K-12 EDUCATION

FINANCE

OVERVIEW

2003-2004

Division of Program Finance

June 2003

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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 2004 begins July 1, 2003 and ends June 30, 2004.

b. With certain exceptions, the property tax levy certified in 2002 for taxes payable in 2003 is recognized as revenue in FY 2004.

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 2003)

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

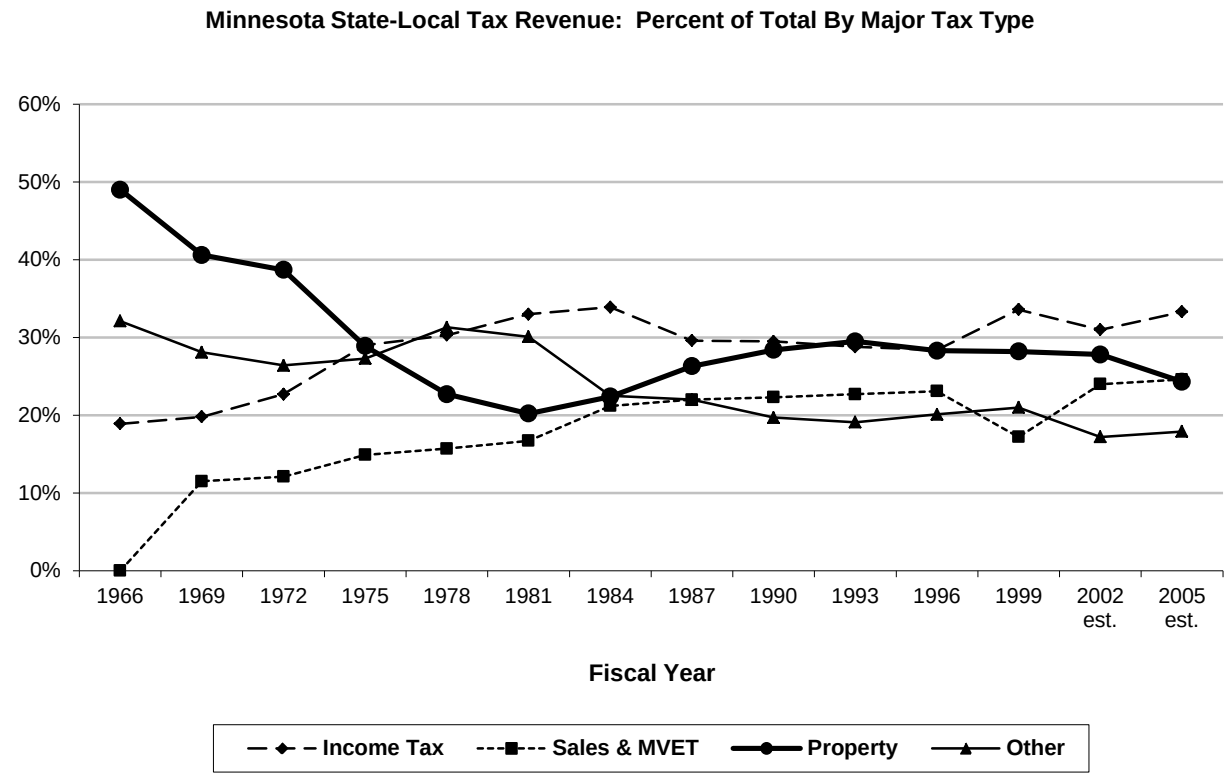
Referendum market value, used only for operating referendum levy calculations*, equals the estimated market value of property, excluding the following property classes:

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

*Note: Referendum market value will also be used for transition and equity levies beginning in FY 2005

