



K-12 EDUCATION

FINANCE

OVERVIEW

2008-2009

Division of Program Finance

August 2008
(Revised December 2008)

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I. CONTEXT FOR SCHOOL FINANCE

A. Legal Context

1. Minnesota Constitution, Article 13, Section 1

...it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

2. Minnesota Supreme Court, *Skeen v. State of Minnesota*, August 20, 1993

...education is a fundamental right in Minnesota. However, the current system of state educational finance satisfies that fundamental right, particularly where all plaintiff districts are provided with an adequate level of education which meets or exceeds the state's basic educational requirements and where the districts are given sufficient funding to meet their basic needs...

...our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...

...the State of Minnesota provides an adequate and uniform education which meets all state standards. It merely allows localities to augment this basic amount...

...the determination of education finance policy, in the absence of glaring disparities, must be a legislative decision because it involves balancing the competing interests of equality, efficiency, and limited local control...

B. Minnesota Education Finance Terms

1. Fiscal Year

- a. The school district fiscal year runs from July 1 through June 30. FY 2009 begins July 1, 2008 and ends June 30, 2009.
- b. With certain exceptions, the property tax levy certified in 2007 for taxes payable in 2008 is recognized as revenue in FY 2009.

2. Pupil Accounting

- a. Average Daily Membership (ADM) = The average number of pupils enrolled in the school district throughout the school year
$$= \frac{\text{Number of Pupil-Days Enrolled}}{\text{Total Days in School Year}}$$

Beginning in FY 2004, regular ADM is limited to 1.0 for each student. Students served more than full-time in a learning year program generate additional ADM, not to exceed 0.2 ADM per student, which is used only for the calculation of extended time revenue.

- b. Resident Weighted ADM Pupil Units (WADM) = Resident ADM X Pupil Weight

Pupil weights by grade level are as follows:

Pre-K	1.250
K-Disabled	1.000
Regular K (beginning FY 08)	.612
Grades 1-3	1.115
Grades 4-6	1.060
Secondary (Grades 7-12)	1.300

- c. Adjusted Pupil Units = Resident WADM
+ WADM of nonresidents attending the district under alternative attendance programs (e.g., open enrollment)
- WADM of residents attending another district under alternative attendance programs

Beginning in FY 2000, most components of general education revenue are computed using Adjusted Marginal Cost Pupil Units (AMCPU). The exception is referendum revenue, which is computed using resident marginal cost pupil units.

- d. AMCPU = Greater of:
Current Year Adjusted Pupil Units or
(.77 X Current Year Adjusted Pupil Units
+.23 X Prior Year Adjusted Pupil Units)

3. Tax Capacity

- a. Net Tax Capacity = Estimated Market Value of Property X Class Rate
- b. Class Rate = Statutory percentage applied to estimated market value to determine tax capacity

Example class rates (Taxes Payable in 2008)

Residential Homestead (and Agricultural Homestead – house, garage and one acre)	
First \$500,000	1.00%
Remainder	1.25%
Remainder of Agricultural Land and Buildings (homestead)	
First \$790,000	0.55%
Over \$790,000	1.00%
Agricultural Land and Buildings (nonhomestead)	1.00%
Commercial and Industrial	
First \$150,000	1.50%
Remainder	2.00%
Seasonal Recreational Residential	
First \$500,000	1.00%
Remainder	1.25%

- c. Sales Ratio =
$$\frac{\text{Estimated Market Value}}{\text{Actual Sales Price}}$$

(Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices.)

- d. Adjusted Net Tax Capacity =
$$\frac{\text{Net Tax Capacity}}{\text{Sales Ratio}}$$

4. Referendum Market Value

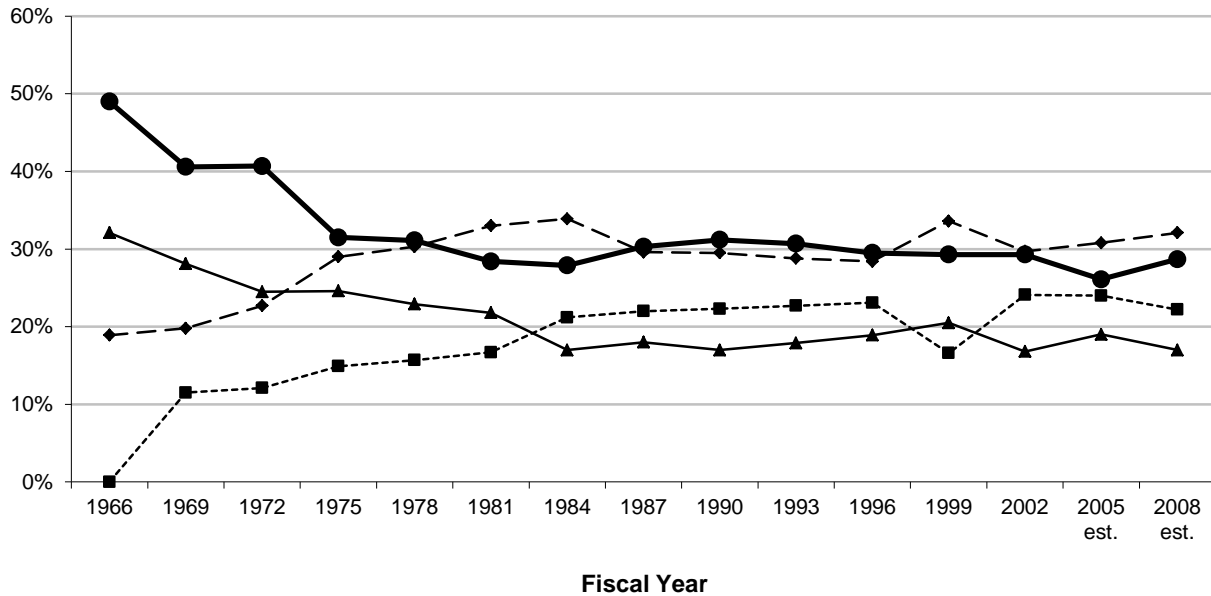
Referendum market value, used only for operating referendum, transition and equity levy calculations, equals the estimated market value of property, excluding the following property classes:

- Agricultural Land and Buildings
(Note: house, garage, and one acre are **not** exempt)
- Seasonal Recreational Residential

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

Minnesota State-Local Tax Revenue: Percent of Total By Major Tax Type



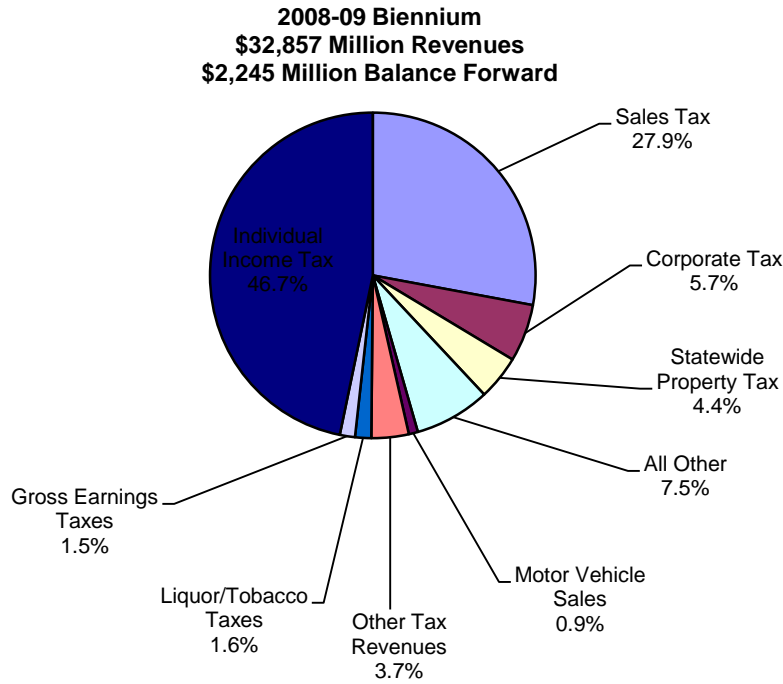
Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	40.7%	24.5%
1975	29.0%	14.9%	31.5%	24.6%
1978	30.3%	15.7%	31.1%	22.9%
1981	33.0%	16.7%	28.4%	21.8%
1984	33.9%	21.2%	27.9%	17.0%
1987	29.6%	22.0%	30.3%	18.0%
1990	29.5%	22.3%	31.2%	17.0%
1993	28.8%	22.7%	30.7%	17.9%
1996	28.4%	23.1%	29.5%	18.9%
1999	33.6%	16.6%	29.3%	20.5%
2002	29.7%	24.1%	29.3%	16.8%
2005	30.8%	24.0%	26.1%	19.0%
2008	32.1%	22.2%	28.7%	17.0%

* Other includes taconite production, gross earnings on utility companies, tobacco, liquor, motor fuels, estate, vehicle registration, insurance premiums, etc.

