K-12 EDUCATION

FINANCE

OVERVIEW

2004-2005

Division of Program Finance

June 2004
(Revised April 2005)

TABLE OF CONTENTS

I. Context for School Finance

A. Legal Context 1

B. Minnesota Education Finance Terms 2

C. Minnesota's Public Finance System 4

D. Characteristics of School Districts 9

II. K-12 Education Revenue

A. School Revenue Trends 12

B. 2004-05 Elementary Secondary Education Revenue Summary 16

C. General Education Revenue by Component 17

D. General Education Revenue Formulas 18

III. State Aid and Property Tax Levy Computations

A. K-12 Education Property Tax Levy Summary 23

B. Aid and Levy Computations 24

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 2005 begins July 1, 2004 and ends June 30, 2005.

b. With certain exceptions, the property tax levy certified in 2003 for taxes payable in 2004 is recognized as revenue in FY 2005.

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 Kindergarten	.557
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 2004)

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 $600,000	0.55%
Over $600,000	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 = $\frac{\text{Net Tax Capacity}}{\text{Sales Ratio}}$

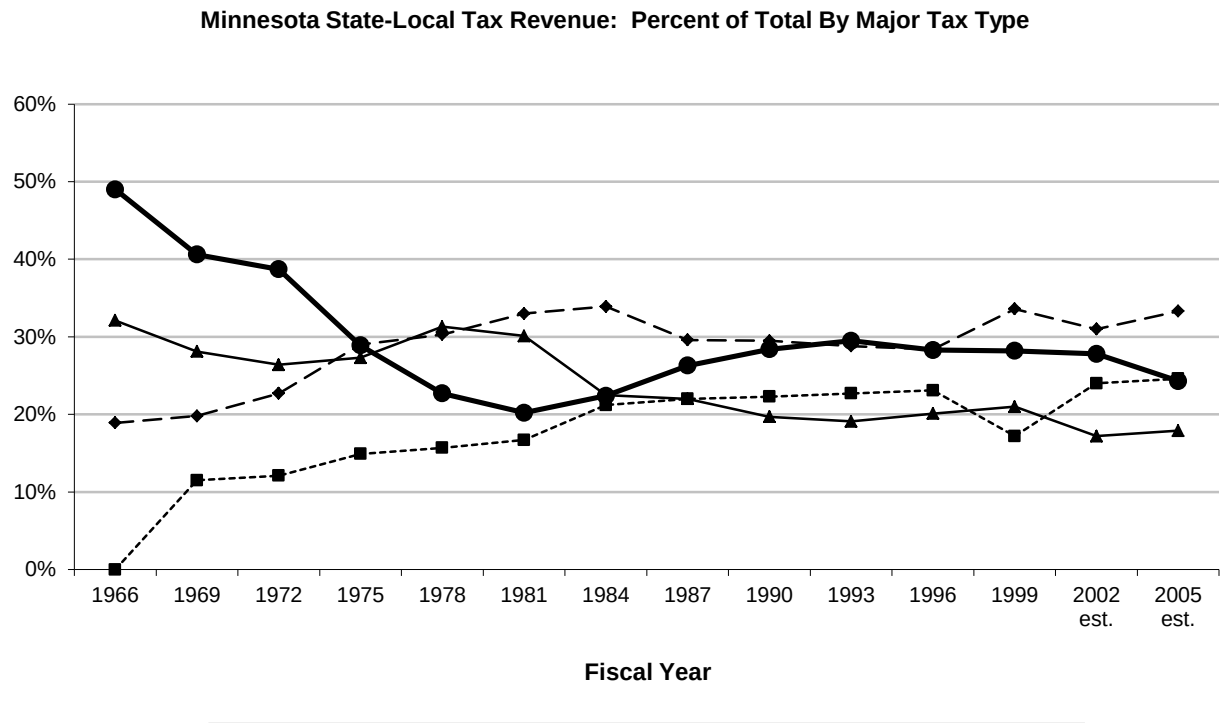
4. Referendum Market Value

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



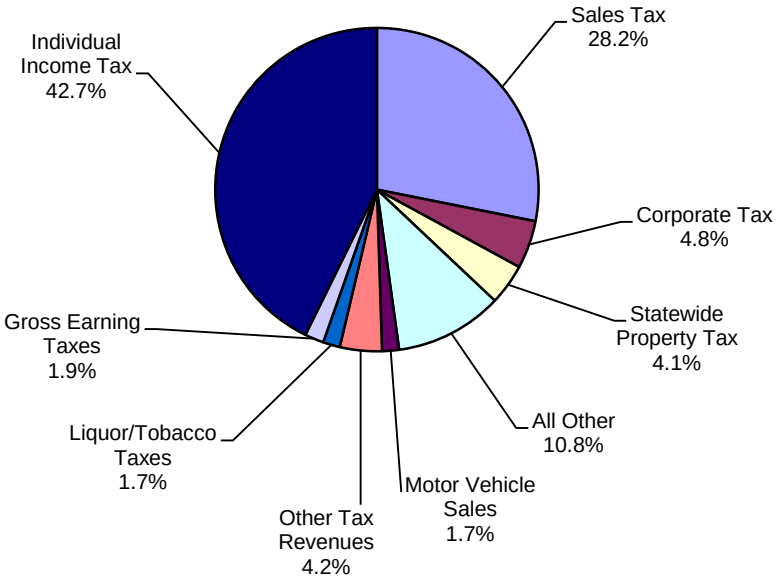
Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	38.7%	26.4%
1975	29.0%	14.9%	28.9%	27.3%
1978	30.3%	15.7%	22.7%	31.3%
1981	33.0%	16.7%	20.2%	30.1%
1984	33.9%	21.2%	22.4%	22.5%
1987	29.6%	22.0%	26.3%	22.0%
1990	29.5%	22.3%	28.4%	19.7%
1993	28.8%	22.7%	29.5%	19.1%
1996	28.4%	23.1%	28.3%	20.1%
1999	33.6%	17.2%	28.2%	21.0%
2002 est.	31.0%	24.0%	27.8%	17.2%
2005 est.	33.3%	24.6%	24.3%	17.9%