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

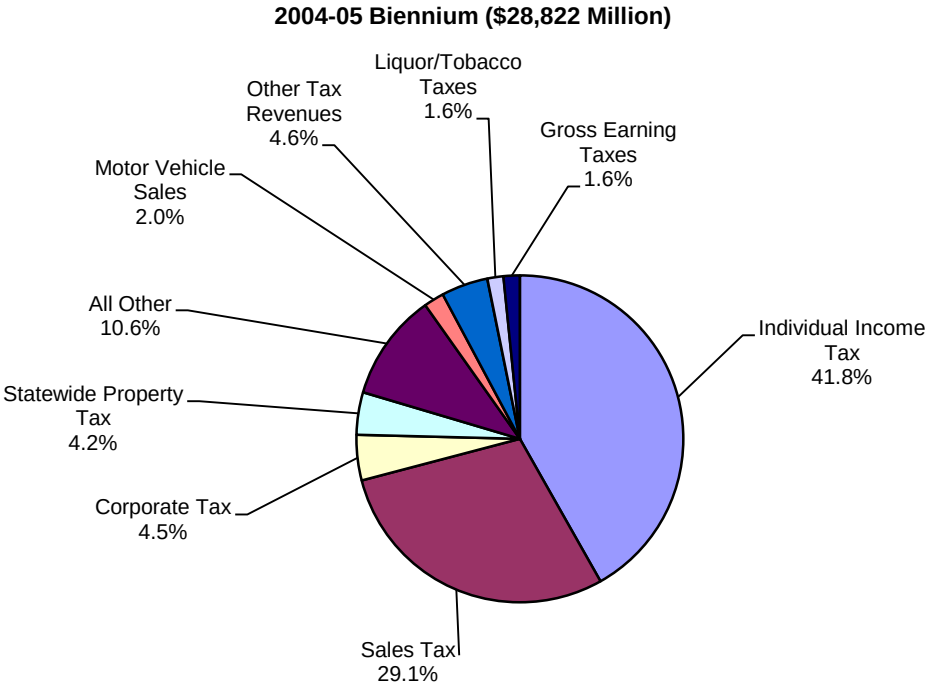


Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	38.7%	26.4%
1975	29.0%	14.9%	28.9%	27.3%
1978	30.3%	15.7%	22.7%	31.3%
1981	33.0%	16.7%	20.2%	30.1%
1984	33.9%	21.2%	22.4%	22.5%
1987	29.6%	22.0%	26.3%	22.0%
1990	29.5%	22.3%	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 2003 Legislative Sessions

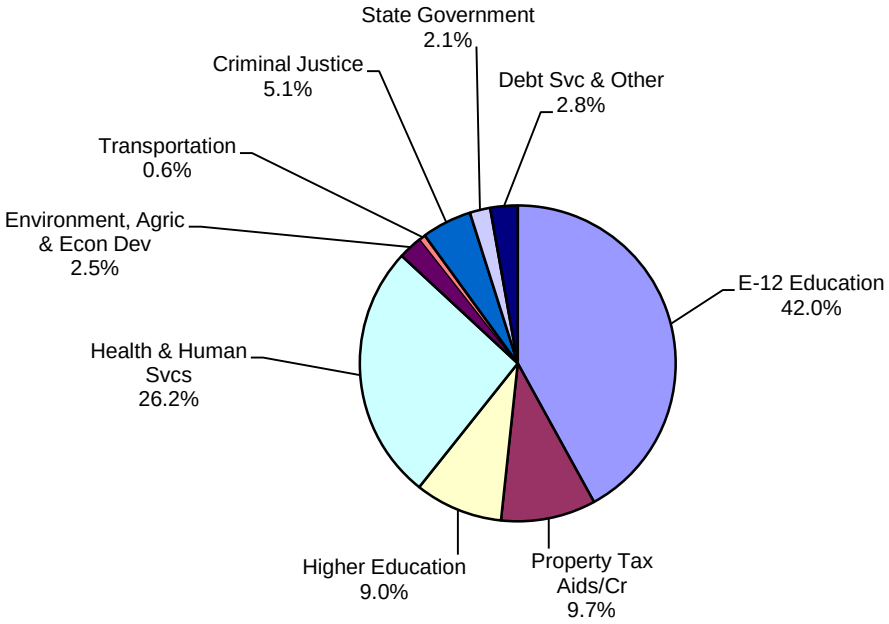


	$ in Millions
Balance Forward 6-30-03	$ 180
Non-Dedicated Revenues:	
Individual Income Tax	12,034
Sales Tax	8,384
Corporate Tax	1,304
Statewide Property Tax	1,221
Motor Vehicle Sales Tax	574
Gross Earnings Taxes	447
Liquor, Wine, Beer Taxes	133
Cigarette and Tobacco Taxes	324
Other Tax Revenues	1,338
All Other Revenues	1,347
Subtotal Non-Dedicated Revenues	27,106
Dedicated Revenue	127
Transfers from Other Funds	1,390
Prior Year Adjustments	20
SUBTOTAL CURRENT RESOURCES	28,642
TOTAL AVAILABLE RESOURCES – FY 2004-05	**$28,822**
Less: Estimated Expenditures	28,301
Budget Reserve	522
Projected General Fund Balance 6-30-05 End of 2003 Legislative Sessions	$ 0

Source: Department of Finance – June 6, 2003

3. Where the General Fund Dollars Go – End of 2003 Legislative Sessions

2004-05 Biennium
($28,301 Million Spending
$522 Million Budget Reserve)

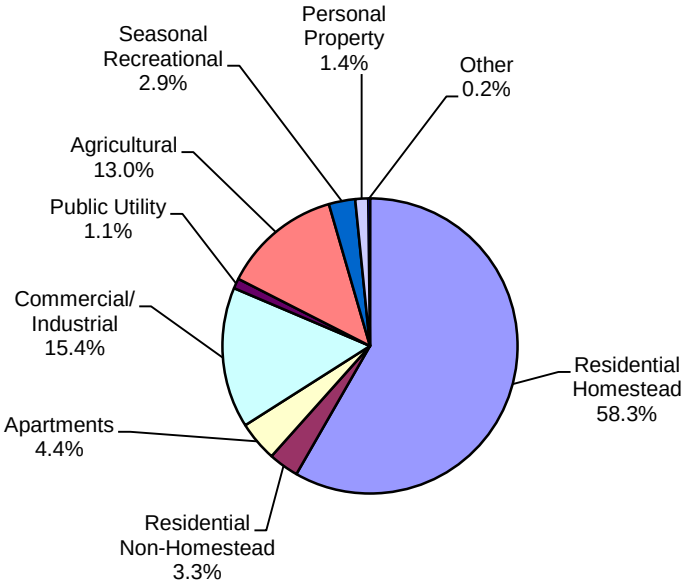


	$ in Millions
Total Available Resources – FY 2004-05	**$28,822**
Major Spending Items:	
E-12 Education	12,323
Property Tax Recog/Payment Change	(440)
Property Tax Aids & Credits	2,737
Higher Education	2,560
Health & Human Services	7,428
Environment, Agric & Economic Dev	697
Transportation	161
Criminal Justice	1,434
State Government	604
Debt Service	674
Estimated Cancellations	(5)
Subtotal – Major Spending Items	28,174
Dedicated Expenditures	127
TOTAL ESTIMATED EXPENDITURES – FY 2004-05	**$28,301**
Budget Reserve	522
Projected General Fund Balance 6-30-05 End of 2003 Legislative Sessions	$ 0

