

MINNESOTA DEPARTMENT OF

*Children,
Families &
Learning*

K-12 EDUCATION

FINANCE

OVERVIEW

2002-2003

Division of Program Finance
Office of Management Services

April 2002
July 2002 - Revised

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.	2002-03 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	22
B.	Aid and Levy Computations	23

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 2003 begins July 1, 2002 and ends June 30, 2003.
- b. With certain exceptions, the property tax levy certified in 2001 for taxes payable in 2002 is recognized as revenue in FY 2003.

2. Pupil Accounting

- a. Average Daily Membership (ADM) = The average number of pupils enrolled in the school district throughout the school year
= $\frac{\text{Number of Pupil-Days Enrolled}}{\text{Total Days in School Year}}$
- 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 2002)

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

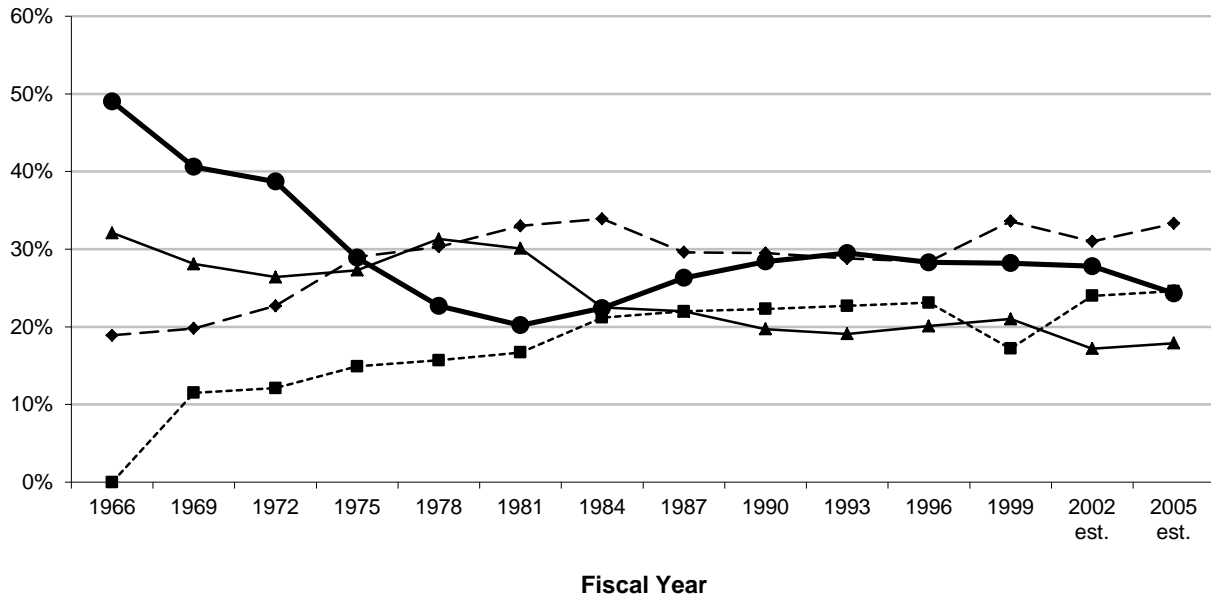
Referendum market value, used only for operating referendum levy calculations equals the estimated market value of property, excluding the following property classes:

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

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues

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



—◆— Income Tax -■- Sales & MVET ●— Property ▲— Other

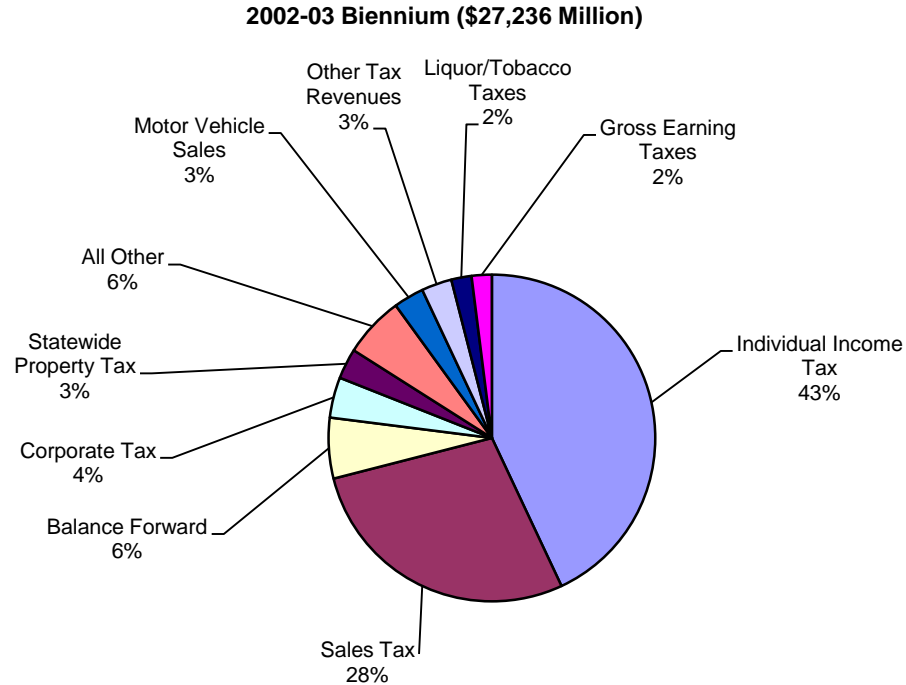
Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	38.7%	26.4%
1975	29.0%	14.9%	28.9%	27.3%
1978	30.3%	15.7%	22.7%	31.3%
1981	33.0%	16.7%	20.2%	30.1%
1984	33.9%	21.2%	22.4%	22.5%
1987	29.6%	22.0%	26.3%	22.0%
1990	29.5%	22.3%	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 2002 Legislative Session