* 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

2. Where the General Fund Dollars Come From – End of 2005 Legislative Sessions

2006-07 Biennium - $31,589 Million

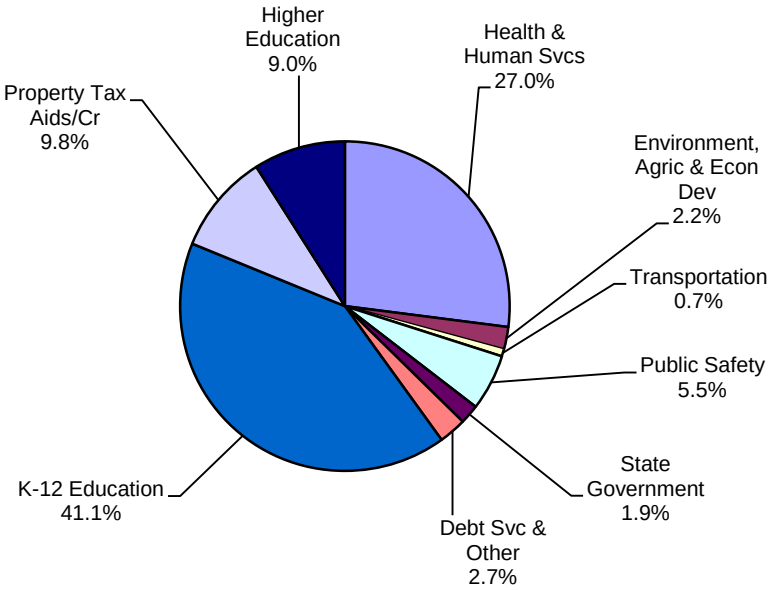


	$ in Millions
Balance Forward 6-30-05	$ 1,003
Non-Dedicated Revenues:	
Individual Income Tax	13,516
Sales Tax	8,906
Corporate Tax	1,505
Statewide Property Tax	1,291
Motor Vehicle Sales Tax	531
Gross Earnings Taxes	592
Liquor, Wine, Beer Taxes	135
Cigarette and Tobacco Taxes	388
Other Tax Revenues	1,328
All Other Revenues	1,491
Subtotal Non-Dedicated Revenues	29,683
Dedicated Revenue	74
Transfers from Other Funds	759
Prior Year Adjustments	70
SUBTOTAL CURRENT RESOURCES	30,586
TOTAL AVAILABLE RESOURCES – FY 2006-07	**$ 31,589**
Less: Estimated Expenditures	30,574
Cash Flow Account	350
Budget Reserve	653
Projected General Fund Balance 6-30-07 End of 2005 Legislative Sessions	$ 12

Source: Department of Finance – August 8, 2005

3. Where the General Fund Dollars Go – End of 2005 Legislative Sessions

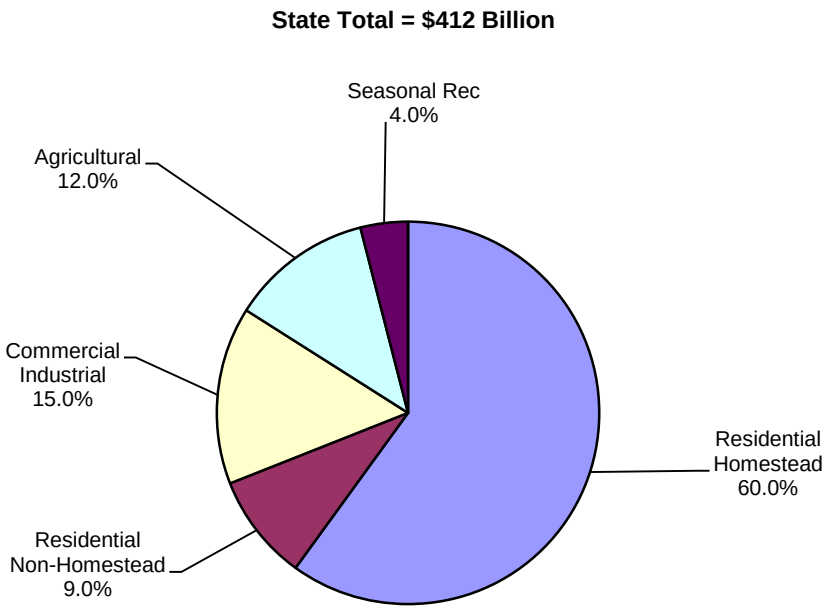
2006-07 Biennium - $30,574 Million Spending
$350 Million Cash Flow Account
$653 Million Budget Reserve



	$ in Millions
Total Available Resources – FY 2006-07	**$ 31,589**
Major Spending Items:	
K-12 Education	12,759
Property Tax Recog/Payment Change	(181)
Property Tax Aids & Credits	2,984
Higher Education	2,761
Health & Human Services	8,264
Environment, Agric & Economic Dev	680
Transportation	205
Public Safety	1,685
State Government	584
Debt Service	781
Estimated Cancellations	(23)
Subtotal – Major Spending Items	30,500
Dedicated Expenditures	74
TOTAL ESTIMATED EXPENDITURES – FY 2004-05	**$ 30,574**
Cash Flow Account	350
Budget Reserve	653
Projected General Fund Balance 6-30-05 November 2004 Forecast	$ 12