Source: Department of Finance – June 6, 2003

4. Payable 2002 Market Value by Use Class

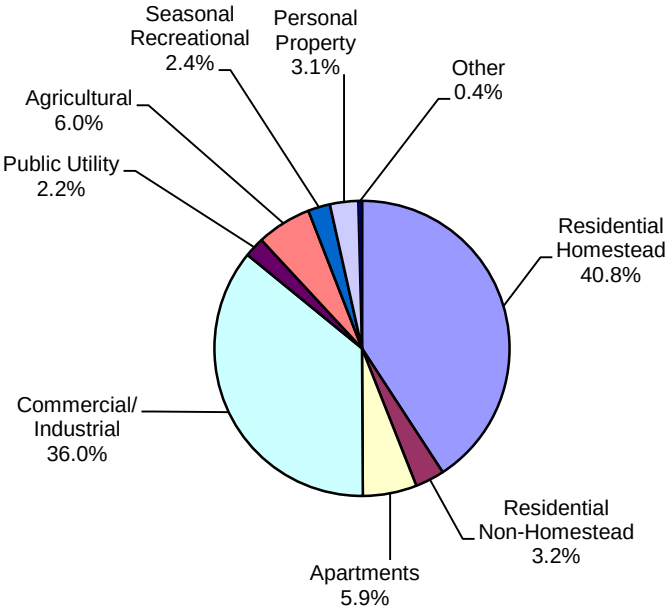
State Total = $292.2 Billion



Source: Department of Revenue, Property Tax Bulletin Table #29

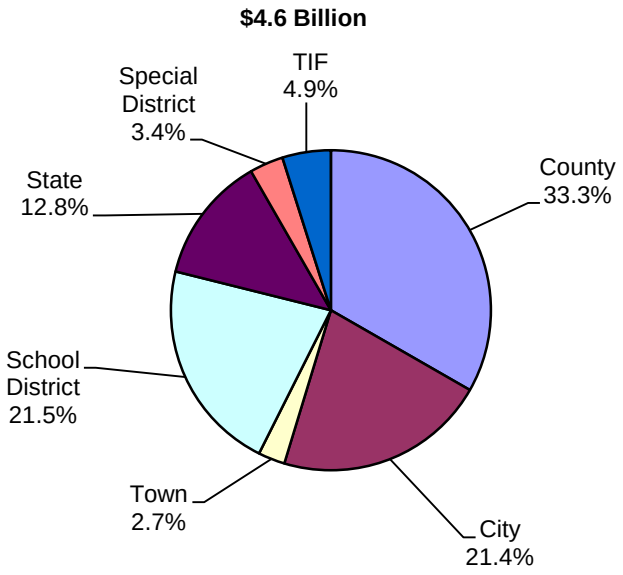
5. Payable 2002 Net Property Tax by Use Class