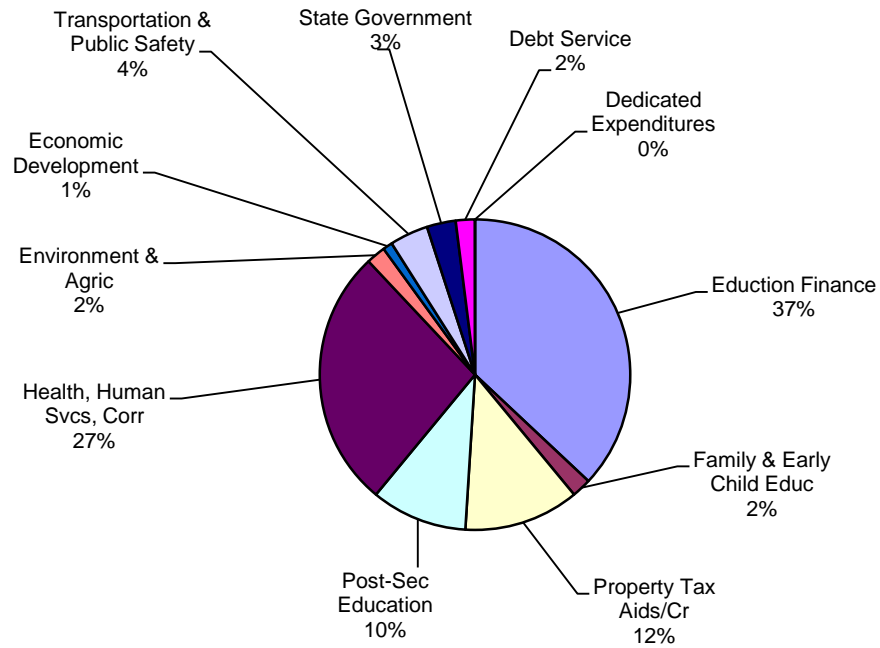


	<u>\$ in Millions</u>
Balance Forward 6-30-01	\$ 1,574
Non-Dedicated Revenues:	
Individual Income Tax	11,783
Sales Tax	7,614
Corporate Tax	1,158
Statewide Property Tax	891
Motor Vehicle Sales Tax	693
Gross Earnings Taxes	427
Liquor, Wine, Beer Taxes	122
Cigarette and Tobacco Taxes	337
Other Tax Revenues	948
All Other Revenues	<u>1,346</u>
Subtotal Non-Dedicated Revenues	25,317
Dedicated Revenue	93
Transfers from Other Funds	369
Prior Year Adjustments	<u>(117)</u>
SUBTOTAL CURRENT RESOURCES	<u>25,662</u>
TOTAL AVAILABLE RESOURCES – FY 2002-03	26,236
Less: Estimated Expenditures	26,917
Budget Reserve	<u>319</u>
Projected General Fund Balance 6-30-03 End of 2002 Legislative Session	<u><u>\$ 0</u></u>

Source: Department of Finance

3. Where the General Fund Dollars Go – End of 2002 Legislative Session

2002-03 Biennium (\$26,917 Million Spending - \$319 Million Budget Reserve)