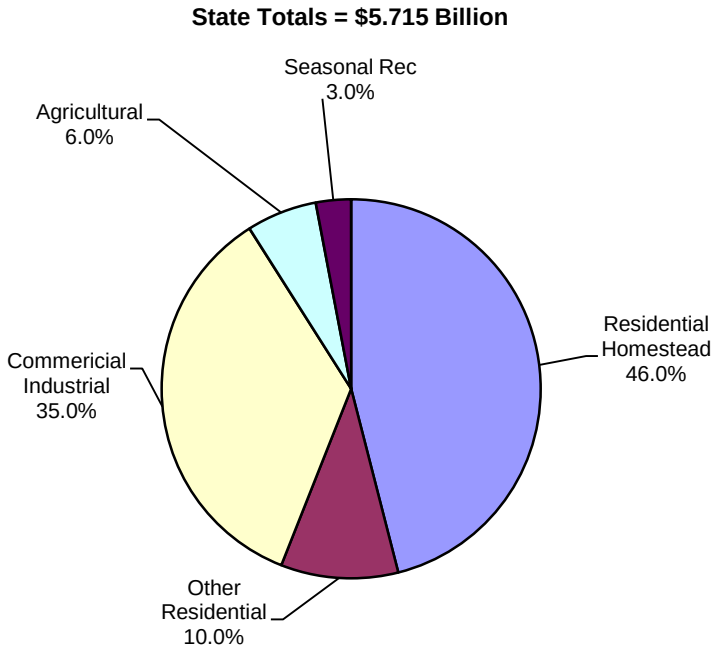
Source: Department of Finance – August 8, 2005