State Totals = $4.6 Billion

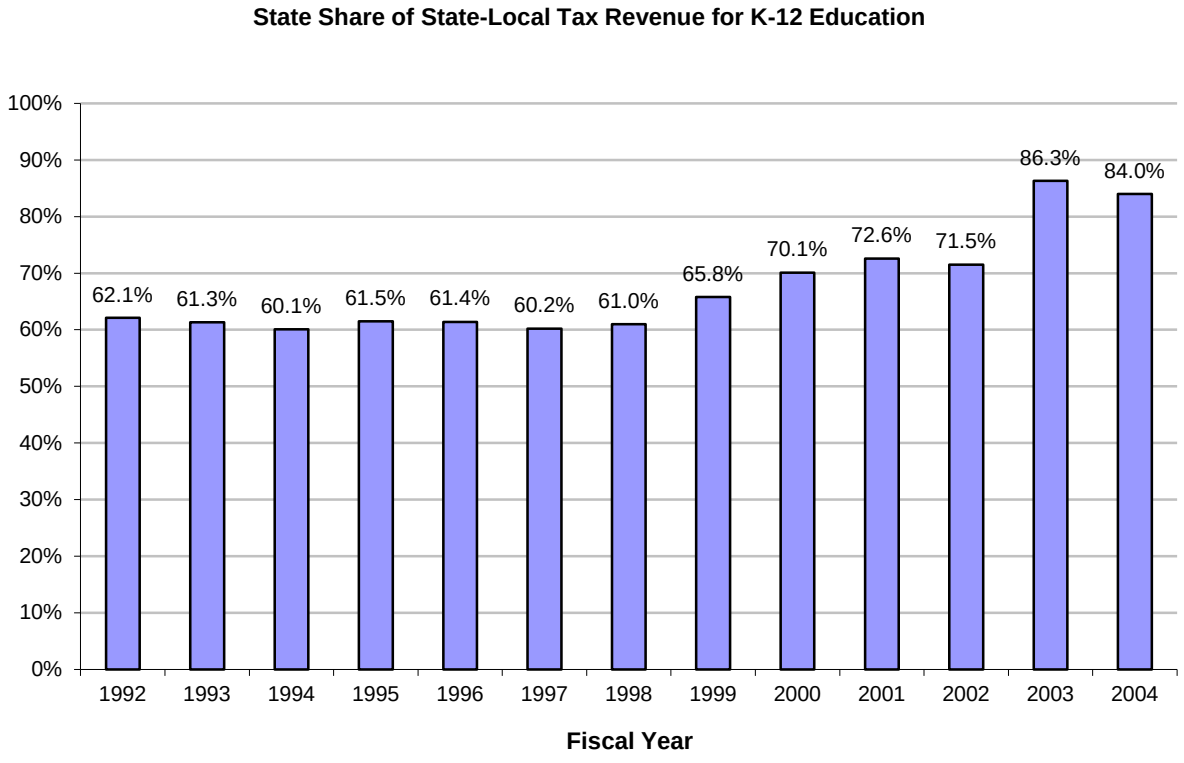


Source: Department of Revenue, Property Tax Bulletin Table #41

6. Payable 2002 Property Tax Levy by Type of Government After Credits



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



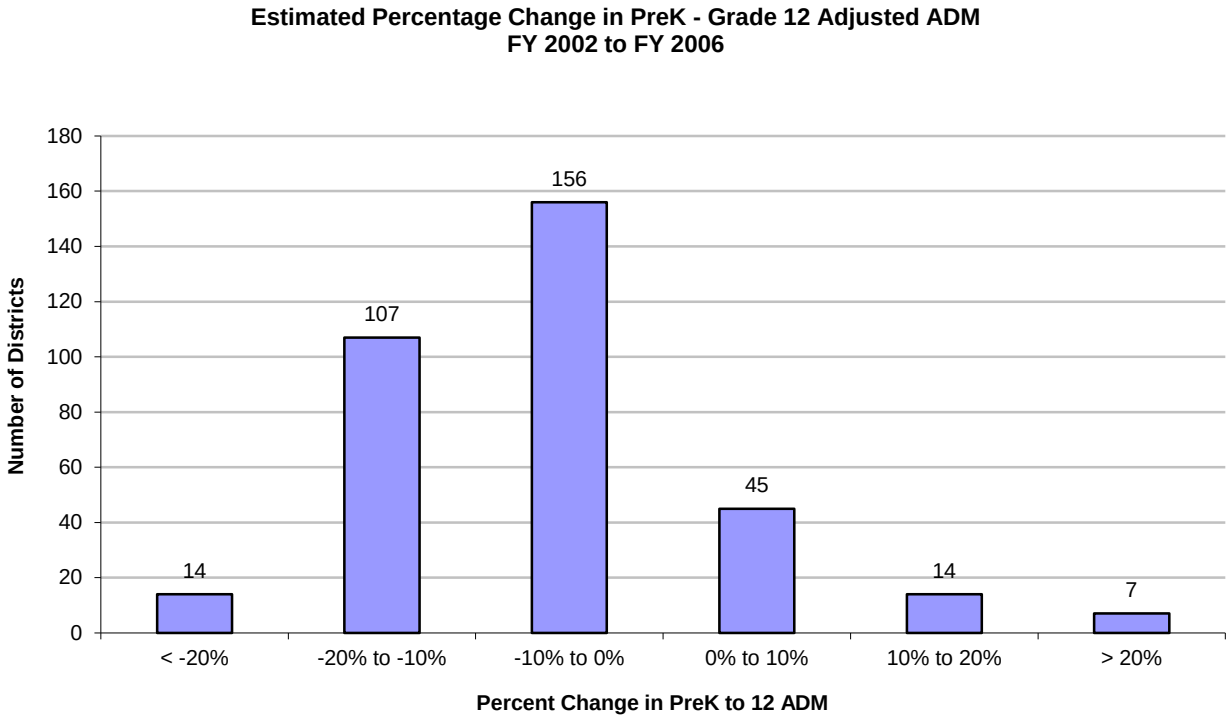
Source: MDE, Price of Government Data, February 2003 Forecast