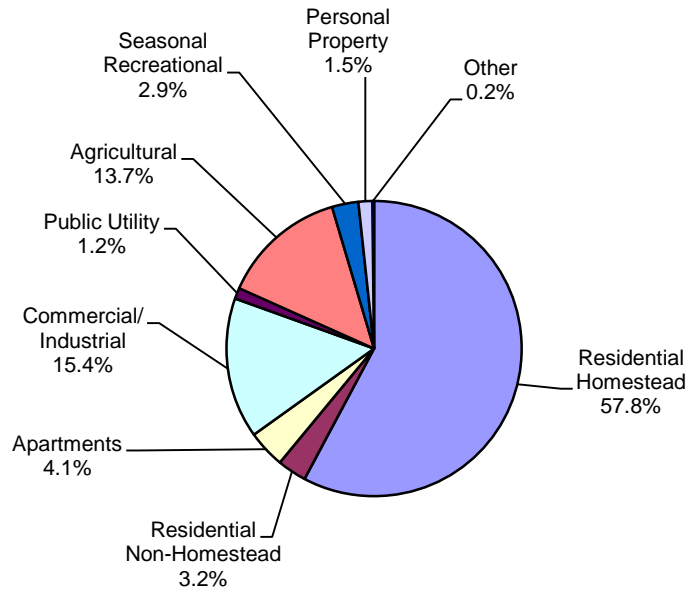
\$ in Millions

Total Available Resources – FY 2002-03	\$ 27,236
Major Spending Items:	
Education Finance	9,799
Family & Early Childhood Education	479
Post-Secondary Education	2,808
Property Tax Aids and Credits	3,341
Health, Human Services, & Corrections	7,304
Environment & Agriculture	516
Economic Development	391
Transportation & Public Safety	956
State Government	719
Debt Service	613
Capital Projects	(75)
Estimated Cancellations	<u>(28)</u>
Subtotal – Major Spending Items	26,824
Dedicated Expenditures	<u>93</u>
TOTAL ESTIMATED EXPENDITURES – FY 2002-03	26,917
Budget Reserve	<u>319</u>
Projected General Fund Balance 6-30-03 End of 2002 Legislative Session	<u>\$ 0</u>

Source: Department of Finance

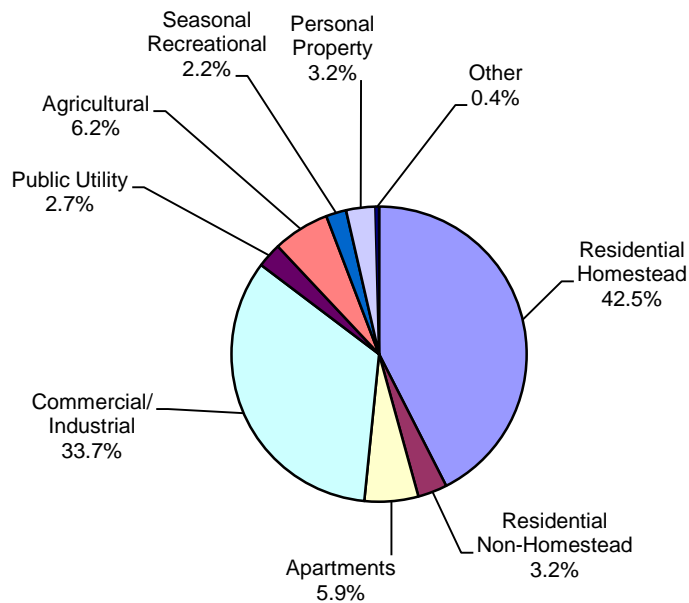
4. Payable 2001 Market Value by Use Class