** Before Property Tax Refund

Source: Department of Revenue, Price of Government Data, 2008 End of Session

2. Where the General Fund Dollars Come From – End of 2008 Legislative Session

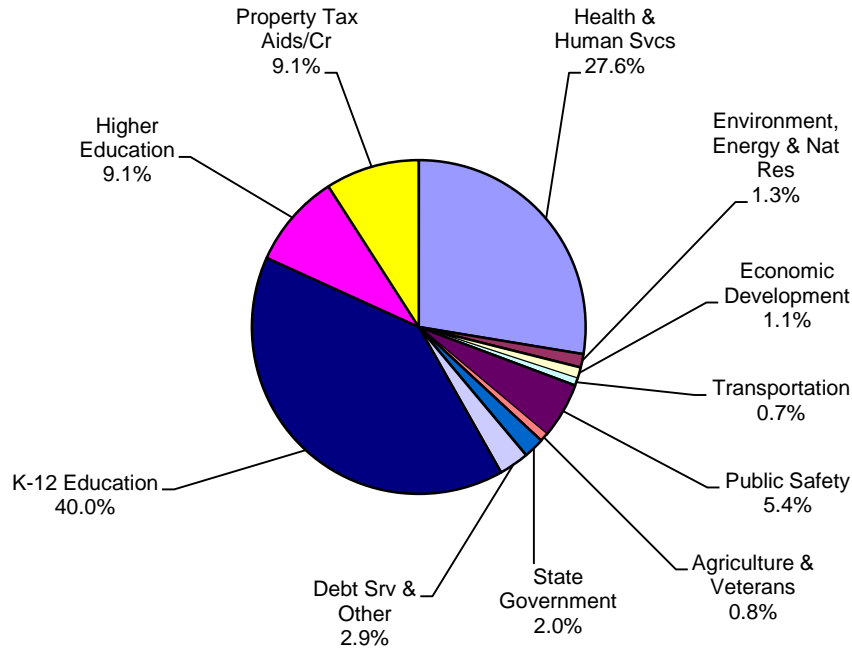


	<u>\$ in Millions</u>
Balance Forward 6-30-07	\$ 2,245
Non-Dedicated Revenues:	
Individual Income Tax	15,350
Sales Tax	9,177
Corporate Tax	1,870
Statewide Property Tax	1,442
Motor Vehicle Sales Tax	293
Gross Earnings Taxes	505
Liquor, Wine, Beer Taxes	150
Cigarette and Tobacco Taxes	373
Other Tax Revenues	1,219
All Other Revenues	<u>1,557</u>
Subtotal Non-Dedicated Revenues	31,935
Dedicated Revenue	139
Transfers from Other Funds	733
Prior Year Adjustments	<u>50</u>
SUBTOTAL CURRENT RESOURCES	<u>32,857</u>
TOTAL AVAILABLE RESOURCES – FY 2008-09	\$ 35,102
Less: Estimated Expenditures	34,593
Cash Flow Account	350
Budget Reserve	<u>153</u>
Projected General Fund Balance 6-30-09	
End of 2007 Legislative Session	<u><u>\$ 6</u></u>

Source: Department of Finance – June 5, 2008

3. Where the General Fund Dollars Go – End of 2008 Legislative Session

**2008-09 Biennium - \$34,593 Million Spending
\$350 Million Cash Flow Account
\$153 Million Budget Reserve**

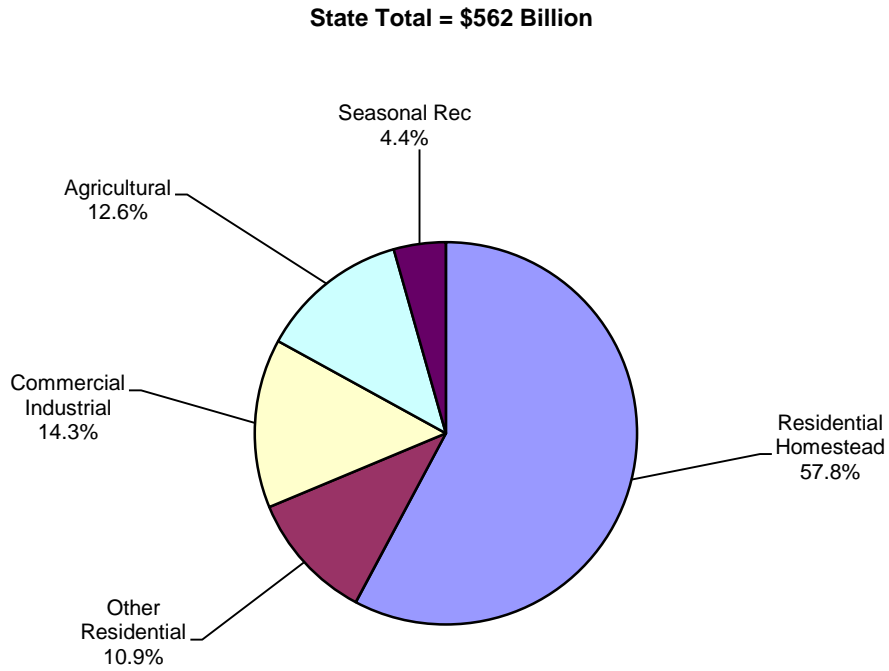


\$ in Millions

Total Available Resources – FY 2008-09	\$ 35,102
Omnibus Bills:	
K-12 Education	13,830
Higher Education	3,139
Property Tax Aids & Credits	3,153
Health & Human Services	9,531
Public Safety	1,876
Transportation	252
Environment, Energy & Natural Resources	443
Agriculture & Veterans	277
Economic Development	394
State Government	701
Debt Service	870
Capital Projects & Other	35
Estimated Cancellations	<u>(21)</u>
Subtotal – Omnibus Bills	34,481
Dedicated Expenditures	<u>112</u>
TOTAL ESTIMATED EXPENDITURES – FY 2008-09	\$ 34,593
Cash Flow Account	350
Budget Reserve	<u>153</u>
Projected General Fund Balance 6-30-09 End of 2007 Legislative Sessions	<u>\$ 6</u>

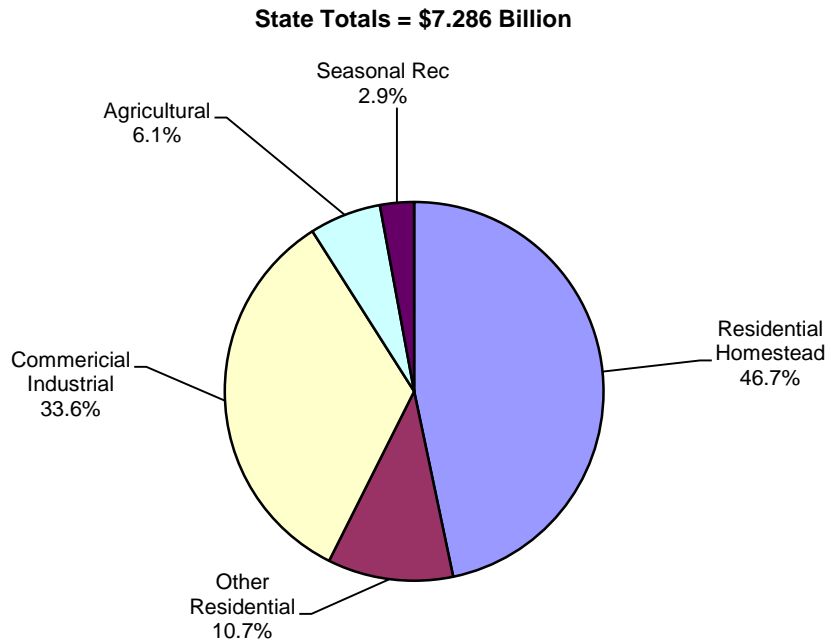
Source: Department of Finance – June 5, 2008