D. Characteristics of School Districts

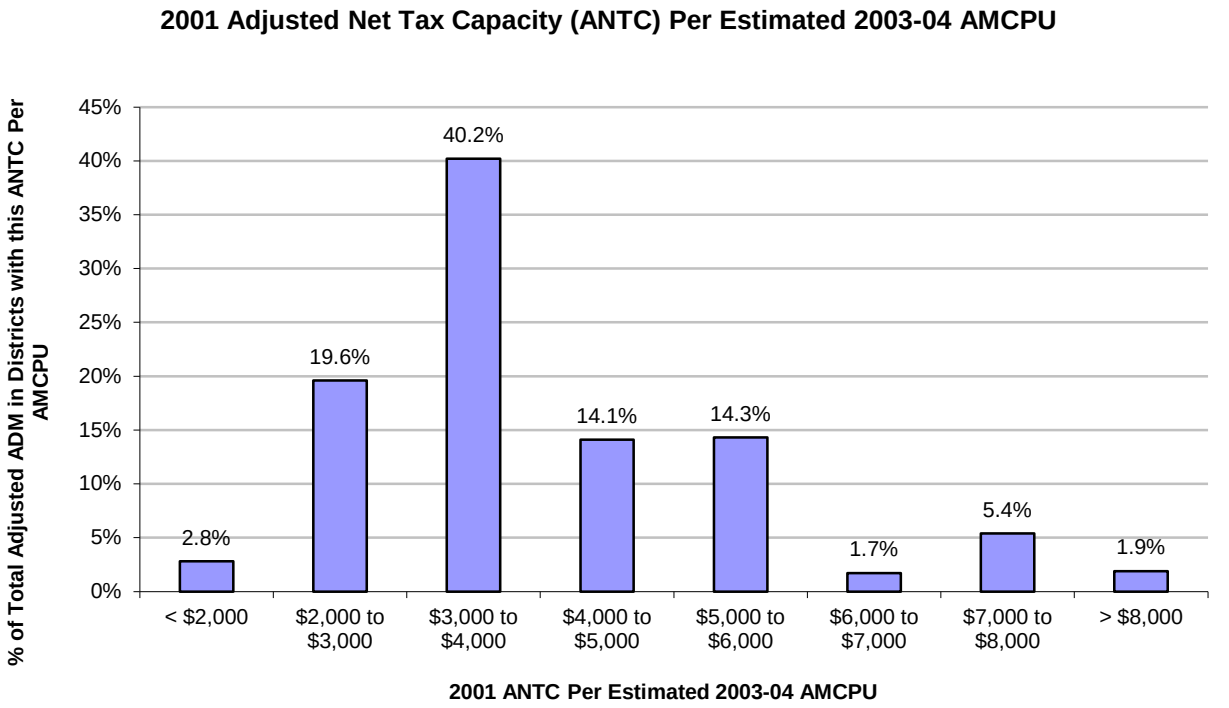
Number of School Districts by Adjusted 2001-02 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	38	6,946	0.8%
300-999	137	84,349	10.1%
1,000-2,999	104	171,360	20.5%
3,000-9,999	49	260,538	31.2%
10,000 +	15	312,122	37.4%
Total	343	835,315	100.0%