State Total = \$264.7 Billion

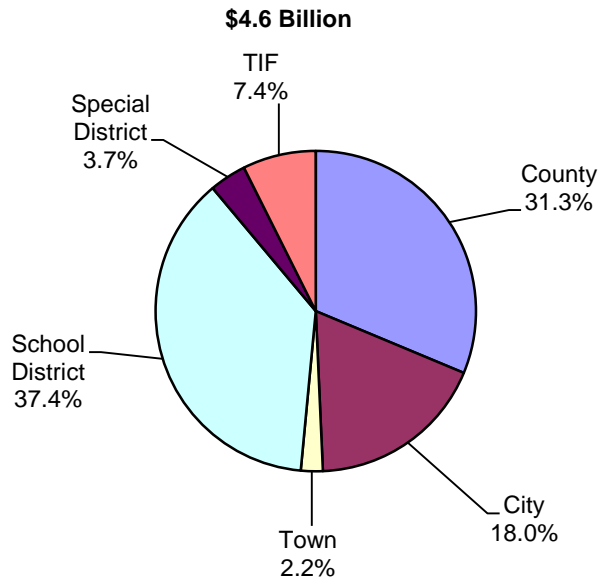


5. Payable 2001 Net Property Tax by Use Class

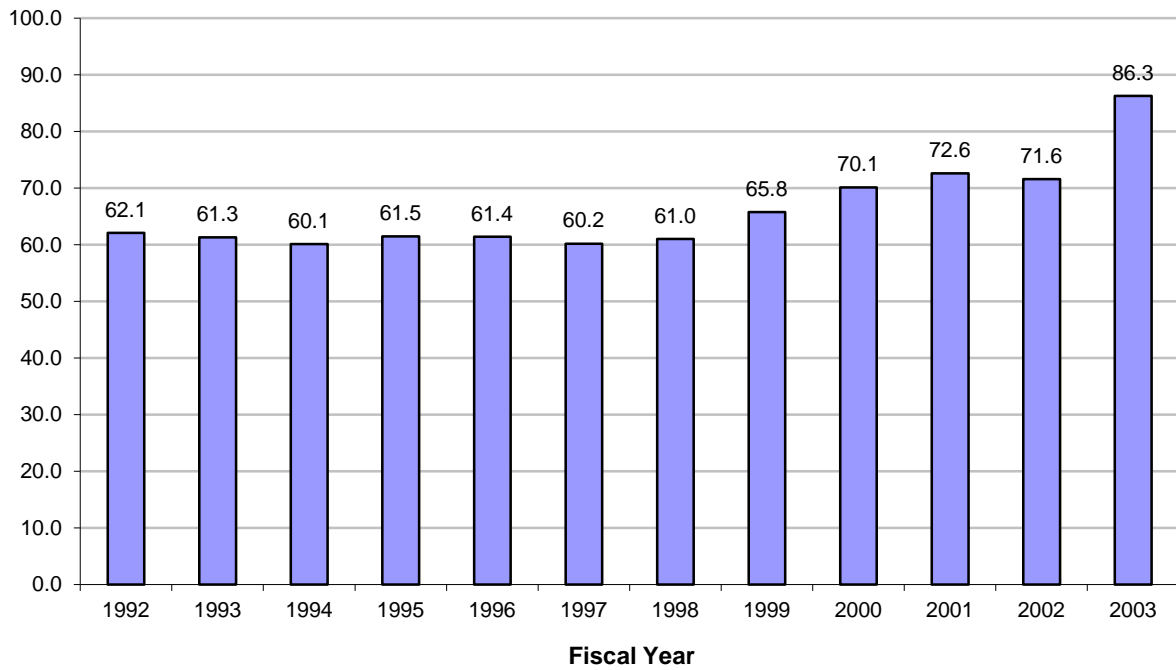
State Totals = \$5.0 Billion



6. Payable 2001 Property Tax Levy by Type of Government After Credits



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



Source: CFL, Price of Government Data, February 2002 Forecast

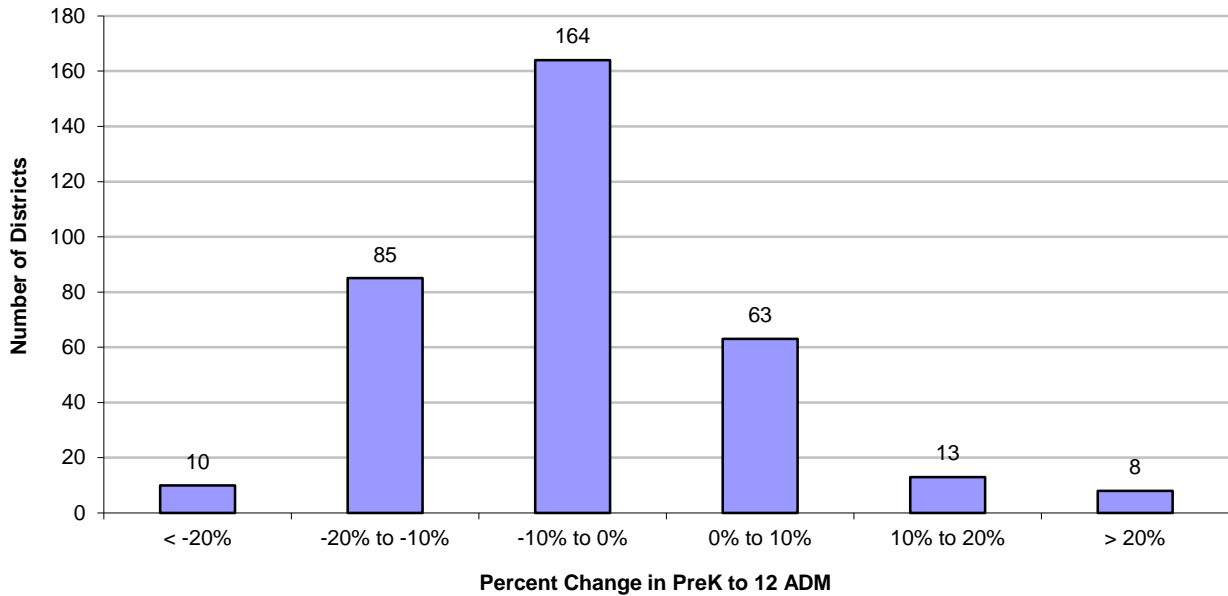
D. Characteristics of School Districts

Number of School Districts by Adjusted 2000-01 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	40	7,405	0.9%
300-999	134	83,161	9.9%
1,000-2,999	107	175,781	20.9%
3,000-9,999	49	259,136	30.9%
10,000 -	15	313,384	37.4%
Total	345	838,867	100.0%