4. Payable 2008 Market Value by Use Class



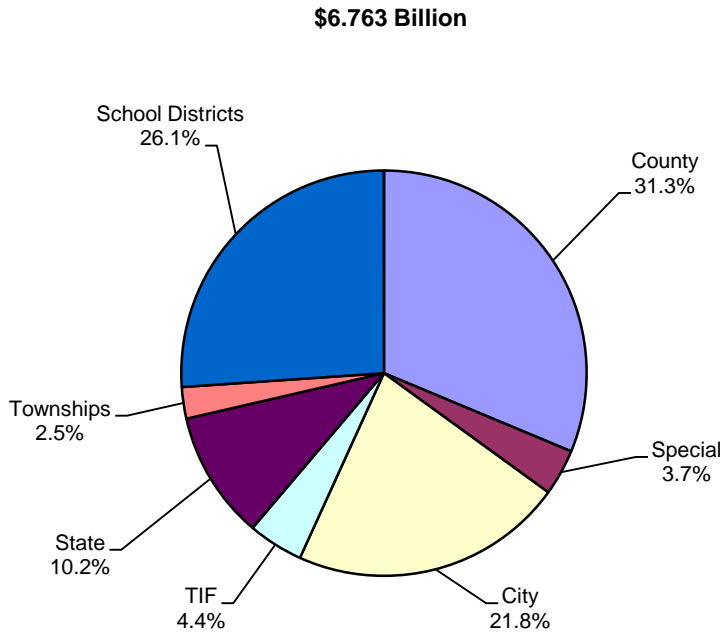
Source: House Research Department

5. Payable 2008 Net Property Tax by Use Class



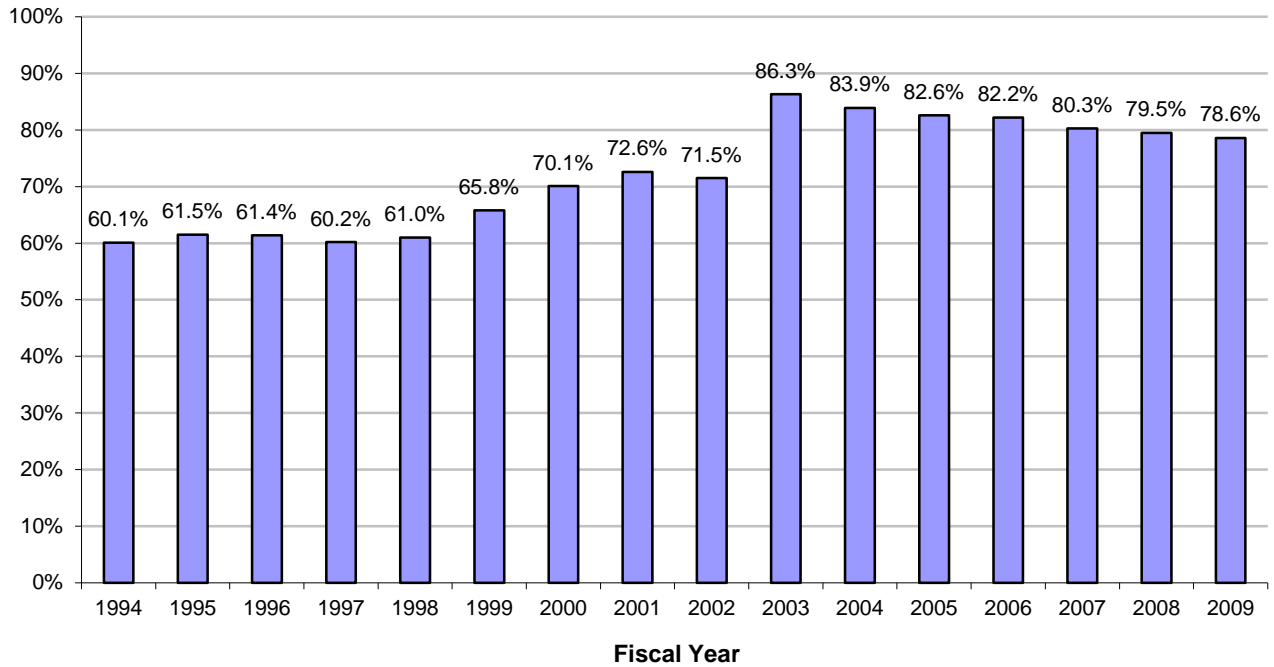
Source: House Research Department

6. Payable 2008 Property Tax Levy by Type of Government After Credits



Source: House Research Department

State Share of State-Local Tax Revenue for K-12 Education



Source: MDE, Price of Government Data, End of Session 2008

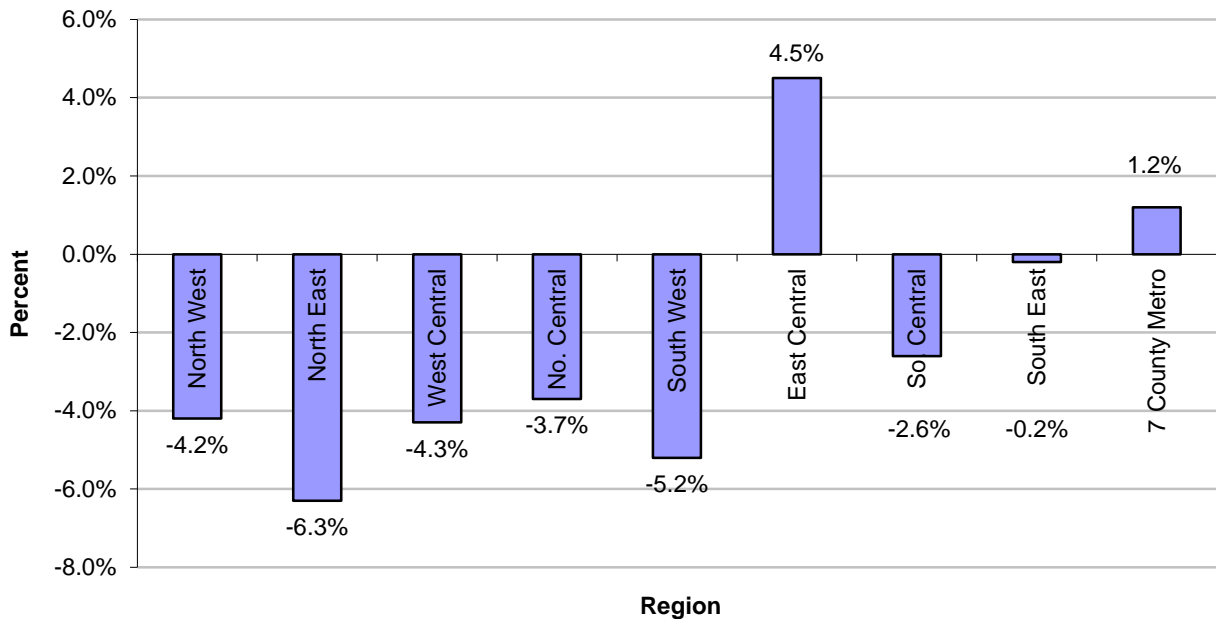
D. Characteristics of School Districts

Number of School Districts by Adjusted 2006-07 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	42	7,658	1.0%
300-999	135	81,373	10.2%
1,000-2,999	99	158,541	19.8%
3,000-9,999	50	273,507	34.2%
10,000 +	14	277,661	34.8%
Total	340	798,740	100.0%

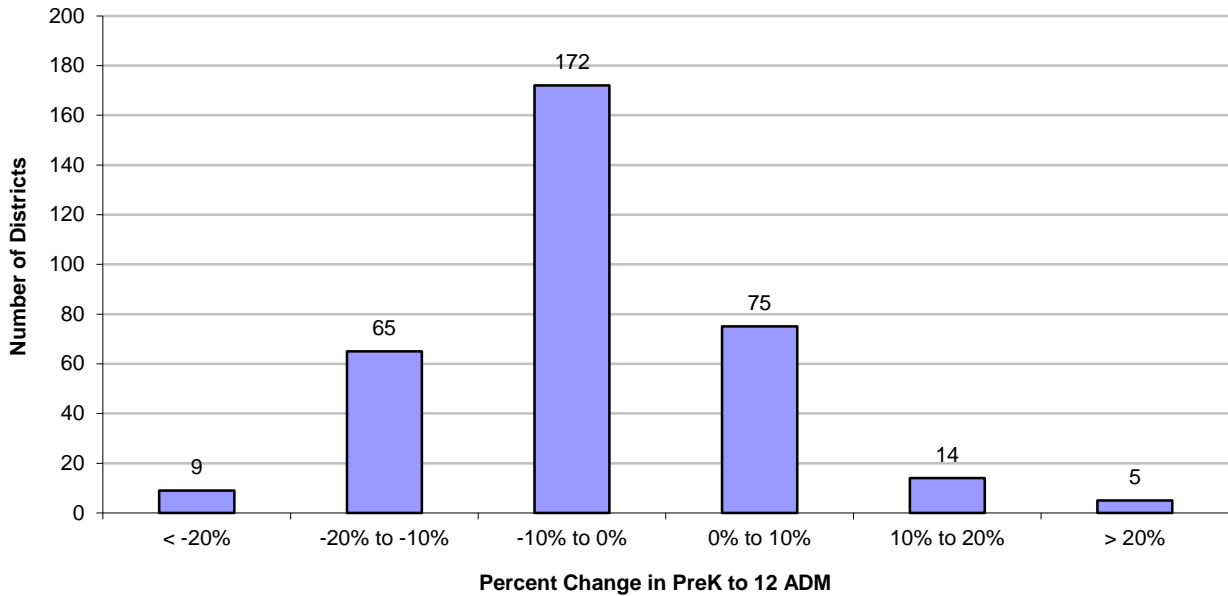
Source: MDE, FY 2007 Final MARSS Data
 Note: Excludes Charter Schools