Source: MDE, FY 2002 Final MARSS Data

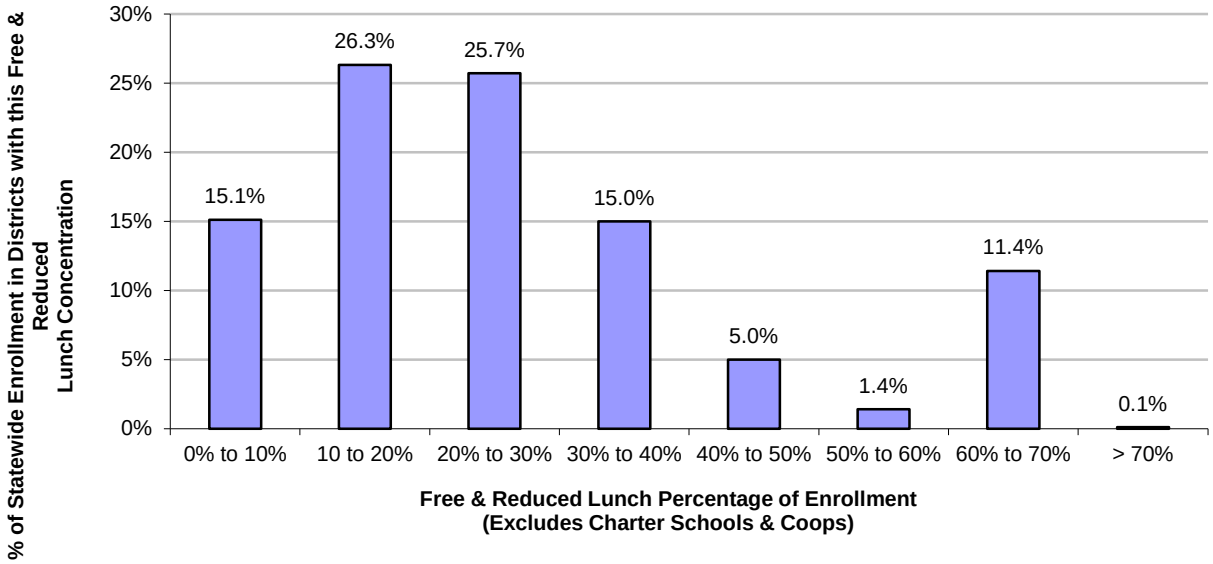


Source: MDE, February 2003 Forecast Data

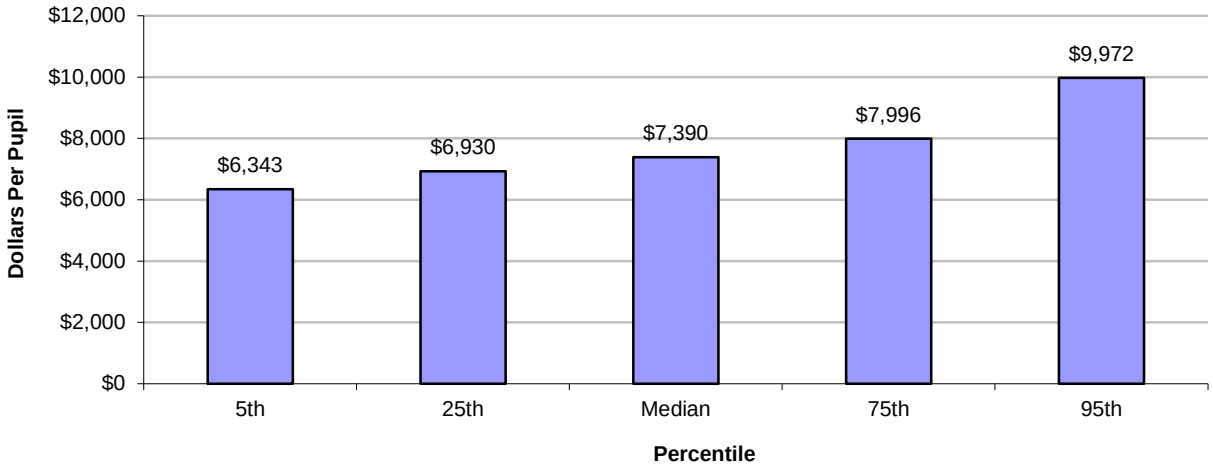


Source: MDE, February 2003 Forecast Data

Percentage of Statewide Enrollment by Free and Reduced Lunch Concentration of District October 2002



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



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

June 6, 2003
February 2003 Forecast Data

School District General Fund Revenue, FY 1991 - 2005*
(State Aids and Property Taxes)

Fiscal Year	Total Revenue ($ in Millions)	ADM	---- Current Dollars -----					----Constant (2003) Dollars** ----		
			Revenue Per ADM	Annual Percent Increase	Cumulative Percent Increase	CPI (1984=1.0)	CPI Adjust to 2001 $	Revenue per ADM (2001 $)	Annual Percent Increase	Cumulative Percent Increase
1991	3,579.7	750,865	4,767	N/A	N/A	1.3104	1.3558	6,464	N/A	N/A
1992	3,754.7	767,786	4,890	2.6%	2.6%	1.3510	1.3151	6,431	-0.5%	-0.5%
1993	3,933.6	785,072	5,010	2.5%	5.1%	1.3929	1.2755	6,391	-0.6%	-1.1%
1994	4,174.1	799,285	5,222	4.2%	9.5%	1.4263	1.2457	6,505	1.8%	0.6%
1995	4,489.8	812,582	5,525	5.8%	15.9%	1.4691	1.2094	6,682	2.7%	3.4%
1996	4,704.0	827,588	5,684	2.9%	19.2%	1.5088	1.1776	6,693	0.2%	3.5%
1997	4,803.0	838,336	5,729	0.8%	20.2%	1.5510	1.1455	6,563	-1.9%	1.5%
1998	5,072.7	845,117	6,002	4.8%	25.9%	1.5791	1.1251	6,753	2.9%	4.5%
1999	5,287.5	851,729	6,208	3.4%	30.2%	1.6059	1.1064	6,868	1.7%	6.3%
2000	5,608.6	852,602	6,578	6.0%	38.0%	1.6525	1.0752	7,073	3.0%	9.4%
2001	5,947.7	854,055	6,964	5.9%	46.1%	1.7094	1.0394	7,238	2.3%	12.0%
2002	6,083.7	851,536	7,144	2.6%	49.9%	1.7401	1.0210	7,295	0.8%	12.9%
2003	6,488.1	850,158	7,632	6.8%	60.0%	1.7767	1.0000	7,632	4.6%	18.1%
2004	6,606.0	847,008	7,799	2.2%	63.6%	1.8087	0.9823	7,661	0.4%	18.5%
2005	6,688.0	844,975	7,915	1.5%	66.0%	1.8466	0.9621	7,615	-0.6%	17.8%

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

** Adjusted for inflation using Consumer Price Index; inflation adjustment factors for FY 2003 and later are consistent with February 2003 Forecast.

Source: MDE, Division of Program Finance, District Revenue Tables, End of 2003 Legislative Session

Estimated Revenues
FY 2000 to FY 2005 End of 2003 Legislative First Special Session Calculations
State Totals