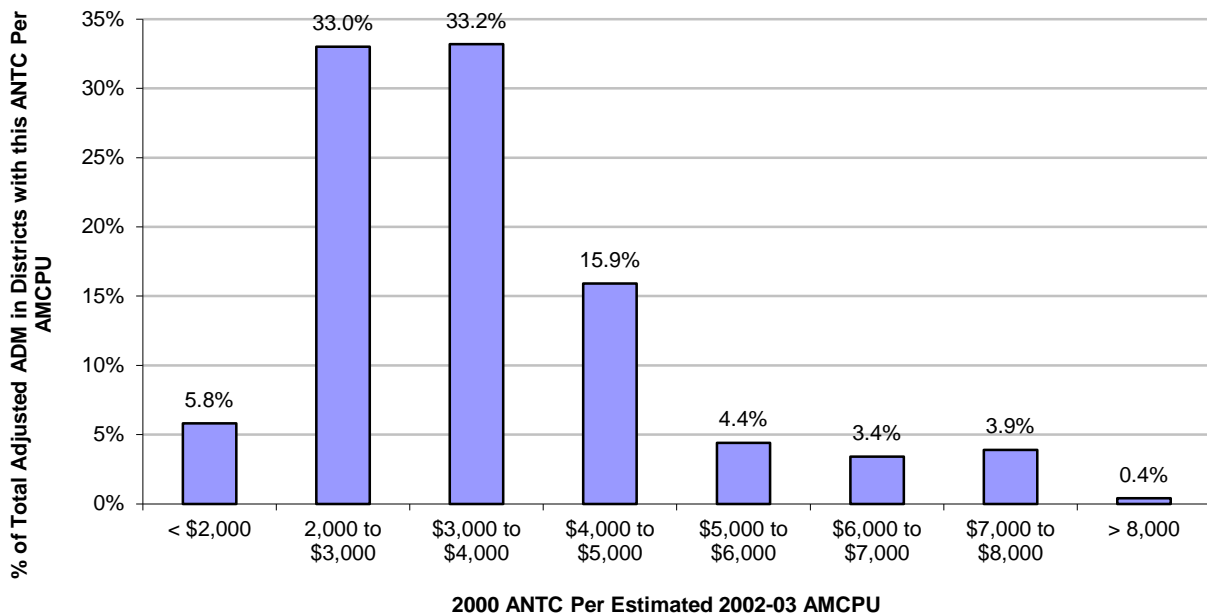
Source: CFL, FY 2001 Final MARSS Data

**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2001 to FY 2005**



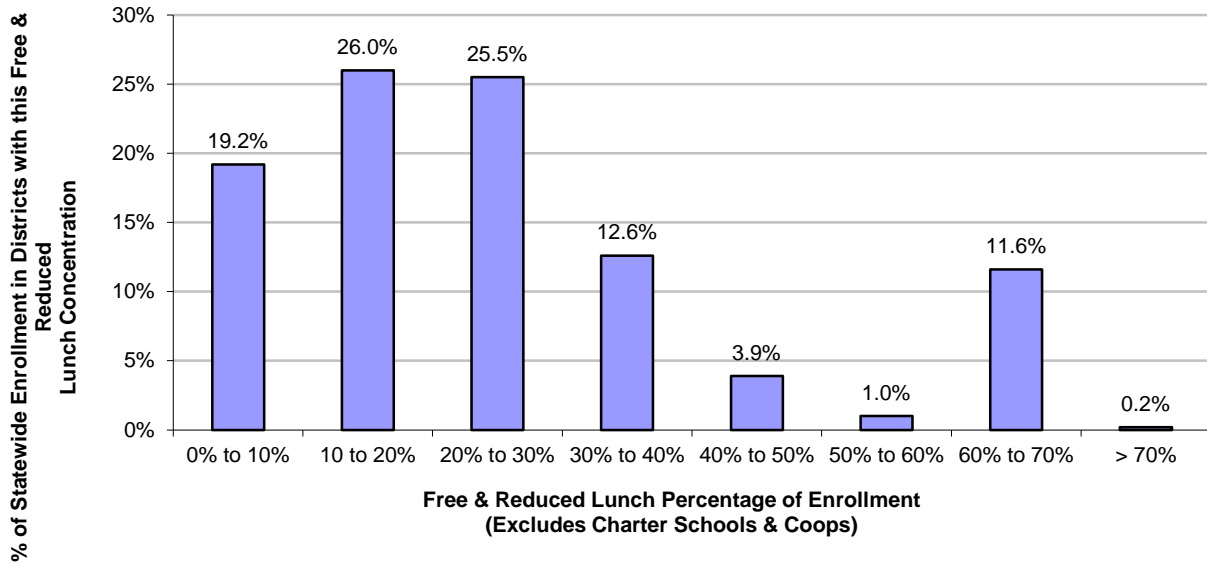
Source: CFL, February 2002 Forecast Data