School District Adjusted ADM Percent Change by Region FY 2005 to FY 2009



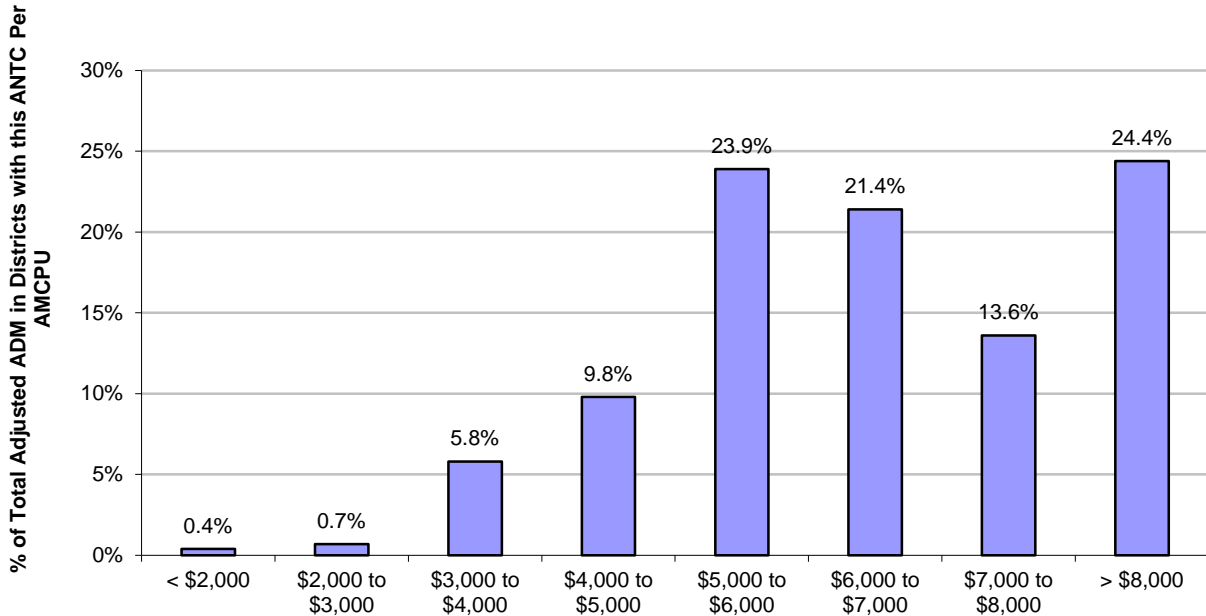
Source: MDE, Program Finance Division, February 2008 Forecast Data
 Note: Includes Charter Schools except for those opening in FY 2009

**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2005 to FY 2009**



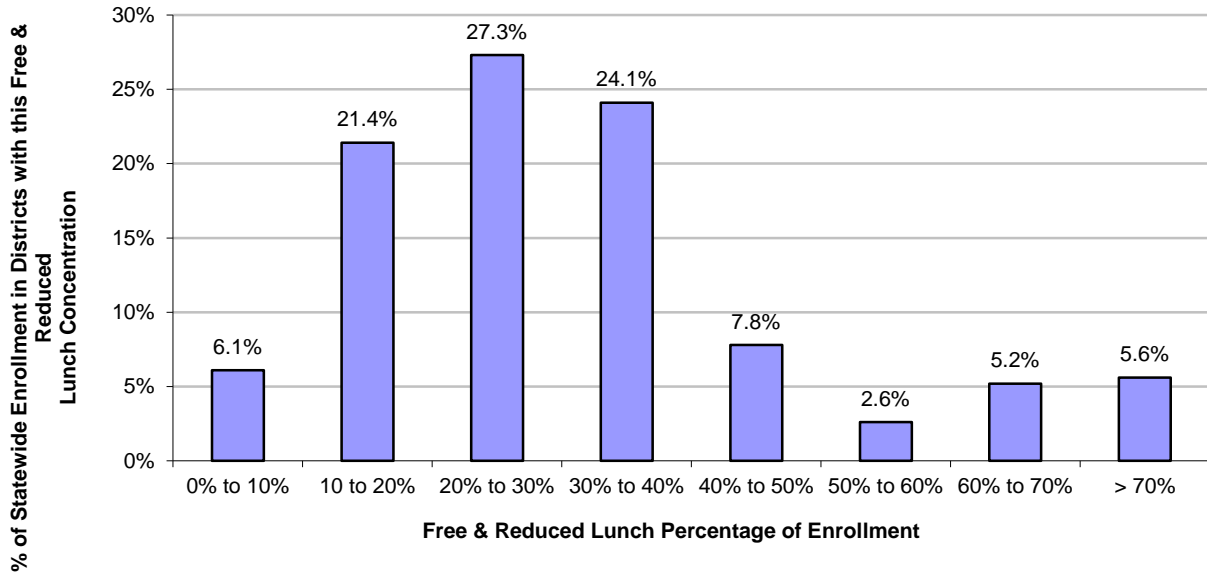
ADM capped at 1.0
 Excludes Charter Schools
 Source: MDE, February 2008 Forecast Data

2006 Adjusted Net Tax Capacity (ANTC) Per Estimated 2008-09 AMCPU



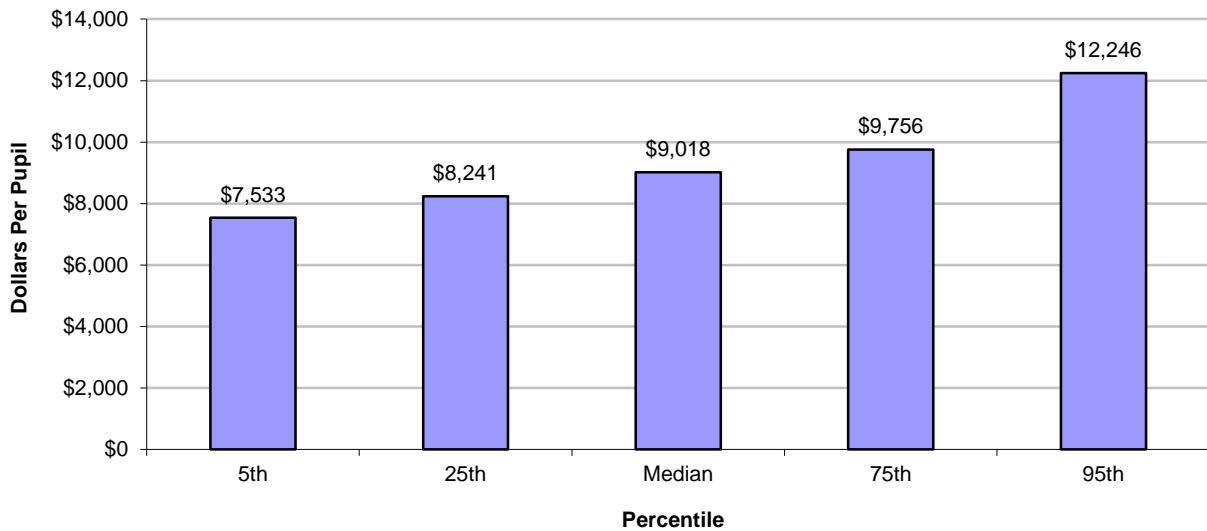
Source: MDE, February 2008 Forecast Data

**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2007**



Excludes Charter Schools and Coops

**Fiscal Year 2006 PK - 12 Operating Expenditures
Per Average Daily Membership**



Source: MDE, School District Profiles
Excludes Charter Schools

II. K-12 EDUCATION REVENUE

A. School Revenue Trends

December 4, 2008
November 1008 Forecast

School District General Fund Revenue – FY 1991-2011* (State Aids and Property Taxes including Operating Referendum Revenue)