4. Payable 2005 Market Value by Use Class



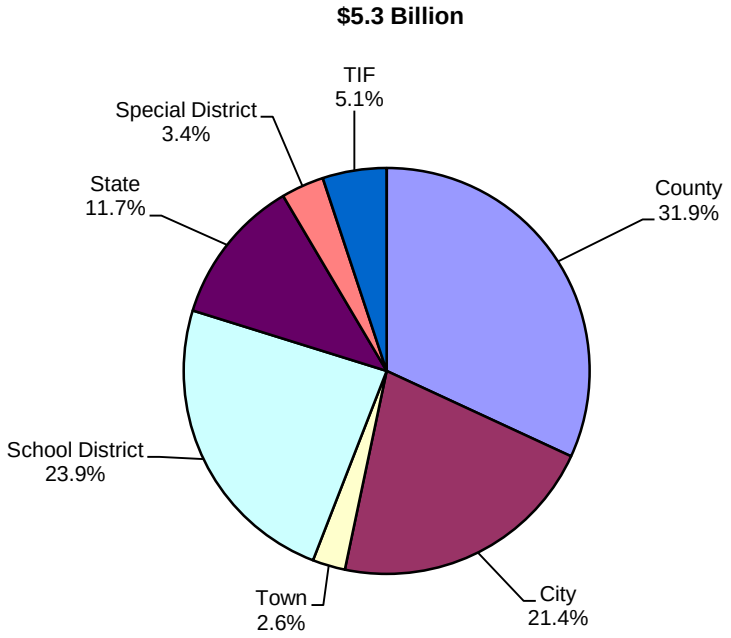
Source: House Research Department

5. Payable 2005 Net Property Tax by Use Class

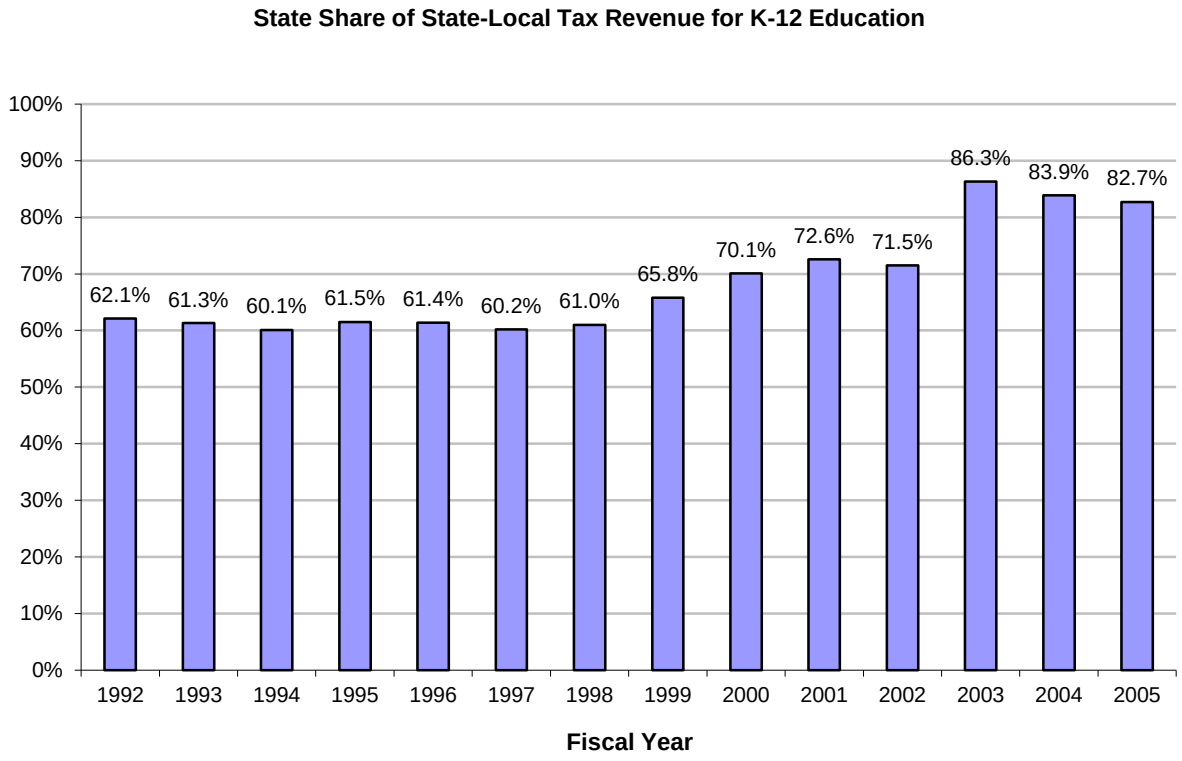


Source: Department of Revenue, Property Tax Bulletin Table #41

6. Payable 2004 Property Tax Levy by Type of Government After Credits



Source: Minnesota House Research, Property Tax Levy by Type of Government



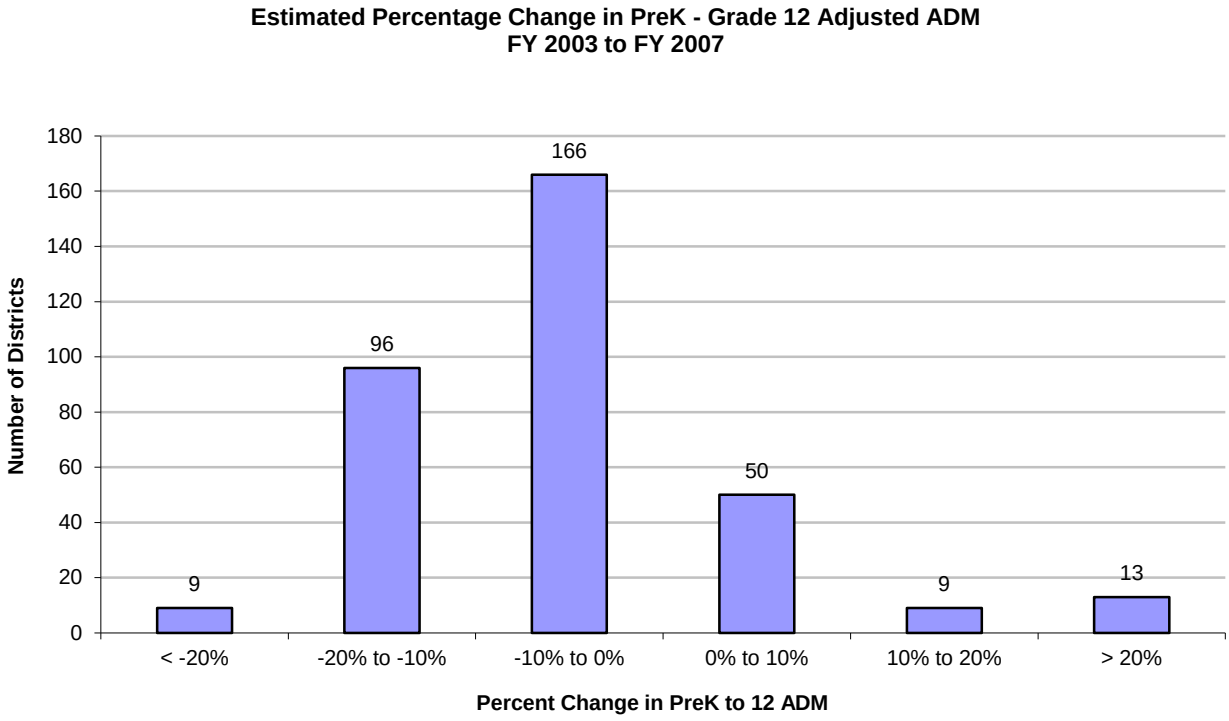
Source: MDE, Price of Government Data, November 2004 Forecast

D. Characteristics of School Districts

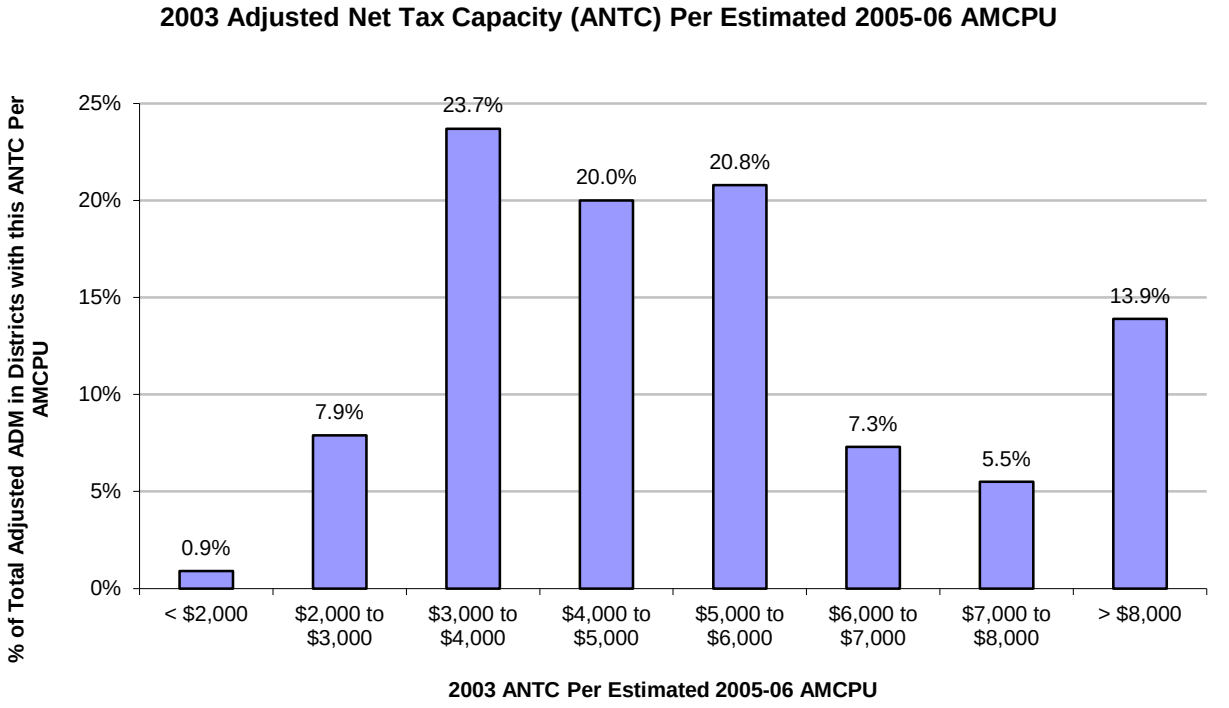
Number of School Districts by Adjusted 2003-04 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	42	7,750	1.0%
300-999	137	84,583	10.4%
1,000-2,999	102	168,814	20.8%
3,000-9,999	46	243,169	30.0%
10,000 +	16	306,223	37.8%
Total	343	810,539	100.0%