2000 Adjusted Net Tax Capacity (ANTC) Per Estimated 2002-03 AMCPU

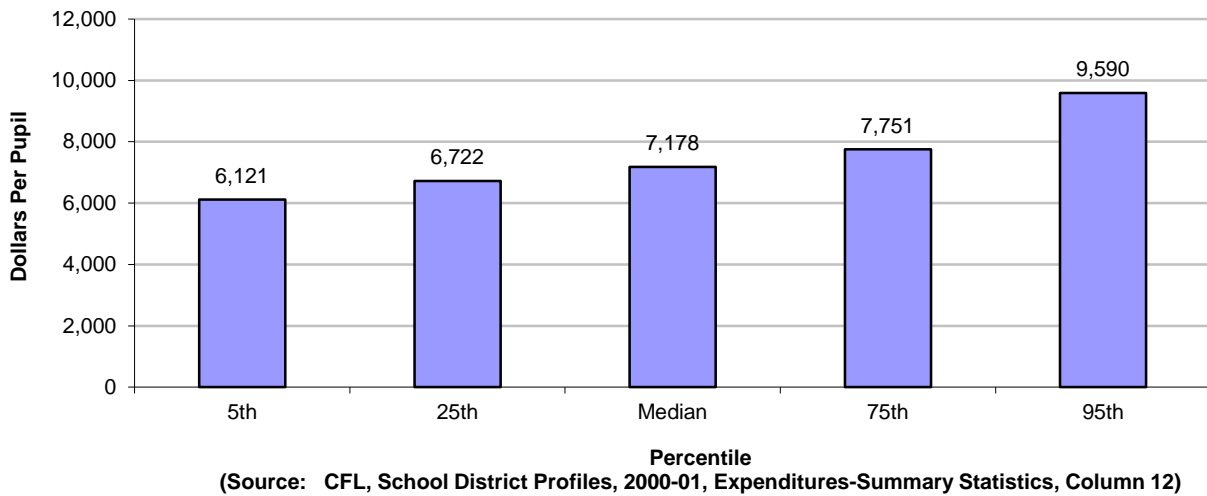


Source: CFL, February 2002 Forecast Data

**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2001**



**Fiscal Year 2001 PK - 12 Operating Expenditures
Per Average Daily Membership**



July 2, 2002
End of 2002 Legislative Session Data

II. K-12 EDUCATION REVENUE
A. School Revenue Trends

School District General Fund Revenue, FY 1991 - 2003*
(State Aids and Property Taxes)

Fiscal Year	Total Revenue (\$ in Millions)	ADM	---- Current Dollars ----					----Constant (2001) 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	1.3045	6,219	N/A	N/A
1992	3,754.7	767,786	4,890	2.6%	2.6%	1.3510	1.2653	6,188	-0.5%	-0.5%
1993	3,933.6	785,072	5,010	2.5%	5.1%	1.3929	1.2272	6,149	-0.6%	-1.1%
1994	4,174.1	799,285	5,222	4.2%	9.5%	1.4263	1.1985	6,259	1.8%	0.6%
1995	4,489.8	812,582	5,525	5.8%	15.9%	1.4691	1.1636	6,429	2.7%	3.4%
1996	4,704.0	827,588	5,684	2.9%	19.2%	1.5088	1.1330	6,440	0.2%	3.5%
1997	4,803.0	838,336	5,729	0.8%	20.2%	1.5510	1.1021	6,314	-1.9%	1.5%
1998	5,072.7	845,117	6,002	4.8%	25.9%	1.5791	1.0825	6,498	2.9%	4.5%
1999	5,287.5	851,729	6,208	3.4%	30.2%	1.6059	1.0644	6,608	1.7%	6.3%
2000	5,608.6	852,602	6,578	6.0%	38.0%	1.6525	1.0344	6,805	3.0%	9.4%
2001	5,947.7	854,055	6,964	5.9%	46.1%	1.7094	1.0000	6,964	2.3%	12.0%
2002	6,102.4	853,932	7,146	2.6%	49.9%	1.7384	0.9833	7,027	0.9%	13.0%
2003	6,475.8	853,463	7,588	6.2%	59.2%	1.7749	0.9631	7,308	4.0%	17.5%

* 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 2002 and later are consistent with February 2002 Forecast.

Source: CFL, Division of Program Finance, District Revenue Tables, End of 2002 Legislative Session