Fiscal Year	Ed Aids****	Tax Credits	Total \$ in Millions			Pupils Unweighted ADM*** 1.0 limit	-- Current Dollars per Pupil --			--- CPI Factors ---					Constant (2009) Dollars per Pupil**		
			State Aids****	Net Levy	Total Revenue		Revenue Per ADM current \$	Annual Percent Increase	Cumulative Percent Increase	CPI-U (1984=1.0)	CPI-U (2009=1.0)	Annual Percent Increase	CPI Adjust to '09 \$	Total Revenue (2009 \$)	Revenue per ADM (2009 \$)	Annual Percent Increase	Cumulative Percent Increase
1991	2,230.2	153.7	2,383.9	1,195.8	3,579.7	742,740	4,767	n/a	n/a	1.3391	0.6131		1.6310	5,838.6	7,776	n/a	n/a
1992	2,288.0	113.6	2,401.6	1,353.1	3,754.7	759,479	4,890	2.6%	2.6%	1.3818	0.6327	3.2%	1.5806	5,934.6	7,730	-0.6%	-0.6%
1993	2,327.9	131.3	2,459.2	1,474.4	3,933.6	776,578	5,010	2.5%	5.1%	1.4250	0.6524	3.1%	1.5327	6,029.0	7,680	-0.6%	-1.2%
1994	2,416.1	153.0	2,569.1	1,605.0	4,174.1	790,637	5,279	5.4%	10.7%	1.4624	0.6696	2.6%	1.4935	6,234.0	7,885	2.7%	1.4%
1995	2,762.8	94.1	2,856.9	1,632.9	4,489.8	803,789	5,586	5.8%	17.2%	1.5041	0.6887	2.9%	1.4521	6,519.6	8,111	2.9%	4.3%
1996	2,883.2	100.2	2,983.4	1,720.6	4,704.0	818,633	5,746	2.9%	20.5%	1.5451	0.7074	2.7%	1.4136	6,649.4	8,123	0.1%	4.5%
1997	2,940.1	69.3	3,009.4	1,793.6	4,803.0	829,265	5,792	0.8%	21.5%	1.5890	0.7275	2.8%	1.3745	6,601.8	7,961	-2.0%	2.4%
1998	3,193.8	54.9	3,248.7	1,824.0	5,072.7	835,972	6,068	4.8%	27.3%	1.6175	0.7406	1.8%	1.3503	6,849.6	8,194	2.9%	5.4%
1999	3,480.1	234.3	3,714.4	1,573.1	5,287.5	842,513	6,276	3.4%	31.6%	1.6455	0.7534	1.7%	1.3273	7,018.2	8,330	1.7%	7.1%
2000	3,827.9	352.5	4,180.4	1,428.2	5,608.6	843,449	6,650	6.0%	39.5%	1.6929	0.7751	2.9%	1.2902	7,236.0	8,579	3.0%	10.3%
2001	4,132.7	474.7	4,607.4	1,340.3	5,947.7	842,764	7,057	6.1%	48.0%	1.7507	0.8016	3.4%	1.2476	7,420.1	8,804	2.6%	13.2%
2002	4,202.2	483.1	4,685.3	1,397.7	6,083.0	839,424	7,247	2.7%	52.0%	1.7817	0.8158	1.8%	1.2259	7,456.9	8,883	0.9%	14.2%
2003	5,955.8	29.4	5,985.2	466.7	6,451.9	836,579	7,712	6.4%	61.8%	1.8211	0.8338	2.2%	1.1993	7,738.0	9,250	4.1%	19.0%
2004	5,919.4	26.9	5,946.3	607.7	6,554.0	829,832	7,898	2.4%	65.7%	1.8609	0.8520	2.2%	1.1737	7,692.3	9,270	0.2%	19.2%
2005	5,888.6	25.4	5,914.0	689.2	6,603.2	825,843	7,996	1.2%	67.7%	1.9168	0.8776	3.0%	1.1395	7,524.0	9,111	-1.7%	17.2%
2006	6,121.7	23.9	6,145.6	730.6	6,876.2	826,542	8,319	4.0%	74.5%	1.9897	0.9110	3.8%	1.0977	7,548.0	9,132	0.2%	17.4%
2007	6,310.8	25.4	6,336.2	923.6	7,259.8	827,197	8,776	5.5%	84.1%	2.0413	0.9346	2.6%	1.0700	7,767.7	9,390	2.8%	20.8%
2008	6,650.3	24.8	6,675.1	1,036.4	7,711.5	824,182	9,357	6.6%	96.3%	2.1169	0.9692	3.7%	1.0317	7,956.3	9,654	2.8%	24.1%
2009	6,733.6	23.1	6,756.7	1,200.0	7,956.7	823,647	9,660	3.2%	102.6%	2.1841	1.0000	3.2%	1.0000	7,956.7	9,660	0.1%	24.2%
2010	6,725.5	22.7	6,748.2	1,222.7	7,970.9	825,886	9,651	-0.1%	102.4%	2.2129	1.0132	1.3%	0.9870	7,867.2	9,526	-1.4%	22.5%
2011	6,823.9	22.5	6,846.4	1,362.7	8,209.1	829,546	9,896	2.5%	107.6%	2.2633	1.0363	2.3%	0.9650	7,921.8	9,550	0.3%	22.8%

* Based on current UFARS definition of general fund, which includes transportation and capital expenditures. Community service, debt service, and food service funds are excluded. Federal aids and local nontax revenues also excluded.

** Adjusted for inflation using Consumer Price Index; inflation adjustment factors are consistent with November 2008 forecast.

*** For purposes of this analysis, ADMs are shown at the current law level, with a cap of 1.0 ADM per student. For years prior to 2002, it is assumed that the same ratio of capped ADM to uncapped ADM applies as in FY 2002 (earliest year of actual data).

**** Includes K-12 education aids and state paid tax credits for K-12 education, shown on 100% of annual entitlement basis – reflects school district revenue recognition.

Source: MDE, Division of Program Finance, District Revenue Tables, November 2008 Forecast Data

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2003 to FY 2009
State Totals

REVENUES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1 ADJUSTED ADM (CAP = 1.0)	829,220	824,475	820,425	821,416	822,328	822,066	822,346
2 BASIC	5,415	5,341	5,345	5,549	5,776	5,900	5,942
3 ADDITIONAL \$51 PER AMCUP	0	0	0	0	0	0	59
4 EXTENDED TIME	0	61	64	64	67	68	68
5 COMPENSATORY	317	302	323	356	384	406	422
6 LEP TOTAL	56	44	45	47	48	49	49
7 TRAINING & EXPERIENCE	30	23	16	10	5	3	2
8 SPARSITY	20	21	21	23	25	26	27
9 TRANSPORTATION SPARSITY	68	68	68	70	72	74	74
10 OPERATING CAPITAL	239	236	236	236	236	238	237
11 EQUITY	42	39	51	62	115	117	115
12 GIFTED & TALENTED	0	0	0	5	10	14	14
13 Q COMP	0	0	0	20	59	74	98
14 TRANSITION	0	39	38	38	37	37	36
15 LATE RATIFICATION	0	0	0	0	0	-1	0
16 PENSION ADJUSTMENT	-56	-57	-57	-57	-57	-37	-37
17 OPTIONS ADJ: REFERENDUM AID	-1	-1	-1	-1	-1	0	1
18 OPTIONS ADJ: CHARTER TRANSP	0	0	0	0	0	0	0
19 OPTIONS ADJ: FARIBAULT	0	0	0	0	0	0	0
20 REFERENDUM	352	517	615	650	728	787	881
21 GEN ED TOTAL = SUM OF (2) TO (20) =	6,482	6,632	6,763	7,072	7,495	7,754	7,989
22 REVENUE CHANGE FROM PRIOR YEAR	345	150	131	309	422	259	235
23 PERCENT CHANGE FROM PRIOR YEAR	5.6%	2.3%	2.0%	4.6%	6.0%	3.5%	3.0%
24 SPECIAL ED REGULAR, GROSS	640	643	644	645	644	844	875
25 SPECIAL ED NET TUITION	N/A	N/A	N/A	N/A	0	0	0
26 SPECIAL ED NET = (24)+(25) =	N/A	N/A	N/A	N/A	644	844	875
27 SPECIAL ED EXCESS	111	112	112	126	127	135	135
28 SPECIAL ED CROSS SUBSIDY	0	6	13	0	0	0	0
29 TRANSITION DISABLED	11	11	11	11	11	0	0
30 SPEC ED TOTAL = (24)+(27)+(28)+(29) =	762	772	780	782	782	979	1,010
31 REVENUE CHANGE FROM PRIOR YEAR	30	10	9	2	0	197	31
32 PERCENT CHANGE FROM PRIOR YEAR	4.1%	1.3%	1.1%	0.2%	0.0%	25.2%	3.2%
33 CAREER TECHNICAL	15	15	15	15	16	18	20
34 INTEGRATION	94	95	95	97	102	104	110
35 ALTERNATIVE FACILITIES	122	129	146	164	176	206	229
36 OPERATING CAPITAL TECH AID	0	0	0	0	0	47	64
MISCELLANEOUS LEVIES							
37 REEMPLOYMENT	5	10	4	4	11	10	10
38 SAFE SCHOOLS	12	33	30	29	29	29	34
39 ICE ARENA	1	1	1	1	1	1	1
40 SEVERANCE	2	2	2	2	1	2	3
41 SWIMMING POOL	0	0	1	1	1	1	1
42 LOST INTEREST	4	4	4	4	4	0	0
43 TREE GROWTH	0	1	1	1	1	1	1
44 OTHER GENERAL	0	0	0	0	0	0	0
45 BUILDING/LAND LEASES	47	50	46	44	50	55	56
46 OTHER CAPITAL	1	0	0	0	0	0	0
47 TOTAL MISCELLANEOUS LEVIES	71	101	87	85	99	99	107
48 TOTAL REVENUE LISTED ABOVE = (21)+(30)+(33)+(34)+(35)+(36)+(47) =	7,546	7,744	7,887	8,216	8,670	9,206	9,528
49 REVENUE CHANGE FROM PRIOR YEAR	413	198	143	329	454	536	322
50 PERCENT CHANGE FROM PRIOR YEAR	5.8%	2.6%	1.8%	4.2%	5.5%	6.2%	3.5%
51 TELECOMMUNICATIONS	0	0	0	5	5	9	11
52 LUNCH	9	9	9	11	12	12	12
53 REVISED TOTAL = (48)+(51)+52) =	7,555	7,752	7,896	8,231	8,686	9,227	9,551

End of 2008 Session Calculations

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes - FY 2003 to FY 2009 - State Totals