Source: MDE, FY 2004 Final MARSS Data

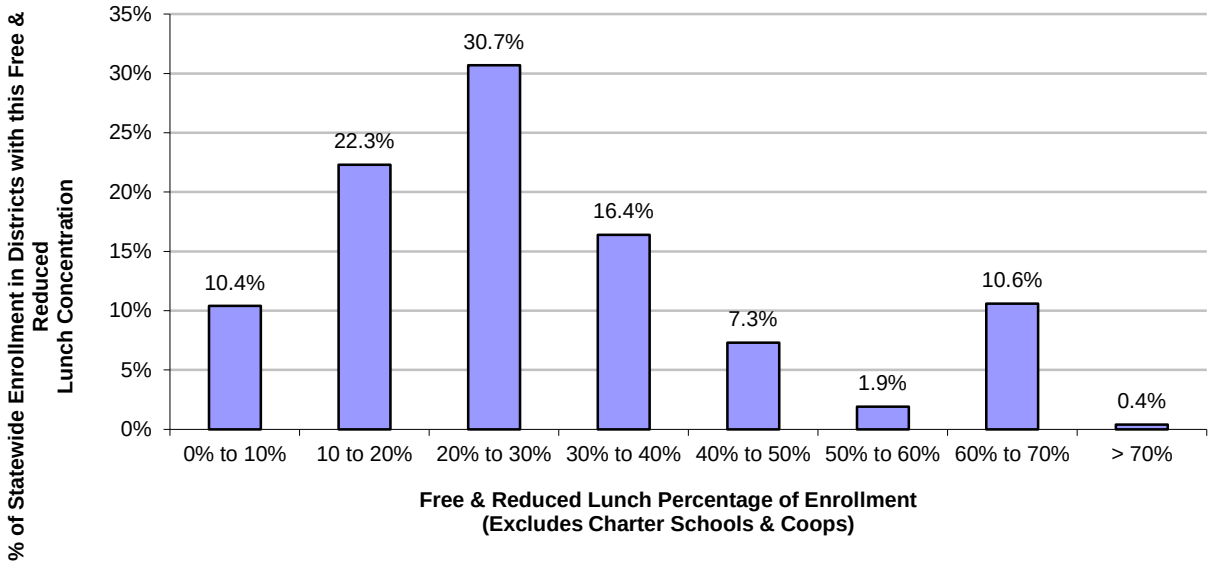


ADM capped at 1.0
Excludes Charter Schools
Source: MDE, February 2004 Forecast Data

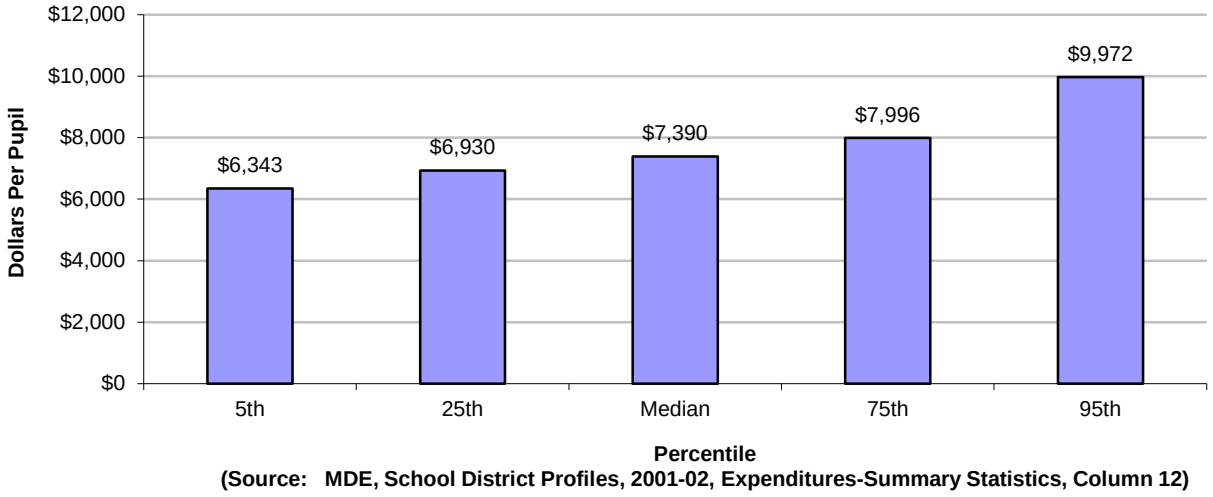


Source: MDE, February 2005 Forecast Data

Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2004



Fiscal Year 2002 PK - 12 Operating Expenditures
Per Average Daily Membership



(Source: MDE, School District Profiles, 2001-02, Expenditures-Summary Statistics, Column 12)

School District General Fund Revenue, FY 1991 - 2007*
(State Aids and Property Taxes including Operating Referendum Levies)

