

E-12 Education Funding Update

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Topics for Discussion

- Governor and Legislative E-12 Funding Positions
- E-12 Education Funding Changes
 - Cash Flow / Shifts
 - School Revenue Impact
 - Uses of Revenue
 - Other Related Changes
- Levy timelines

FRAMEWORK FOR BUDGET AGREEMENT

For E-12 Education, included:

- 60-40 Payment Shift
- \$50 + \$50 on General Education Formula
- \$132 million spending target over base
- Zero levy target
- Policy proposals from 6/29/11 GOP Offer off the table unless mutually agreed to

Governor's Position For E-12 Education Funding

- Increase general education formula - \$50 +\$50
- Retain linkage between compensatory revenue and basic formula
- Maintain special education growth factor at current law level
- Maintain integration funding
- Provide funding for early childhood education including quality rating system (QRIS)
- Provide funding based on student performance, focused on growth in reading and math at all grade levels
- Provide stable funding for all districts -- avoid major redistributions among districts that would create winners and losers

Legislative Position For E-12 Education Funding

- Increase general education formula - \$20 + \$21 in conference report
- Delink compensatory revenue from basic formula
- Reduce special education growth factor
- Eliminate integration funding
- Scholarships / Vouchers
 - Early Childhood
 - K-12 students in low performing schools
 - Early Graduation
- Provide funding based on student performance, focused on proficiency and growth in reading at Grade 3
- Increase funding for small schools
- Increase compensatory funding for large suburban districts with relatively low poverty concentrations

CASH FLOW

Aid Payment Shifts

- 60-40 payment schedule begins in FY 2012
- July 15 payment (during shutdown) was based on 90-10 pay schedule
- July 30 payment will be adjusted to reflect cumulative amount due under 60-40 schedule
- Under MS 127A.45, Subd. 7b, districts and charter schools in Statutory Operating Debt (SOD) will receive an advance final payment on June 20 to bring total general education aid for the year up to 90% of aid entitlement, but not to exceed the amount of SOD in the school or district. Limited to \$7.5 million statewide.
- Under M.S. 16A.152, Subd. 2, aid payment shift will be repaid when state budget improves
 - (after state cash flow account balance reaches \$350 M, state budget reserve reaches \$653 M, and aid payment schedule is restored to 90-10)

CASH FLOW

Aid Payment Shifts – Charter Schools

- 60-40 applies to charter schools as well as school districts
- Exception allowing Metro Deaf to receive 90-10 payments for state special education aid was extended to include Lionsgate.
- Current Payments to charter schools accelerated - the 60% current payments are spread over 16 payments, from July – February. No state aid payments to charter schools in March – June.
 - It's important for charter schools to submit accurate ADM estimates, lease aid data and special education budget information early in the fiscal year and to keep this data up-to-date!
- Final payments to charter schools accelerated – 75% of final payment will be paid July 15th (July 30th this year due to state shutdown); remaining 25% paid on October 30.

CASH FLOW

Property Tax Shift

- Property tax shift remains at 48.6% for FY 2011 and later
- Tax shift calculation methodology changed to use gross levies before state paid tax credits are deducted.
 - Enables MDE to calculate final tax shift amounts much earlier
 - Increases state total reduction for tax shift by \$14 million
 - The additional aid reduction due to the methodology change will occur with the final payment for FY 2011 on October 30, 2011
- Clarifies that, with the exception of the Oct 30 adjustment for FY 2011, aid reductions for tax shift are to be taken as close to the end of the fiscal year as possible.
- Tax shift will be repaid when state budget improves
 - (after state cash flow account balance reaches \$350 M, state budget reserve reaches \$653 M, and aid payment schedule is restored to 90-10)

CASH FLOW

School Shift Summary

Aid Payment Shift @ 60-40 (vs 90-10)	\$2.195 Billion
Property Tax Shift (@ 48.6% of Gross Levy)	\$595 Million
Total School Shift	\$2.790 Billion

CASH FLOW

State Aid Payment Delays

- MS 127A.46 repealed – state no longer allowed to delay state aid payments to school districts to avoid state short term borrowing

FY 2012 REVENUE / ADM CHANGE FROM BASE By Strata

	Basic	Endow	All Other Changes	Total
STATE TOTAL	58	0	8	65
MPLS & ST PAUL	57	-3	18	71
OTHER METRO, INNER	58	0	5	63
OTHER METRO, OUTER	58	0	3	60
NONMET >=2K	58	0	6	63
NONMET 1K-2K	58	0	6	64
NONMET < 1K	58	0	12	70
DISTRICT TOTAL	58	-1	7	64
CHARTER TOTAL	57	12	12	82