Estimated Revenues Per ADM
1998-99 to 2002-03
State Total

End of 2002 Legislative Session Calculations

	1998-99	1999-00	2000-01	2001-02	2002-03
1 ADJUSTED ADM	845,977	846,749	848,064	847,699	846,967
2 BASIC	\$4,036	\$4,316	\$4,588	\$4,711	\$5,329
3 COMPENSATORY	228	251	252	262	296
4 AOM	16	17	17	17	0
5 LEP TOTAL	26	41	49	54	60
6 TRAIN & EXPERIENCE	91	63	47	31	21
7 SPARSITY	13	14	16	16	18
8 TRANSPORTATION SPARSITY	53	55	58	59	67
9 OPERATING CAPITAL	226	228	235	235	235
10 GRADUATION RULE	96	0	0	0	0
11 REFERENDUM OFFSET	0	12	11	0	0
12 SUPPLEMENTAL	7	10	10	11	0
13 TRANSITION	23	16	11	9	0
14 EQUITY	0	25	26	42	41
15 LATE RATIFICATION	0	0	0	0	0
16 REVENUE GROWTH CAP ADJUSTMENT	0	0	0	0	0
17 PENSION ADJUSTMENT	-55	-55	-55	-55	-55
18 ALTERNATIVE ATTENDANCE	-25	0	0	1	2
19 REFERENDUM	482	530	580	648	350
20 DISTRICT COOPERATION	77	78	0	0	0
21 GENERAL ED SUBTOTAL					
= (2) TO (20) =	\$5,294	\$5,602	\$5,844	\$6,044	\$6,364
22 REVENUE CHANGE FROM PRIOR YEAR	N/A	308	242	200	321
23 PERCENT CHANGE FROM PRIOR YEAR	N/A	5.8%	4.3%	3.4%	5.3%
24 SPECIAL ED REGULAR	514	546	559	604	631
25 SPECIAL ED EXCESS	37	85	104	108	111
26 SPEC ED CROSS SUBSIDY	0	9	22	0	0
27 VOCATIONAL ED	15	15	14	15	0
28 DESEGREGATION	65	67	80	97	99
29 TOTAL EXCLUDING					
ONE TIME REVENUES	\$5,925	\$6,323	\$6,623	\$6,867	\$7,205
30 REVENUE CHANGE FROM PRIOR YEAR	N/A	398	300	244	338
31 PERCENT CHANGE FROM PRIOR YEAR	N/A	6.7%	4.7%	3.7%	4.9%
ONE TIME REVENUES					
32 T&E REPLACEMENT	0	0	31	0	0
33 SPARSITY CORRECTION	0	1	1	0	0
34 DEFERRED MAINTENANCE	0	0	28	0	0
35 TOTAL ONE-TIME	0	1	60	0	0
36 TOTAL SPECIAL EDUCATION					
= (24) + (25) + (26) =	551	640	684	712	742
37 GRAND TOTAL					
= (29) + (35) =	\$5,925	\$6,324	\$6,682	\$6,867	\$7,205
38 REVENUE CHANGE FROM PRIOR YEAR	N/A	399	358	185	338
39 PERCENT CHANGE FROM PRIOR YEAR	N/A	6.7%	5.7%	2.8%	4.9%

Estimated Revenues Per ADM
1998-99 to 2002-03
State Total

End of 2002 Legislative Session Calculations

	1998-99	1999-00	2000-01	2001-02	2002-03
1 ADJUSTED ADM	845,977	846,749	848,064	847,699	846,967
2 BASIC	3,414,079,142	3,654,547,882	3,890,649,193	3,993,717,787	4,513,421,400
3 COMPENSATORY	193,178,962	212,907,936	214,091,561	222,269,443	250,282,219
4 AOM	13,643,898	14,082,351	14,052,173	14,191,055	0
5 LEP TOTAL	22,066,773	34,915,075	41,165,141	46,183,980	51,021,296
6 TRAIN & EXPERIENCE	77,203,053	53,202,349	39,805,381	26,651,899	17,729,000
7 SPARSITY	10,929,570	12,076,435	13,170,675	13,838,291	15,653,100
8 TRANSPORT SPARSITY	44,514,319	46,919,950	49,458,825	50,436,122	56,597,000
9 OPERATING CAPITAL	190,926,197	193,324,870	199,408,086	199,455,660	199,222,600
10 GRADUATION RULE	81,491,578	0	0	0	0
11 REFERENDUM OFFSET	0	10,209,814	9,632,947	0	0
12 SUPPLEMENTAL	5,743,895	8,538,359	8,516,936	9,512,608	0
13 TRANSITION	19,222,439	13,241,453	9,344,774	7,616,863	0
14 EQUITY	0	21,464,549	22,065,715	35,641,617	34,692,400
15 LATE RATIFICATION	0	-107,714	0	0	0
16 REVENUE GROWTH CAP ADJ.	0	0	0	0	0
17 PENSION ADJUSTMENT	-46,165,476	-46,299,749	-46,398,713	-46,454,652	-46,577,619
18 ALTERN ATTENDANCE	-21,022,860	-334,776	-354,328	877,492	2,072,800
19 REFERENDUM	407,776,433	448,555,527	491,487,693	549,264,195	296,341,100
20 DISTRICT COOPERATION	64,822,064	65,916,877	0	0	0
21 GENERAL ED SUBTOTAL					
= (2) TO (20) =	4,478,409,987	4,743,161,189	4,956,096,060	5,123,202,360	5,390,455,296
22 REV CHANGE FROM PRIOR YR	N/A	264,751,202	212,934,870	167,106,300	267,252,936
23 % CHANGE FROM PRIOR YR	N/A	5.9%	4.5%	3.4%	5.2%
24 SPECIAL ED REGULAR	435,074,245	462,325,853	473,663,403	511,697,260	534,773,151
25 SPECIAL ED EXCESS	31,048,290	71,803,678	88,088,359	91,925,000	93,683,000
26 SPEC ED CROSS SUBSIDY	0	7,960,105	18,421,438	0	0
27 VOCATIONAL ED	12,850,388	12,420,830	12,288,323	12,474,876	0
28 DESEGREGATION	55,375,208	56,350,176	68,127,331	81,855,267	83,761,714
29 TOTAL EXCLUDING					
ONE TIME REVENUES	5,012,758,118	5,354,021,830	5,616,684,913	5,821,154,762	6,102,673,161
30 REV CHANGE FROM PRIOR YR	N/A	341,263,712	262,663,083	204,469,849	281,518,399
31 % CHANGE FROM PRIOR YR	N/A	6.8%	4.9%	3.6%	4.8%
ONE TIME REVENUES					
32 T&E REPLACEMENT	0	0	26,209,829	0	0
33 SPARSITY CORRECTION	0	997,335	515,000	0	0
34 DEFERRED MAINTENANCE	0	0	23,770,615	0	0
35 TOTAL ONE-TIME	0	997,335	50,495,443	0	0
36 TOTAL SPECIAL EDUCATION					
= (24) + (25) + (26) =	466,122,535	542,089,636	580,173,200	603,622,260	628,456,151
37 GRAND TOTAL					
= (29) + (35) =	5,012,758,118	5,355,019,165	5,667,180,356	5,821,154,762	6,102,673,161
38 REV CHANGE FROM PRIOR YR	N/A	342,261,047	312,161,191	153,974,406	281,518,399
39 % CHANGE FROM PRIOR YR	N/A	6.8%	5.8%	2.7%	4.8%