Fiscal Year	Total Revenue ($ in Millions)	ADM***	---- Current Dollars -----		---- CPI Factors ----		---- Constant (2004) Dollars** ----		
			Revenue Per ADM	Annual Percent Increase	CPI (1984=1.0)	CPI Adjust to 2004 $	Revenue per ADM (2004 $)	Annual Percent Increase	Cumulative Percent Increase
1991	3,579.7	750,865	4,767	N/A	1.3104	1.3862	6,609	N/A	N/A
1992	3,754.7	767,786	4,890	2.6%	1.3510	1.3446	6,575	-0.5%	-0.5%
1993	3,933.6	785,072	5,010	2.5%	1.3929	1.3041	6,534	-0.6%	-1.1%
1994	4,174.1	799,285	5,222	4.2%	1.4263	1.2736	6,651	1.8%	0.6%
1995	4,489.8	812,582	5,525	5.8%	1.4691	1.2365	6,832	2.7%	3.4%
1996	4,704.0	827,588	5,684	2.9%	1.5088	1.2039	6,843	0.2%	3.5%
1997	4,803.0	838,336	5,729	0.8%	1.5510	1.1712	6,710	-1.9%	1.5%
1998	5,072.7	845,117	6,002	4.8%	1.5791	1.1503	6,905	2.9%	4.5%
1999	5,287.5	851,729	6,208	3.4%	1.6059	1.1311	7,022	1.7%	6.3%
2000****	5,608.6	852,602	6,578	6.0%	1.6525	1.0992	7,077	3.0%	7.1%
2000*****	5,608.6	843,449	6,650	N/A	1.6525	1.0992	7,310	N/A	N/A
2001	5,947.7	842,764	7,057	6.1%	1.7094	1.0627	7,500	2.6%	9.7%
2002	6,083.0	839,424	7,247	2.7%	1.7391	1.0445	7,569	0.9%	10.6%
2003	6,451.9	835,217	7,725	6.6%	1.7777	1.0218	7,893	4.3%	15.1%
2004	6,551.5	829,840	7,895	2.2%	1.8165	1.0000	7,895	0.0%	15.1%
2005	6,601.8	825,261	8,000	1.3%	1.8677	0.9726	7,780	-1.5%	13.5%
2006	6,610.8	823,252	8,030	0.4%	1.8948	0.9587	7,698	-1.1%	12.4%
2007	6,698.6	820,678	8,162	1.6%	1.9247	0.9438	7,703	0.1%	12.5%

* Based on current UFARS definition of general fund, which includes transportation and capital expenditures. Community service, debt service, and food service funds are excluded.
** Adjusted for inflation using Consumer Price Index; inflation adjustment factors for FY 2004 and later are consistent with November 2004 Forecast.
*** For purposes of this analysis, ADMs are shown in capped at 1.0 beginning in FY 2000. Actual implementation of 1.0 cap began in FY 2004.
**** FY 2000 computed using ADM prior to reduction for 1.0 cap for comparability with FY 1999 and earlier.
***** FY 2000 computed using ADM after reduction for 1.0 cap for comparability with FY 2001 and later.
Amounts shown for FY 2006 and FY 2007 are based on current statutory formulas (not adjusted for inflation).

Source: MDE, Division of Program Finance, District Revenue Tables, November 2004 Forecast

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2002 to FY 2007
State Totals

	REVENUES PER ADJUSTED ADM (CAP = 1.0)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1	ADJUSTED ADM (CAP = 1.0)	833,359	829,209	824,526	819,946	817,937	815,364
	GENERAL EDUCATION REVENUE:						
2	BASIC	$ 4,782	$ 5,413	$ 5,339	$ 5,344	$ 5,335	$ 5,333
3	EXTENDED TIME	0	0	60	59	58	59
4	COMPENSATORY	265	317	302	324	325	323
5	AOM	17	0	0	0	0	0
6	LEP TOTAL	54	56	43	45	45	45
7	TRAINING & EXPERERIENCE	37	30	23	17	13	10
8	SPARSITY	17	20	20	21	21	22
9	TRANSPORTATION SPARSITY	60	68	67	68	68	67
10	OPERATING CAPITAL	239	239	236	236	235	235
11	SUPPLEMENTAL	11	0	0	0	0	0
12	TRANSITION (OLD)	9	0	0	0	0	0
13	EQUITY	43	42	39	50	51	51
14	TRANSITION (NEW)	0	0	38	38	37	36
15	LATE RATIFICATION	0	0	0	0	0	0
16	PENSION ADJUSTMENT	-56	-56	-57	-57	-58	-58
17	ALTERNATIVE ATTENDANCE	1	2	2	3	4	5
18	REFERENDUM	658	352	518	615	648	728
19	GENERAL ED TOTAL = SUM OF (2) TO (18) =	$ 6,137	$ 6,482	$ 6,631	$ 6,763	$ 6,781	$ 6,855
20	REVENUE CHANGE FROM PRIOR YEAR	N/A	345	148	132	18	74
21	PERCENT CHANGE FROM PRIOR YEAR	N/A	5.6%	2.3%	2.0%	0.3%	1.1%
	CATEGORICAL REVENUE:						
22	SPECIAL ED REGULAR	$ 612	$ 640	$ 644	$ 645	$ 645	$ 645
23	SPECIAL ED EXCESS	109	111	112	112	112	112
24	SPEC ED CROSS SUBSIDY	0	0	6	13	0	0
25	SPECIAL ED TOTAL = = (22) + (23) + (24) =	$ 721	$ 751	$ 761	$ 771	$ 757	$ 757
26	REVENUE CHANGE FROM PRIOR YEAR	N/A	30	10	9	-13	0
27	PERCENT CHANGE FROM PRIOR YEAR	N/A	4.2%	1.3%	1.2%	-1.7%	0.0%
28	CAREER TECHNICAL	15	16	16	16	16	16
29	INTEGRATION	97	94	94	96	103	101
30	TOTAL LISTED REVENUE = (19) + (25) + (28) + (29) =	$ 6,971	$ 7,343	$ 7,502	$ 7,645	$ 7,657	$ 7,729
31	REVENUE CHANGE FROM PRIOR YEAR	N/A	372	159	143	12	72
32	PERCENT CHANGE FROM PRIOR YEAR	N/A	5.3%	2.2%	1.9%	0.2%	0.9%

November 2004 Forecast Calculations

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2002 to FY 2007
State Totals