DISTRICT NAME:	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1 ADJUSTED ADM (CAP = 1.0)	829,220	824,475	820,425	821,416	822,328	822,066	822,346
2 BASIC	4,490,104,858	4,403,575,277	4,384,973,848	4,558,383,720	4,741,676,895	4,850,162,323	4,886,784,569
3 ADDITIONAL \$51 PER AMCPU	0	0	0	0	0	0	48,638,951
4 EXTENDED TIME	0	50,351,550	52,327,357	52,766,200	55,436,989	56,087,482	55,634,426
5 COMPENSATORY	262,543,865	249,146,954	265,074,503	292,547,478	315,471,905	333,588,237	346,726,198
6 LEP TOTAL	46,636,335	36,095,471	36,912,006	38,795,826	39,531,867	40,165,501	40,304,106
7 TRAINING & EXPERIENCE	25,114,611	18,869,558	12,876,818	8,213,502	4,354,428	2,705,307	1,767,310
8 SPARSITY	16,471,673	16,909,578	17,548,649	18,853,061	20,254,233	21,386,181	22,595,859
9 TRANSPORTATION SPARSITY	56,478,387	55,913,098	55,511,195	57,332,807	59,221,788	60,779,934	60,963,155
10 OPERATING CAPITAL	198,440,390	194,217,096	193,697,081	194,018,388	194,117,024	195,247,806	194,812,726
11 EQUITY	34,642,870	32,112,369	41,731,237	50,999,434	94,274,069	96,115,631	94,949,562
12 GIFTED & TALENTED	0	0	0	3,812,154	8,579,632	11,470,626	11,444,457
13 Q COMP	0	0	0	16,348,850	48,603,714	60,899,155	80,636,400
14 TRANSITION	0	31,986,524	31,326,609	31,033,742	30,462,514	30,236,561	29,745,376
15 LATE RATIFICATION	0	0	0	-344,932	0	-697,371	0
16 PENSION ADJUSTMENT	-46,569,939	-46,686,660	-46,733,667	-46,807,695	-46,967,509	-30,543,370	-30,692,377
17 OPTIONS ADJ: REFERENDUM AID	-461,981	-679,856	-1,089,964	-895,442	-885,672	-203,616	-1,059,345
18 OPTIONS ADJ: CHARTER TRANSP	-1,039	1,059	0	1	0	498	10,986
19 OPTIONS ADJ: FARIBAULT	0	0	0	0	-398	22,695	22,918
20 REFERENDUM	291,707,317	426,336,542	504,721,085	534,314,512	598,966,155	646,638,487	724,238,694
21 GEN ED TOTAL = SUM OF (2) TO (20)	5,375,107,347	5,468,148,558	5,548,876,757	5,809,371,606	6,163,097,634	6,374,062,067	6,569,642,660
22 REVENUE CHANGE FROM PRIOR YEAR	N/A	93,041,211	80,728,199	260,494,849	353,726,029	210,964,433	195,580,593
23 PERCENT CHANGE FROM PRIOR YEAR	N/A	1.7%	1.5%	4.7%	6.1%	3.4%	3.1%
24 SPECIAL ED REGULAR, GROSS	530,470,681	530,240,299	528,700,965	529,804,000	529,197,903	694,063,000	719,470,000
25 SPECIAL ED NET TUITION	N/A	N/A	N/A	N/A	0	0	0
26 SPECIAL ED NET = (24)+(25)	N/A	N/A	N/A	N/A	529,197,903	694,063,000	719,470,000
27 SPECIAL ED EXCESS	92,112,000	92,067,000	91,661,000	103,600,000	104,700,000	110,641,000	110,918,000
28 SPEC ED CROSS SUBSIDY	0	5,000,000	11,000,000	0	0	0	0
29 TRANSITION DISABLED	8,895,000	8,840,000	8,797,000	8,808,000	8,799,000	0	0
SPEC ED TOTAL = (24)+(27)+(28)+(29)	631,477,681	636,147,299	640,158,965	642,212,000	642,696,903	804,704,000	830,388,000
31 REVENUE CHANGE FROM PRIOR YEAR	N/A	4,669,617	4,011,666	2,053,035	484,903	162,007,096	25,684,000
32 PERCENT CHANGE FROM PRIOR YEAR	N/A	0.7%	0.6%	0.3%	0.1%	25.2%	3.2%
33 CAREER TECHNICAL	12,620,339	12,505,734	12,678,199	12,420,744	12,773,681	14,420,567	16,340,886
34 INTEGRATION	77,552,564	78,165,527	77,583,792	80,023,454	84,242,231	85,406,946	90,611,579
35 ALTERNATIVE FACILITIES	101,476,734	106,159,851	119,536,246	134,762,321	145,125,099	169,726,339	187,912,715
36 OPERATING CAPITAL TECH AID	0	0	0	0	0	38,235,414	52,453,777
MISCELLANEOUS LEVIES							
37 REEMPLOYMENT	3,775,158	8,251,077	3,333,521	3,201,646	9,420,615	8,483,400	8,588,982
38 SAFE SCHOOLS	10,065,900	27,615,178	24,395,053	24,196,134	24,055,063	24,135,151	28,362,174
39 ICE ARENA	751,386	840,116	747,158	742,519	895,246	901,964	943,829
40 SEVERANCE	1,299,345	1,283,515	1,407,957	1,502,586	1,228,668	1,432,246	2,235,256
41 SWIMMING POOL	411,656	383,435	424,237	457,040	508,503	561,249	558,190
42 LOST INTEREST	2,995,864	2,994,227	2,992,787	2,987,734	2,975,099	0	0
43 TREE GROWTH	0	631,523	630,203	618,043	620,796	622,115	631,523
44 OTHER GENERAL	135,246	342,081	231,994	216,430	223,157	134,067	140,161
45 BUILDING/LAND LEASES	39,326,131	40,959,503	37,483,558	35,854,600	41,277,749	44,954,697	46,123,877
46 OTHER CAPITAL	439,000	39,000	39,000	39,000	56,012	39,000	39,000
47 TOTAL MISCELLANEOUS LEVIES	59,199,686	83,339,655	71,685,469	69,815,731	81,260,908	81,263,889	87,622,992
48 TOTAL REVENUE LISTED ABOVE = (21)+(30)+(33)+(34)+(35)+(36)+(47)	6,257,434,352	6,384,466,623	6,470,519,428	6,748,605,856	7,129,196,457	7,567,819,222	7,834,972,608
49 REVENUE CHANGE FROM PRIOR YEAR	N/A	127,032,271	86,052,805	278,086,428	380,590,601	438,622,765	267,153,386
50 PERCENT CHANGE FROM PRIOR YEAR	N/A	2.0%	1.3%	4.3%	5.6%	6.2%	3.5%
51 TELECOMMUNICATIONS	0	0	0	3,750,000	3,750,000	7,622,000	8,743,000
52 LUNCH	7,066,505	7,125,564	7,231,464	9,092,199	9,723,531	9,966,620	10,215,785
53 REVISED TOTAL = (48)+(51)+(52) =	6,264,500,857	6,391,592,187	6,477,750,892	6,761,448,055	7,142,669,988	7,585,407,842	7,853,931,393

End of 2008 Session Calculations

**CURRENT EXPENDITURE PER PUPIL
IN FALL ENROLLMENT
Minnesota vs. U.S. Average**

Fiscal Year	U.S.	Minnesota	Minnesota Rank	Minnesota Percent of U.S.
1970	\$ 751	\$ 855	5	113.8%
1975	1,257	1,407	6	111.9%
1980	2,088	2,296	12	110.0%
1985	3,222	3,508	12	108.9%
1990	4,643	4,698	17	101.2%
1991	4,902	4,946	17	100.9%
1992	5,023	5,089	18	101.3%
1993	5,160	5,210	20	101.0%
1994	5,327	5,342	18	100.3%
1995	5,529	5,626	17	101.8%
1996	5,689	5,801	16	102.0%
1997	5,923	6,005	16	101.4%
1998	6,189	6,388	15	103.2%
1999	6,508	6,791	16	104.3%
2000	6,911	7,190	16	104.0%
2001	7,376	7,645	15	103.6%
2002	7,734	7,736	20	100.0%
2003	8,041	8,109	19	100.8%
2004	8,310	8,405	22	101.1%
2005	8,701	8,718	23	100.2%
2006	9,154	9,159	21	100.1%

SOURCES: U.S. Department of Education, National Center for Education Statistics, *State Comparisons of Education Statistics: 1970 – 1997, Table 41, Digest of Education Statistics, 1999, Table 172*. 1998-2003: NCES, *Revenues and Expenditures for Elementary and Secondary Education – various editions*. 2004-2006: NCES, *Revenues and Expenditures for Public Elementary and Secondary Education – various editions*:

NOTES: Amounts shown are not adjusted for inflation.
Rankings exclude District of Columbia.

B. 2008-2009 Elementary Secondary Education Revenue Summary*

Program	Total Revenue (\$ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	\$ 5,882.9	\$ 7,112	65.9%
Referendum	724.2	875	8.1%
Special Education	833.2	1,007	9.3%
Other General Programs***	540.5	653	6.1%
 Subtotal General Fund	 7,980.8	 9,647	 89.4%
 Food Service	 17.9	 22	 0.2%
Community Service	163.8	N/A ****	1.9%
Debt Redemption	763.2	923	8.5%
 Total All Funds	 \$ 8,925.8	 \$ 10,592 ****	 100.0%
 ADM Pupils	 827,215		

* Revenue includes estimated state aid entitlements and gross levies.
Excludes federal aids, local non-tax revenues, and appropriations to state agencies.