**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%

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, and School Year 1999-2000 editions, Table 5.*

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

B. 2002-2003 Elementary Secondary Education Revenue Summary*

Program	Total Revenue (\$ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	\$ 5,134.7	\$ 6,016	71.3%
Referendum	296.3	347	4.1%
Special Education	631.0	739	8.8%
Other General Programs***	413.8	485	5.7%
Subtotal General Fund	6,475.8	7,588	89.9%
Food Service	11.5	13	0.2%
Community Service	157.2	N/A ****	2.2%
Debt Redemption	559.2	655	7.8%
Total All Funds	\$ 7,203.7	\$ 8,256 ****	100.0%
ADM Pupils	853,463		

* 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 (\$132.3), Alternate Facilities Annual Levy/Aid Revenue (\$39.7), Building Lease Levies (\$39.3), Charter School Building Lease Aid (\$15.8), Desegregation/Integration Revenue (\$85.0), Nonpublic Transportation Aid (\$24.3), 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: CFL, Division of Program Finance, District Revenue Tables and General Education work papers, End of 2002 Legislative Session.

C. General Education Revenue by Component: 2002-2003 Estimate

Component	Number of Districts	Amount (Millions)	Percent of Total
<u>Formula – Based Revenue:</u>			
Basic	343	\$ 4,513.4	83.1%
Basic Skills:			
Compensatory	341	250.3	4.6%
LEP, including concentration	209	51.0	0.9%
Sparsity	78	15.7	0.3%
Transportation Sparsity	343	56.6	1.0%
Training & Experience	216	17.7	0.3%
Operating Capital	343	199.3	3.7%
Equity	322	34.7	0.6%
Pension Adjust	342	(46.6)	- 0.9%
Alternative Attendance Adj.	216	2.1	0.0%
PSEO-College	N/A	18.8	0.3%
Shared Time	N/A	4.1	0.1%
Contract Alternative	N/A	17.6	0.3%
Subtotal	343	\$ 5,134.7	94.5%
<u>Referendum-Based Revenues:</u>			
Oper. Referendum	266	296.3	5.5%
Grand Total Revenue	343	\$ 5,431.0	100.0%

Source: CFL, Division of Program Finance, End of 2002 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:

		<u>Total</u>	-	<u>Trans</u>	-	<u>AOM/ T&E**</u>	-	<u>Grad Std</u>	-	<u>Coop</u>	=	<u>Net</u>
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. (This percentage was set at 1% for FY 2000.) 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.

2. 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 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

- Districts that would have received more under the old formula (based on AFDC counts) are held harmless with compensatory transition revenue.

b. Limited English Proficiency (LEP) Revenue

1) Basic Revenue = \$584 X Adjusted Marginal Cost (AMC) LEP enrollment

- AMC LEP enrollment is greater of current year enrollment or sum of 77% of current year plus 23% of prior year (if AMC LEP enrollment is at least 1 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 \$190 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.

3. 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.

2. 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.

3. 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 phase out as these staff leave employment with the district.

6. Operating Capital

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

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

7. 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).

8. 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.

9. 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.

10. Post-Secondary Enrollment Options (PSEO)

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

11. 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.

12. 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.

13. 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 \$837 per pupil unit (18.2% of formula allowance) or 116.2% 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: 2001 Payable 2002 (FY 2003)

Levy Type	Amount (\$ inMillions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Health & Safety	122.8	11.5%
Other General Fund*	130.0	12.2%
Community Service Fund	61.9	5.8%
Debt Service Fund	107.4	10.1%
Subtotal, Formula-Driven Levies	422.1	39.5%
Voter Approved Levies:		
Operating Referendum	236.1	22.1%
Facilities Down Payment	7.2	0.7%
Debt Service	402.3	37.7%
Subtotal, Voter Approved Levies	645.6	60.5%
Total Levy Before Credits	1,067.7	100.0%
Credits:		
Market Value Homestead Credit	(67.3)	
Homestead Ag Land MV Credit	(3.7)	
Other Credits	(9.9)	
Total Levy After Credits:	986.8	

* Other General Fund levies include:
Integration/Desegregation (\$27.4), Building Lease (\$39.3),
Alternative Facilities (\$36.9), 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 2001 Payable 2002 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 2003, 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%.

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