	REVENUES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1	ADJUSTED ADM (CAP = 1.0)	833,349	829,209	824,526	819,946	817,937	815,364
	GENERAL EDUCATION REVENUE:						
2	BASIC	$ 3,984,963,282	$ 4,488,496,206	$ 4,402,126,824	$ 4,382,134,993	$ 4,363,689,421	$ 4,348,479,747
3	EXTENDED TIME	0	0	49,203,048	48,492,377	47,461,158	47,823,764
4	COMPENSATORY	220,929,302	262,694,686	249,152,521	266,644,764	265,610,524	263,496,171
5	AOM	13,959,166	0	0	0	0	0
6	LEP TOTAL	44,711,632	46,636,335	35,641,701	36,919,954	36,790,878	36,713,731
7	TRAINING & EXPERIENCE	30,735,382	25,114,309	18,876,566	14,183,698	10,582,333	8,002,278
8	SPARSITY	14,098,235	16,471,552	16,856,360	16,861,524	17,231,795	17,734,388
9	TRANSPORTATION SPARSITY	50,192,767	56,238,225	55,607,286	55,663,284	55,281,569	54,734,173
10	OPERATING CAPITAL	199,151,411	198,438,434	194,229,181	193,331,331	192,449,307	191,732,801
11	SUPPLEMENTAL	9,435,661	0	0	0	0	0
12	TRANSITION (OLD)	7,586,602	0	0	0	0	0
13	EQUITY	36,068,879	34,642,491	32,175,465	41,282,352	41,503,951	41,365,902
14	TRANSITION (NEW)	0	0	31,530,246	30,769,454	29,923,841	29,320,665
15	LATE RATIFICATION	0	0	0	0	0	0
16	PENSION ADJUSTMENT	-46,453,550	-46,569,597	-46,686,207	-46,780,912	-47,035,685	-47,319,177
17	ALTERNATIVE ATTENDANCE	786,233	1,341,222	1,359,707	2,147,992	3,089,013	3,732,804
18	REFERENDUM	548,176,785	291,708,358	427,083,497	504,304,807	529,795,751	593,303,759
19	GENERAL ED TOTAL = SUM OF (2) TO (18) =	$ 5,114,341,788	$ 5,375,212,220	$ 5,467,156,196	$ 5,544,955,619	$ 5,546,373,856	$ 5,589,121,006
20	REV CHANGE FROM PRIOR YR	N/A	260,870,433	91,943,976	77,799,423	1,418,237	42,747,150
21	% CHANGE FROM PRIOR YR	N/A	5.1%	1.7%	1.4%	0.0%	0.8%
	CATEGORICAL REVENUE:						
22	SPECIAL ED REGULAR	$ 510,363,230	$ 530,903,000	$ 530,642,000	$ 529,164,000	$ 527,868,000	$ 526,208,000
23	SPECIAL ED EXCESS	90,805,000	92,112,000	92,067,000	91,811,000	91,587,000	91,299,000
24	SPEC ED CROSS SUBSIDY	0	0	5,000,000	11,000,000	0	0
25	SPECIAL ED TOTAL = (22) + (23) + (24) =	$ 601,168,230	$ 623,015,000	$ 627,709,000	$ 631,975,000	$ 619,455,000	$ 617,507,000
26	REV CHANGE FROM PRIOR YR	N/A	21,846,770	4,694,000	4,266,000	-12,520,001	-1,947,999
27	% CHANGE FROM PRIOR YR	N/A	3.6%	0.8%	0.7%	-2.0%	-0.3%
28	CAREER TECHNICAL	12,613,930	13,182,507	13,182,507	13,182,507	13,182,507	13,182,507
29	INTEGRATION	80,821,408	77,552,564	77,798,797	78,652,568	84,268,256	82,536,987
30	TOTAL LISTED REVENUE = (19) + (25) + (28) + (29) =	$ 5,808,945,356	$ 6,088,962,292	$ 6,185,846,500	$ 6,268,765,694	$ 6,263,279,619	$ 6,302,347,501
31	REV CHANGE FROM PRIOR YR	N/A	280,016,935	96,884,208	82,919,195	-5,486,075	39,067,882
32	% CHANGE FROM PRIOR YR	N/A	4.8%	1.6%	1.3%	-0.1%	0.6%

November 2004 Forecast 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%

SOURCES: U.S. Department of Education, National Center for Education Statistics, *State Comparisons of Education Statistics: 1969-70 to 1996-97, Table 41, Digest of Education Statistics, 1999, Table 172, and Revenues and Expenditures for Elementary and Secondary Education: School Year 1997-98, School Year 1998-99, School Year 1999-2000, School Year 2000-2001, and School Year 2001-2002 editions, Table 5.*

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

B. 2004-2005 Elementary Secondary Education Revenue Summary*

Program	Total Revenue ($ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	$ 5,076.6	$ 6,152	68.7%
Referendum	504.3	611	6.8%
Special Education	643.8	780	8.7%
Other General Programs***	377.1	457	5.1%
Subtotal General Fund	6,601.8	8,000	89.4%
Food Service	11.8	14	0.2%
Community Service	133.8	N/A ****	1.8%
Debt Redemption	637.0	772	8.6%
Total All Funds	$ 7,384.4	$ 8,786 ****	100.0%
ADM Pupils	825,261		

* 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 ($66.6), Alternate Facilities Annual Levy/Aid Revenue ($57.2), Building Lease Levies ($37.1), Charter School Building Lease Aid ($21.5), Safe Schools Levy ($24.4), Desegregation/Integration Revenue ($79.3), Nonpublic Transportation Aid ($20.9), 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, November 2004 Forecast.

