 in second year, and $25,000 in third year. General education aid decreased by $75,000 first year, $50,000 second year, and $25,000 third year to offset levy adjustment.
20	Alternative Facilities Aid/Levy Adjustment	• Seven large districts receive a portion of alternative facilities revenue as state aid	• Alternative facilities aid reallocated among alternative facilities districts to help neutralize overall impact of levy changes in the proposal.
21	All Day Kindergarten	N/A	• Governor's proposal: phase-in beginning with funding for students eligible for free or reduced-price lunch.
22	Innovation /Excellence Revenue	N/A	• Governor's proposal: Awards to schools with >40% of tested students making high growth (top 20% of schools); at least 50% of funds used to disseminate best practices to other schools.