	REVENUES PER OLD LAW ADJUSTED ADM	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1	ADJUSTED ADM (OLD LAW)	846,749	848,064	845,485	843,852	840,419	838,078
2	BASIC	$4,316	$4,588	$4,713	$5,335	$5,254	$5,250
3	EXTENDED TIME	0	0	0	0	66	67
4	COMPENSATORY	251	252	260	312	295	302
5	AOM	17	17	17	0	0	0
6	LEP TOTAL	41	49	53	62	59	57
7	TRAINING & EXPERERIENCE	63	47	36	30	20	12
8	SPARSITY	14	16	17	19	20	20
9	TRANSPORTATION SPARSITY	55	58	59	67	66	66
10	OPERATING CAPITAL	228	235	236	236	232	232
11	REFERENDUM OFFSET	12	11	0	0	0	0
12	SUPPLEMENTAL	10	10	11	0	0	0
13	TRANSITION (OLD)	16	11	9	0	0	0
14	EQUITY	25	26	43	41	38	52
15	TRANSITION (NEW)	0	0	0	0	38	38
16	LATE RATIFICATION	0	0	0	0	0	0
17	PENSION ADJUSTMENT	-55	-55	-55	-55	-56	-56
18	ALTERNATIVE ATTENDANCE	0	0	1	3	3	4
19	REFERENDUM	530	580	648	351	512	615
20	DISTRICT COOPERATION	78	0	0	0	0	0
21	GENERAL ED SUBTOTAL = (2) TO (20) =	$5,602	$5,844	$6,048	$6,401	$6,550	$6,658
22	REVENUE CHANGE FROM PRIOR YEAR	N/A	242	204	352	149	108
23	PERCENT CHANGE FROM PRIOR YEAR	N/A	4.3%	3.5%	5.8%	2.3%	1.6%
24	SPECIAL ED REGULAR	546	559	603	631	631	631
25	SPECIAL ED EXCESS	85	104	60	110	110	110
26	SPEC ED CROSS SUBSIDY	9	22	0	0	6	13
27	VOCATIONAL ED	15	15	15	16	16	16
28	DESEGREGATION	67	80	96	93	95	95
29	TOTAL EXCLUDING ONE TIME REVENUES	$6,323	$6,623	$6,822	$7,250	$7,408	$7,523
30	REVENUE CHANGE FROM PRIOR YEAR	N/A	300	199	428	158	115
31	PERCENT CHANGE FROM PRIOR YEAR	N/A	4.7%	3.0%	6.3%	2.2%	1.6%
	ONE TIME REVENUES						
32	T&E REPLACEMENT	0	31	0	0	0	0
33	SPARSITY CORRECTION	1	1	0	0	0	0
34	DEFERRED MAINTENANCE	0	28	0	0	0	0
35	TOTAL ONE-TIME = (32) + (33) + (34)	1	59	0	0	0	0
36	TOTAL SPECIAL EDUCATION = (24) + (25) + (26) =	640	684	663	741	747	754
37	GRAND TOTAL = (29) + (35) =	$6,324	$6,682	$6,822	$7,250	$7,408	$7,523
38	REVENUE CHANGE FROM PRIOR YEAR	N/A	358	140	428	158	115
39	PERCENT CHANGE FROM PRIOR YEAR	N/A	5.7%	2.1%	6.3%	2.2%	1.6%

Estimated Revenues
FY 2000 to FY 2005
State Totals

End of 2003 Legislative First Special Session Calculations

	REVENUES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1	ADJUSTED ADM	846,749	848,064	845,485	843,852	828,437	824,038
2	BASIC	3,654,547,882	3,890,649,193	3,985,010,675	4,502,170,649	4,415,927,826	4,399,628,817
3	EXTENDED TIME	0	0	0	0	55,743,572	55,743,572
4	COMPENSATORY	212,907,936	214,091,561	220,181,680	262,924,651	248,342,891	252,812,910
5	AOM	14,082,351	14,052,173	13,959,371	0	0	0
6	LEP TOTAL	34,915,075	41,165,141	44,711,632	52,355,782	49,876,516	47,723,706
7	TRAIN & EXPERIENCE	53,202,349	39,805,381	30,735,747	25,401,493	17,016,849	10,307,359
8	SPARSITY	12,076,435	13,170,675	14,098,402	16,338,600	16,636,062	17,031,558
9	TRANSPORT SPARSITY	46,919,950	49,458,825	50,175,266	56,569,546	55,737,913	55,251,651
10	OPERATING CAPITAL	193,324,870	199,408,086	199,153,779	198,875,974	194,997,191	194,241,922
11	REFERENDUM OFFSET	10,209,814	9,632,947	0	0	0	0
12	SUPPLEMENTAL	8,538,359	8,516,936	9,435,774	0	0	0
13	TRANSITION (OLD)	13,241,453	9,344,774	7,615,457	0	0	0
14	EQUITY	21,464,549	22,065,715	36,107,034	34,747,085	32,203,886	43,367,548
15	TRANSITION (NEW)	0	0	0	0	32,200,586	32,078,350
16	LATE RATIFICATION	-107,714	0	0	0	0	0
17	PENSION ADJUSTMENT	-46,299,749	-46,398,713	-46,449,901	-46,565,135	-46,701,771	-46,866,955
18	ALTERN ATTENDANCE	-334,776	-354,328	808,194	2,385,562	2,392,687	3,024,874
19	REFERENDUM	448,555,527	491,487,693	548,176,785	296,033,590	430,371,649	515,278,506
20	DISTRICT COOPERATION	65,916,877	0	0	0	0	0
21	GENERAL ED SUBTOTAL = (2) TO (20) =	4,743,161,189	4,956,096,060	5,113,719,895	5,401,237,797	5,504,745,856	5,579,623,820
22	REV CHANGE FROM PRIOR YR	N/A	212,934,870	157,623,835	287,517,903	103,508,058	74,877,964
23	% CHANGE FROM PRIOR YR	N/A	4.5%	3.2%	5.6%	1.9%	1.4%
24	SPECIAL ED REGULAR	462,325,853	473,669,236	510,043,428	532,809,000	530,642,000	529,164,000
25	SPECIAL ED EXCESS	71,803,678	88,088,359	50,586,269	92,443,000	92,067,000	91,811,000
26	SPEC ED CROSS SUBSIDY	7,896,579	18,396,000	0	0	5,000,000	11,000,000
27	VOCATIONAL ED	12,420,830	12,474,876	12,618,096	13,186,673	13,186,673	13,186,673
28	DESEGREGATION	56,350,176	68,127,331	80,821,408	78,255,887	79,908,731	79,790,617
29	TOTAL EXCLUDING ONE TIME REVENUES	5,353,958,305	5,616,851,861	5,767,789,096	6,117,932,357	6,225,550,260	6,304,576,110
30	REV CHANGE FROM PRIOR YR	N/A	262,893,556	150,937,235	350,143,261	107,617,903	79,025,850
31	% CHANGE FROM PRIOR YR	N/A	4.9%	2.7%	6.1%	1.8%	1.3%
	ONE TIME REVENUES						
32	T&E REPLACEMENT	0	26,209,444	0	0	0	0
33	SPARSITY CORRECTION	1,030,000	515,000	0	0	0	0
34	DEFERRED MAINTENANCE	0	23,360,000	0	0	0	0
35	TOTAL ONE-TIME =(32) + (33) + (34)=	1,030,000	50,084,444	0	0	0	0
36	TOTAL SPECIAL ED. =(24) + (25) + (26)=	542,026,110	580,153,595	560,629,697	625,252,000	627,709,000	631,975,000
37	GRAND TOTAL = (29) + (35) =	5,354,988,305	5,666,936,305	5,767,789,096	6,117,932,357	6,225,550,260	6,304,576,110
38	REV CHANGE FROM PRIOR YR	N/A	311,948,000	100,852,791	350,143,261	107,617,903	79,025,850
39	% CHANGE FROM PRIOR YR	N/A	5.8%	1.8%	6.1%	1.8%	1.3%