C. General Education Revenue by Component: 2004-2005 Estimate

Component	Number of Districts	Number of Charter Schools	Amount (Millions)	Percent of Total
Formula – Based Revenue:				
Basic	343	105	$ 4,382.1	78.5%
Extended Time	203	8	48.5	0.9%
Basic Skills:				
Compensatory	341	101	265.6	4.8%
LEP, including concentration	230	44	36.9	0.7%
Sparsity	81	105	16.9	0.3%
Transportation Sparsity	343	54	55.7	1.0%
Training & Experience	196	105	14.2	0.3%
Operating Capital	343	105	193.3	3.5%
Equity	322	105	41.3	0.7%
Transition	198	47	30.8	0.6%
Alternative Attendance Adj.	246	99	2.1	0.0%
Miscellaneous Adjustments:				
Pension Adjustment	342	105	(46.8)	
PSEO-College	N/A	N/A	19.1	0.3%
Shared Time	N/A	N/A	3.7	0.1%
Contract Alternative	N/A	N/A	13.2	0.2%
Subtotal	343	105	$ 5,076.6	91.0%
Referendum-Based Revenues:				
Oper. Referendum	299	0	504.3	9.0%
Grand Total Revenue	343	105	$ 5,580.9	100.0%

Source: MDE, Division of Program Finance, November 2004 Forecast 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

Formula Allowances:

		Total	-	Trans	-	AOM/ T&E**	-	Grad Std	-	Coop	=	Net
2004-05	$4,601*	($4,601	-	$223	-	$14	-	$43	-	$67	=	$4,254)
2003-04	$4,601*	($4,601	-	$223	-	$14	-	$43	-	$67	=	$4,254)
2002-03	$4,601*	($4,601	-	$223	-	$14	-	$43	-	$67	=	$4,254)
2001-02	$4,068*	($4,068	-	$197	-	$0	-	$43	-	$67	=	$3,761)
2000-01	$3,964*	($3,964	-	$192	-	$0	-	$43	-	$67	=	$3,662)
1999-00	$3,740*	($3,740	-	$181	-	$0	-	$43	-	$0	=	$3,516)
1998-99	$3,530*	($3,530	-	$171	-	$0	-	$0	-	$0	=	$3,359)
1997-98	$3,581*	($3,581	-	$174	-	$130	-	$0	-	$0	=	$3,277)
1996-97	$3,505*	($3,505	-	$170	-	$130	-	$0	-	$0	=	$3,205)
1995-96	$3,205											
1994-95	$3,150											
1993-94	$3,050											
1992-93	$3,050											
1991-92	$3,050											
1990-91	$2,953											

* For comparison with earlier years, amounts rolled into the formula allowance since 1995-96 should be deducted, as shown in parentheses at right. Amount shown in AOM/T&E (Assurance of Mastery/Training and Experience) column for 2001-2002 is for AOM roll-in; amount in this column for 1996-97 and 1997-98 is for T&E roll-in, which is reversed in 1998-99. In addition to the deductions shown, $100 of referendum revenue was rolled into the formula beginning in 1994-95, and $415 of referendum revenue was rolled into the formula beginning in 2002-03; these changes provided additional revenue to districts with referendum allowances below the roll-in amount, and tax relief to other districts.

Class Size Reduction Set-Aside:

The portion of basic revenue generated by the extra .057 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.*

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. 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.

Compensatory Revenue = (Formula Allowance - $415) X
Compensatory Pupil Units

Compensatory Pupil Units = (Free + ½ of reduced price lunch count) X
Concentration Factor X .60

Concentration Factor = Ratio of (free + ½ of reduced price lunch count) to
80% of total building enrollment, but not > 1

b. Limited English Proficiency (LEP) Revenue

1) <u>Basic Revenue</u> = $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 that 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.

4. Sparsity Revenue

- Funds added costs of operating geographically isolated small schools.
- Secondary schools must have less that 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.

5. Transportation Sparsity

- Funds added costs of providing transportation in districts with fewer than 200 pupil units per square mile. (Transportation funding for all districts of $223 per pupil unit 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.

6. Training & Experience (T&E)

- 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.

7. Operating Capital

- Provides funding for capital expenditure facilities and equipment costs.
- Revenue per AMC pupil unit = $73 + $100* [1 + (Avg Building Age/100)].

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

8. Equity

- 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.
- For qualifying districts with no referendum levy, revenue allowance = $13.

- For qualifying districts with a referendum levy, 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).

9. Transition

Transition revenue guarantees 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, will 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.

10. 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.

11. 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.
- 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.

12. Post-Secondary Enrollment Options (PSEO)

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

13. On-Line Learning

- Beginning in FY 2004, school districts and charter schools providing on-line learning generate on-line learning aid for courses completed by public school students from other districts or charter schools who were enrolled in a Minnesota public school the year before enrolling in the on-line learning program.
- The on-line learning aid equals 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.

14. 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.

15. 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.

16. 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 product of (1) the greater of $855.79 per pupil unit (18.6% of formula allowance) or 117.7% of the district's FY 1994 referendum allowance minus $415, times (2) 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: 2003 Payable 2004 (FY 2005)

Levy Type	Amount ($ in Millions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Health & Safety	64.8	4.8%
Operating Capital	39.9	2.9%
Other General Fund*	213.0	15.7%
Community Service Fund	58.8	4.3%
Debt Service Fund	122.6	9.0%
Subtotal, Formula-Driven Levies	**499.1**	**36.8%**
Voter Approved Levies:		
Operating Referendum	377.4	27.8%
Capital Projects Referendum	13.6	1.0%
Debt Service	467.7	34.4%
Subtotal, Voter Approved Levies	**858.7**	**63.2%**
Total Levy Before Credits	**1,357.8**	**100.0%**
Estimated Credits:		
Market Value Homestead Credit	(68.0)	
Market Value Ag Land Credit	(5.2)	
Other Credits	(9.2)	
Total Levy After Credits:	**1,275.4**	

* Other General Fund levies include:
Equity ($21.7), Transition ($19.2), Integration/Desegregation ($24.3), Safe Schools ($24.4), Building Lease ($37.1), Alternative Facilities ($54.3), and several smaller categorical levies.

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 2003 Payable 2004 levy was 0.0985% 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 2005, state aid is provided to "equalize" access to the first $405/PU using an "equalizing factor" of $476,000 of referendum market value per pupil unit. In addition, referendum revenue over $405/PU up to 18.6% of the formula allowance ($856/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 $405/PU of the referendum revenue, and the state pays 50%. For referendum revenue over $405/PU, up to $856/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%. *(Note: $405 is increased to $500 for later years).*

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