** Includes transportation and operating capital funding enrolled into general education program beginning in 1996-97.

*** Includes Health & Safety Revenue (\$63.1), Alternate Facilities Annual Levy/Aid Revenue (\$63.6), Building Lease Levies (\$45.1), Charter School Building Lease Aid (\$38.0), Safe Schools Levy (\$28.4), Desegregation/Integration Revenue (\$89.0), Nonpublic Transportation Aid (\$21.0), Capital Project Referendum (\$33.8), and many smaller categorical revenues.

**** Community service revenue is excluded in computing revenue per pupil because these programs primarily serve preschool and adult learners, who are not included in the ADM pupil count.

Source: MDE, Division of Program Finance, District Revenue Tables and General Education work papers, End of 2008 Legislative Session.

C. General Education Revenue by Component: 2008-2009 Estimate

Component	Number of Districts	Number of Charter Schools	Amount (Millions)	Percent of Total
<u>Formula – Based Revenue:</u>				
Basic	339	143	\$ 4,886.8	74.0%
Additional \$51	339	143	48.6	0.7%
Extended Time	120	6	55.6	0.8%
Gifted and Talented	339	141	11.4	0.2%
Basic Skills:				
Compensatory	339	136	346.7	5.2%
LEP	216	59	32.0	0.5%
LEP Concentration	216	59	8.4	0.1%
Sparsity	94	143	22.6	0.3%
Transportation Sparsity	339	143	61.0	0.9%
Training & Experience	62	143	1.8	0.0%
Operating Capital	339	143	194.8	2.9%
Alternative Teacher Comp.	41	21	80.6	1.2%
Equity	339	143	94.9	1.4%
Transition	201	45	29.7	0.4%
Alternative Attendance Adj.	285	132	1.1	0.0%
Miscellaneous Adjustments:				
Pension Adjustment	339	143	(30.7)	(0.5%)
PSEO-College	N/A	N/A	21.8	0.3%
Shared Time	N/A	N/A	3.8	0.1%
Contract Alternative	N/A	N/A	12.0	0.2%
Subtotal	340	143	\$ 5,882.9	89.0%
<u>Referendum-Based Revenues:</u>				
Operating Referendum	300	0	724.2	11.0%
Grand Total Revenue	340	143	\$ 6,607.1	100.0%

Source: MDE, Division of Program Finance, End of 2008 Session work papers. Includes state aids and levies. Levies are shown by formula year.

D. General Education Revenue Formulas

1. Basic Revenue

Basic Revenue = Formula Allowance X Adjusted Marginal Cost Pupil Units

	Gross Formula Allowance	Referendum Roll-in (a)	Other Roll-ins		Net Increase Excluding Roll-Ins	Net Percent Increase
1990-91	\$2,953				\$115	4.1%
1991-92	\$3,050				\$97	3.3%
1992-93	\$3,050				\$0	0.0%
1993-94	\$3,050				\$0	0.0%
1994-95	\$3,150	\$100			\$0	0.0%
1995-96	\$3,205				\$55	1.7%
1996-97	\$3,505		\$300 (b)		\$0	0.0%
1997-98	\$3,581				\$76	2.2%
1998-99	\$3,530		-\$130 (c)		\$79	2.2%
1999-00	\$3,740		\$43 (d)		\$167	4.7%
2000-01	\$3,964		\$67 (e)		\$157	4.2%
2001-02	\$4,068				\$104	2.6%
2002-03	\$4,601	\$415	\$14 (f)		\$104	2.6%
2003-04	\$4,601				\$0	0.0%
2004-05	\$4,601				\$0	0.0%
2005-06	\$4,783				\$182	4.0%
2006-07	\$4,974				\$191	4.0%
2007-08	\$5,074				\$100	2.0%
2008-09	\$5,124				\$50	1.0%

- (a) In 1994-95 and 2002-03, the increase in the general education formula was offset by a reduction in operating referendum revenue. Districts with no operating referendum received an additional revenue increase equal to the amount of the roll-in; districts with an operating referendum greater than the amount of the roll-in received property tax relief but no additional revenue; districts with an operating referendum less than the roll-in amount received a revenue increase less than the full roll-in amount and some property tax relief.
- (b) \$130 of training & experience revenue and \$170 of pupil transportation revenue rolled into basic formula
- (c) \$130 of training & experience revenue rolled out of basic formula
- (d) \$43 of graduation standards aid rolled into basic formula
- (e) \$67 of district cooperation revenue rolled into basic formula. Of the net increase of \$157, \$39 was set aside for staff development (increase from 1% to 2% set aside)
- (f) \$14 of assurance of mastery revenue rolled into basic formula

Class Size Reduction Set-Aside:

The portion of basic revenue generated by .057 of the weight for kindergarten, the extra .115 weight for grades 1-3, and the extra .06 weight for grades 4-6 must be reserved for K-3 class size reduction.

Staff Development Set-Aside:

Two percent of the basic revenue for FY 2001 and later must be set-aside for staff development, unless the district waives the requirement by a majority vote of the teachers and a majority vote of the school board. Of this amount, 50% must be allocated to sites based on a per teacher basis, 25% is for district-wide staff development efforts, and 25% must be used for grants to sites for best practices methods. *Note: This requirement was waived for FY 2004 and FY 2005 only; it is back in effect for FY 2006 and later.*

1a. Additional One-Time Revenue

For FY 2009 only, all school districts and charter schools will receive an additional \$51 per AMCPU. This increase is not linked to other formulas that use the general education formula allowance.

2. Extended Time Revenue

Beginning in FY 2004, the average daily membership is limited to 1.0 for each student, except for the computation of extended time revenue. Students in learning year programs who are served more than full-time may generate up to an additional 0.2 ADM. Extended time revenue may be used for extended day, extended week, summer school, or other programming authorized under the learning year program. The extended time revenue equals \$4,601 times the extended time adjusted marginal cost pupil units.

3. Gifted and Talented Revenue

A district's gifted and talented revenue for FY 2006 equals \$4 per AMCPU; for FY 2007, the gifted and talented allowance is increased to \$9 per AMCPU. For FY 2008 and later, the allowance is increased to \$12. Gifted & talented revenue must be reserved and used only to identify gifted & talented students, provide educational programs for gifted & talented students, or provide staff development for teachers to best meet the needs of gifted & talented students.

4. Basic Skills Revenue

Basic Skills Revenue must be used to meet the educational needs of pupils who enroll under-prepared to learn and whose progress toward meeting state or local content or achievement standards is below the level that is appropriate for learners of their age. Basic Skills Revenue is the sum of the following:

a. Compensatory Revenue

- Computed using building-level free and reduced lunch data as of October 1 of the previous year.
- Allocated directly to school sites; however, an amount up to 5% of the prior year’s revenue may be allocated according to a local plan approved by the Commissioner.

$$\text{Compensatory Revenue} = (\text{Formula Allowance} - \$415) \times \text{Compensatory Pupil Units}$$

$$\text{Compensatory Pupil Units} = (\text{Free} + \frac{1}{2} \text{ of reduced price lunch count}) \times \text{Concentration Factor} \times .60$$

$$\text{Concentration Factor} = \text{Ratio of (free} + \frac{1}{2} \text{ of reduced price lunch count) to } 80\% \text{ of total building enrollment, but not } > 1$$

b. Limited English Proficiency (LEP) Revenue

1) *Basic Revenue* = \$700 X Adjusted Marginal Cost (AMC) eligible LEP average daily membership served

- Students who have generated 5 or more ADM in Minnesota public schools before the start of the current school year are not eligible to be counted for LEP revenue calculations. Students in grades 4 – 12 who were enrolled in a Minnesota public school when the Test of Emerging Academic English (TEAE) was administered during the prior year are not eligible unless they scored below the state cutoff score on the TEAE. AMC LEP ADM served is the greater of current year eligible LEP ADM served or the sum of 77% of current year plus 23% of prior year (if AMC LEP ADM served is greater than 0 but less than 20, 20 is used in the calculations; if current year count is zero, district does not qualify for revenue).

2) *Concentration Revenue* = LEP enrollment X \$250 X LEP concentration factor

- The LEP concentration factor equals the lesser of 1 or the ratio of the district’s LEP concentration percent to 11.5%.
- Additional Basic Skills Revenue targeted to school districts with high concentrations of LEP students.

5. Sparsity Revenue

- Funds added costs of operating geographically isolated small schools.
- Secondary schools must have less than 400 students in grades 7-12 and an “isolation index” greater than 23; elementary schools must average 20 or fewer students per grade level and be 19 or more miles to the nearest elementary school.

6. Transportation Sparsity Revenue

- Funds added costs of providing transportation in districts with fewer than 200 pupil units per square mile. (Transportation funding for all districts of \$248.51 per pupil unit (4.85% of formula allowance) is included in the basic formula allowance.) The transportation sparsity allowance gradually increases as population density decreases, reflecting the relationship between average transportation costs and population density.

7. Training & Experience (T&E) Revenue

- Partially compensates districts for salary differences associated with training and experience of teachers employed by the district in 1996-97.
- Being phased out as these staff leave employment with the district.