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%

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, and School Year 2000-2001 editions, Table 5.*

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

B. 2003-2004 Elementary Secondary Education Revenue Summary*

Program	Total Revenue ($ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	$ 5,115.8	$ 6,040	69.2%
Referendum	430.4	508	5.8%
Special Education	639.0	754	8.6%
Other General Programs***	420.8	497	5.7%
Subtotal General Fund	6,606.0	7,799	89.3%
Food Service	10.4	12	0.1%
Community Service	154.0	N/A ****	2.1%
Debt Redemption	625.8	739	8.5%
Total All Funds	$ 7,396.2	$ 8,732 ****	100.0%
ADM Pupils	847,008		

* 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 ($121.8), Alternate Facilities Annual Levy/Aid Revenue ($39.9), Building Lease Levies ($41.0), Charter School Building Lease Aid ($18.3), Desegregation/Integration Revenue ($80.1), Nonpublic Transportation Aid ($21.9), 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, End of 2003 Legislative Session.

C. General Education Revenue by Component: 2003-2004 Estimate

Component	Number of Districts	Amount (Millions)	Percent of Total
Formula – Based Revenue:			
Basic	343	$ 4,415.9	79.6%
Extended Time	183	55.7	1.0%
Basic Skills:			
Compensatory	340	248.3	4.5%
LEP, including concentration	196	49.9	0.9%
Sparsity	80	16.6	0.3%
Transportation Sparsity	343	55.7	1.0%
Training & Experience	216	17.0	0.3%
Operating Capital	343	195.0	3.5%
Equity	322	32.2	0.6%
Transition	216	32.2	0.6%
Pension Adjust	342	(46.7)	- 0.8%
Alternative Attendance Adj.	230	2.4	0.0%
PSEO-College	N/A	18.8	0.3%
Shared Time	N/A	3.9	0.1%
Contract Alternative	N/A	18.9	0.3%
Subtotal	343	$ 5,115.8	92.2%
Referendum-Based Revenues:			
Oper. Referendum	285	430.4	7.8%
Grand Total Revenue	343	$ 5,546.2	100.0%

Source: MDE, Division of Program Finance, End of 2003 Legislative 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

Formula Allowances:

		Total	-	Trans	-	AOM/ T&E**	-	Grad Std	-	Coop	=	Net
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 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 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 = $10.

- For qualifying districts with a referendum levy, revenue allowance = $10 + up to $55, 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 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. (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 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: 2002 Payable 2003 (FY 2004)

Levy Type	Amount ($ inMillions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Health & Safety	108.5	8.6%
Other General Fund*	162.3	12.8%
Community Service Fund	64.3	5.1%
Debt Service Fund	116.3	9.2%
Subtotal, Formula-Driven Levies	**451.4**	**35.7%**
Voter Approved Levies:		
Operating Referendum	347.3	27.4%
Facilities Down Payment	10.9	0.9%
Debt Service	457.3	36.0%
Subtotal, Voter Approved Levies	**815.5**	**64.3%**
Total Levy Before Credits	**1,266.9**	**100.0%**
Credits:		
Market Value Homestead Credit	(68.2)	
Market Value Ag Credit	(5.1)	
Other Credits	(9.5)	
Total Levy After Credits:	**1,184.1**	

* Other General Fund levies include:
Integration/Desegregation ($20.9), Building Lease ($41.0),
Alternative Facilities ($37.0), 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 2002 Payable 2003 levy was 1.0017% of ANTC for school districts with youth after school enrichment programs).

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 2004, state aid is provided to "equalize" access to the first $126/PU using an "equalizing factor" of $476,000 of referendum market value per pupil unit. In addition, referendum revenue over $126/PU up to the referendum cap ($837/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 $126/PU of the referendum revenue, and the state pays 50%. For referendum revenue over $126/PU, up to $837/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%. *(Note: the $126 is increased to $405 in FY 2005 and 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