8. Operating Capital Revenue

- Provides funding for capital expenditure facilities and equipment costs.
- Revenue per AMC pupil unit = $\$73 + \$100 * [1 + (\text{Avg Building Age}/100)]$.
- Note: in addition to the regular operating capital revenue, school districts will receive additional one-time technology and operating capital aid of \$40 per AMCPU for FY 2008 and \$55 per AMCPU for FY 2009, as a separate categorical.

Note: For buildings more than 50 years old, 50 is used in the computations.

9. Equity Revenue

- Additional revenue for districts with Basic + Referendum Revenue per pupil unit below the regional 95th percentile (regions are seven county metro area, rural).
- Minneapolis, St. Paul, and Duluth are not eligible for revenue, except as noted below for FY 2007 and later.
- For qualifying districts with no referendum levy, the initial revenue allowance = \$13.
- For qualifying districts with a referendum levy, the initial revenue allowance = \$13 + up to \$75, depending on how far the district's revenue per pupil unit is below the regional 95th percentile (sliding scale).
- Districts with referendum revenue below 10% of the state average per pupil unit (approximately \$57 / PU for FY 2006) receive additional equity revenue equal to the difference between 10% of the state average and the district's referendum revenue per pupil unit (includes districts with no referendum).
- For districts in the 7 county metro area, the equity revenue as computed above is increased by 25%.
- All districts, (including Minneapolis, St. Paul, and Duluth), receive an additional \$46 per pupil unit; (for FY 2007 only, districts at or above the 95th percentile received an additional \$23 per pupil unit, while others received an additional \$46 per pupil unit).

10. Alternative Teacher Compensation (Q Comp) Revenue

- Beginning in FY 2006, the maximum revenue for participating school districts, charter schools and intermediate districts is \$260 times the October 1 enrollment in the previous school year. For districts where only selected sites are participating, the funding is based on the prior school year's October 1 enrollment at the participating sites. For FY 2006, participation is limited to districts and schools making up 9% of the state's total enrollment; for FY 2007 and later, participation is limited to districts and schools making up 48% of the state's total enrollment.
- Funding is all aid in FY 2006; for FY 2007 – FY 2009, funding includes \$190 per pupil of aid and a \$70 per pupil equalized levy (changes to \$169 per pupil of aid and a \$91 per pupil equalized levy beginning in FY 2010).

11. Transition Revenue

Transition revenue is a hold-harmless provision created in 2003 to ensure that a district's FY 2004 general education revenue per old formula AMCPU (before applying the 1.0 ADM limit), excluding referendum revenue and alternative attendance adjustments, would not be less than the lesser of:

- The district's FY 2003 general education revenue per AMCPU, excluding referendum revenue and alternative attendance adjustments, or
- The amount the district would have received per AMCPU for FY 2004 under the laws in effect before the changes enacted in 2003.

A district's transition revenue equals the district's FY 2004 transition allowance per pupil unit times the district's current year AMCPU.

In addition, districts that had prekindergarten programs implemented before July 1, 2003, that were reported as kindergarten programs, receive transition revenue equal to 4% of the amount they received based on FY 2004 data for the prekindergarten program.

12. Pension Adjustment

- Aid reduction to offset cost savings to school districts from reductions made in 1990-91 and 1997-98 in the teacher retirement employer contribution rate. The size of the aid reduction is lowered by 0.5% of the district's TRA salaries for FY 2007, to offset an increase in TRA employer contribution rates beginning in FY 2008.

13. Alternative Attendance Adjustment

- The aid portion of referendum revenue follows the student to the nonresident district or charter school the student attends. The resident district loses the aid generated by the student.

- If the student enrolls in another school district, that district's aid is increased by the nonresident district's referendum aid per pupil unit.
- Beginning in FY 2008, districts where (a) net open enrollment pupil units exceed 20% of the district's resident pupil units and (b) fewer than 50% of open enrollment pupil units are enrolled solely in on-line learning receive an additional alternative attendance adjustment.
- If the student enrolls in a charter school, the charter school's aid is increased by the amount subtracted from the aid paid to the resident district.

14. Post-Secondary Enrollment Options (PSEO)

- Payments to colleges for students enrolled in the PSEO program.

[(Formula Allowance - \$415) X 88% X 1.3 Secondary Weight] /
(30 for semester credit)

15. On-Line Learning

- Beginning in FY 2006, students taking on-line learning courses provided by the school district or charter school in which they are enrolled are counted as regular pupil units by the enrolling district or charter school, regardless of whether they were enrolled in a Minnesota public school the year before they enrolled in on-line learning.
- School districts and charter schools providing on-line learning courses for students enrolled in other Minnesota public schools receive on-line learning aid equal to 88% of 1/12th of an ADM for each completed semester course or equivalent times the pupil's grade level weight times the formula allowance.
- The enrolling district generates 12% of 1/12th of a regular ADM for each completed semester course or equivalent, which is used in regular general education revenue calculations.

16. Shared Time

- Payments to school districts for courses taken at the public school by nonpublic school pupils.
- Revenue equals formula allowance times weighted full-time equivalent ADM.

17. Contract Alternative

- Payments to school districts for students enrolled in private alternative programs under contract with districts. At least 95% of the general education revenue earned by these students (100% of Basic Skills Revenue) must be paid to the private organization.

18. Referendum Revenue

- Additional money for school operations approved in a referendum election.
- Initial allowance per pupil unit is based on ballot wording.
- Capped at the greater of : (1) 26% of the formula allowance or (2) the greater of product of (a) the greater of \$1,294 per pupil unit or 117.7% of the district's FY 1994 referendum allowance minus \$215, times (b) a statutory inflation factor based on the Consumer Price Index (CPI). (Sparsity districts exempted.)
- Until the early 90s, referendums were typically ongoing, were based on a fixed tax rate, and were spread against tax capacity. Newer referendums have a limited duration (currently up to ten years), are based on a fixed amount per pupil unit, and are spread against referendum market value.
- For FY 2003 and later, \$415 per pupil unit was transferred from referendum revenue to the basic formula, thereby increasing basic revenue by \$415 per pupil unit and decreasing referendum revenue by the lesser of a district's referendum allowance or \$415 per pupil unit.

III. STATE AID AND PROPERTY TAX LEVY COMPUTATIONS

A. K-12 Education Property Tax Levy Summary: 2007 Payable 2008 (FY 2009)

Levy Type	Amount (\$ in Millions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Operating Capital	120.6	6.1%
Equity	74.5	3.8%
Transition	24.6	1.3%
Alternative Teacher Comp	13.9	0.7%
Health & Safety/Alt. Facilities	118.3	6.0%
Building Lease	45.1	2.3%
Deferred Maintenance	23.8	1.2%
Integration	26.4	1.3%
Safe Schools	28.5	1.4%
Career Technical	14.4	0.7%
Other General Fund	18.7	1.0%
Community Service Fund	64.0	3.2%
Debt Service Fund	162.5	8.2%
Subtotal, Formula-Driven Levies	735.3	37.2%
Voter Approved Levies:		
Operating Referendum	633.3	32.0%
Capital Projects Referendum	33.8	1.7%
Debt Service	575.5	29.1%
Subtotal, Voter Approved Levies	1,242.6	62.8%
Total Levy Before Credits	1,977.9	100.0%
Estimated Credits:		
Market Value Homestead Credit	(52.1)	
Homestead Ag Land MV Credit	(5.7)	
Other Credits	(9.7)	
Total Levy After Credits:	1,910.4	

Source: MDE, Division of Program Finance, February 2008 Forecast work papers.

B. Aid and Levy Computations

1. Examples of Revenue Formulas

- a. *No. of Pupil Units times Allowance* (e.g., Basic General Education)
- b. *Approved Expenditures* (e.g. Health & Safety)

2. Examples of Levy Formulas

- a. *Tax Rate Levies* – Adjusted Net Tax Capacity (ANTC) times Tax Rate (e.g., Community Education Levy – tax rate for 2007 Payable 2008 levy was 0.09% of ANTC.
- b. *“Equalized” Levies* – The school district levies for a percentage of the revenue based on the ratio of the district’s ANTC per Pupil Unit (referendum market value/PU for operating referendum levies spread against referendum market value) to an “equalizing factor” specified in law. “Equalizing factors” vary among programs.

Example #1: Operating Referendum

For FY 2009, state aid is provided to “equalize” access to the first \$700/PU using an “equalizing factor” of \$476,000 of referendum market value per pupil unit. In addition, referendum revenue over \$700/PU up to 26% of the formula allowance (\$1,332/PU) is equalized using an equalizing factor of \$270,000. If a district’s referendum market value per pupil unit is \$238,000, district property tax payers pay 50% of the first \$700/PU of the referendum revenue, and the state pays 50%. For referendum revenue over \$700/PU, up to \$1,332/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%.

Example #2: Health & Safety

State aid is provided to “equalize” this levy, using an “equalizing factor” of \$2,935. If a district’s ANTC/WADM is 60% of this amount, the district’s property tax levy pays for 60% of the revenue, and state aid pays for 40% of the revenue.

- c. *“Unequalized” Levies* – The school district levies the full amount of the revenue; there is no state equalization aid (e.g., building lease levy, unemployment levy).

3. State Aid = Revenue – Levy