FY 2013 REVENUE / ADM CHANGE FROM BASE

By Strata

	Basic	One Time Compens.	Endow	Small Schools	Literacy Aid	Charter Lease	All Other Changes	Total
STATE TOTAL	115	19	0	19	58	-1	19	230
MPLS & ST PAUL	114	0	-7	0	63	0	53	222
OTHER METRO, INNER	116	20	1	0	56	0	16	208
OTHER METRO, OUTER	116	45	0	0	58	0	8	227
NONMET ≥ 2K	115	11	-1	0	53	0	16	195
NONMET 1K-2K	116	0	0	0	56	0	18	190
NONMET < 1K	116	0	0	186	66	0	28	396
DISTRICT TOTAL	115	20	-1	20	58	0	18	230
CHARTER TOTAL	114	0	25	0	58	-22	37	212

GENERAL EDUCATION REVENUE Formula Allowance

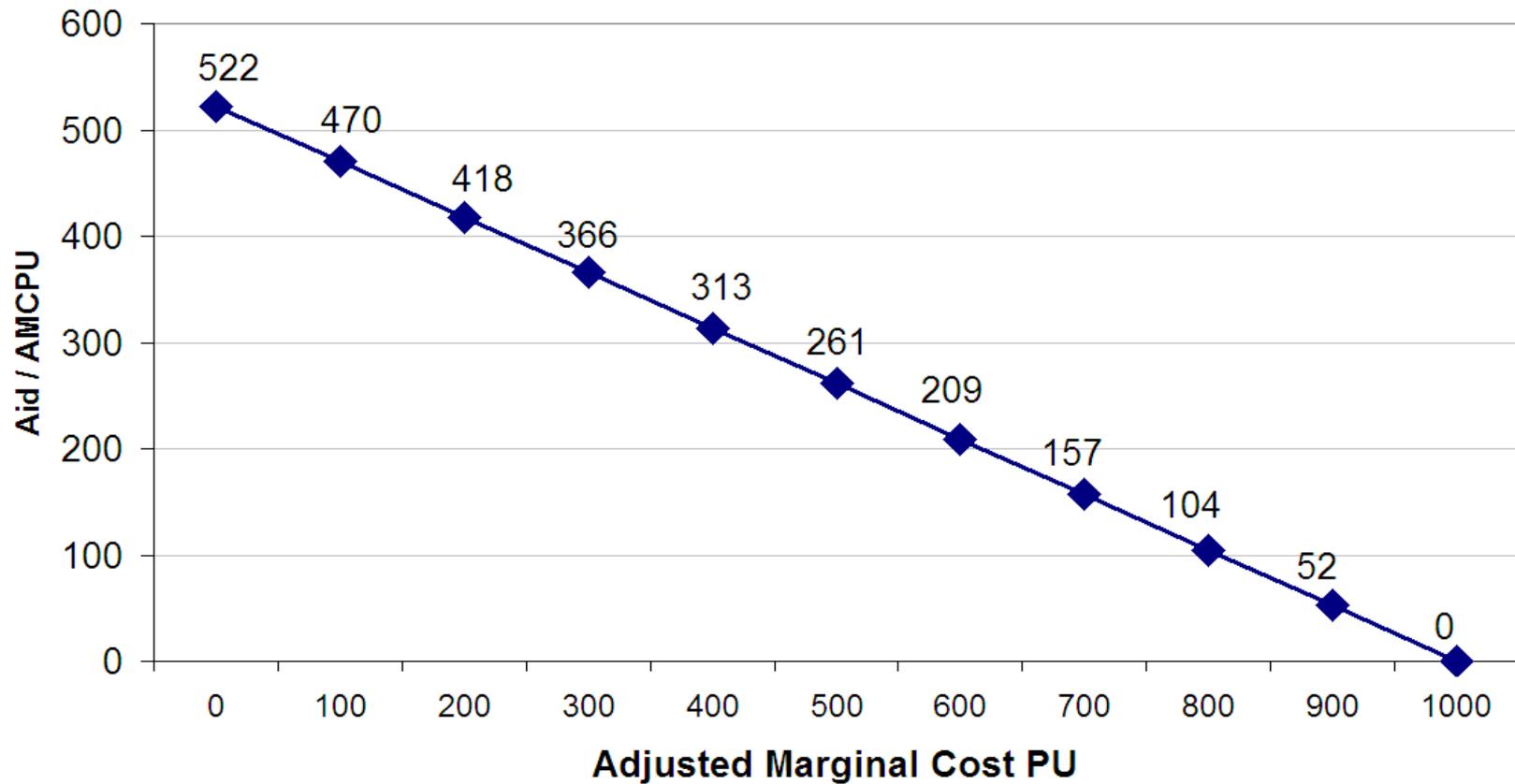
- FY 2012: \$50 increase (1%) to \$5,174
- FY 2013: Additional \$50 increase (1%) to \$5,224
- Linkages Remain Intact
 - Compensatory
 - Sparsity
 - Transportation Sparsity
 - Nonpublic Pupil / Nonpublic Transportation
 - Tribal Contract

GENERAL EDUCATION REVENUE

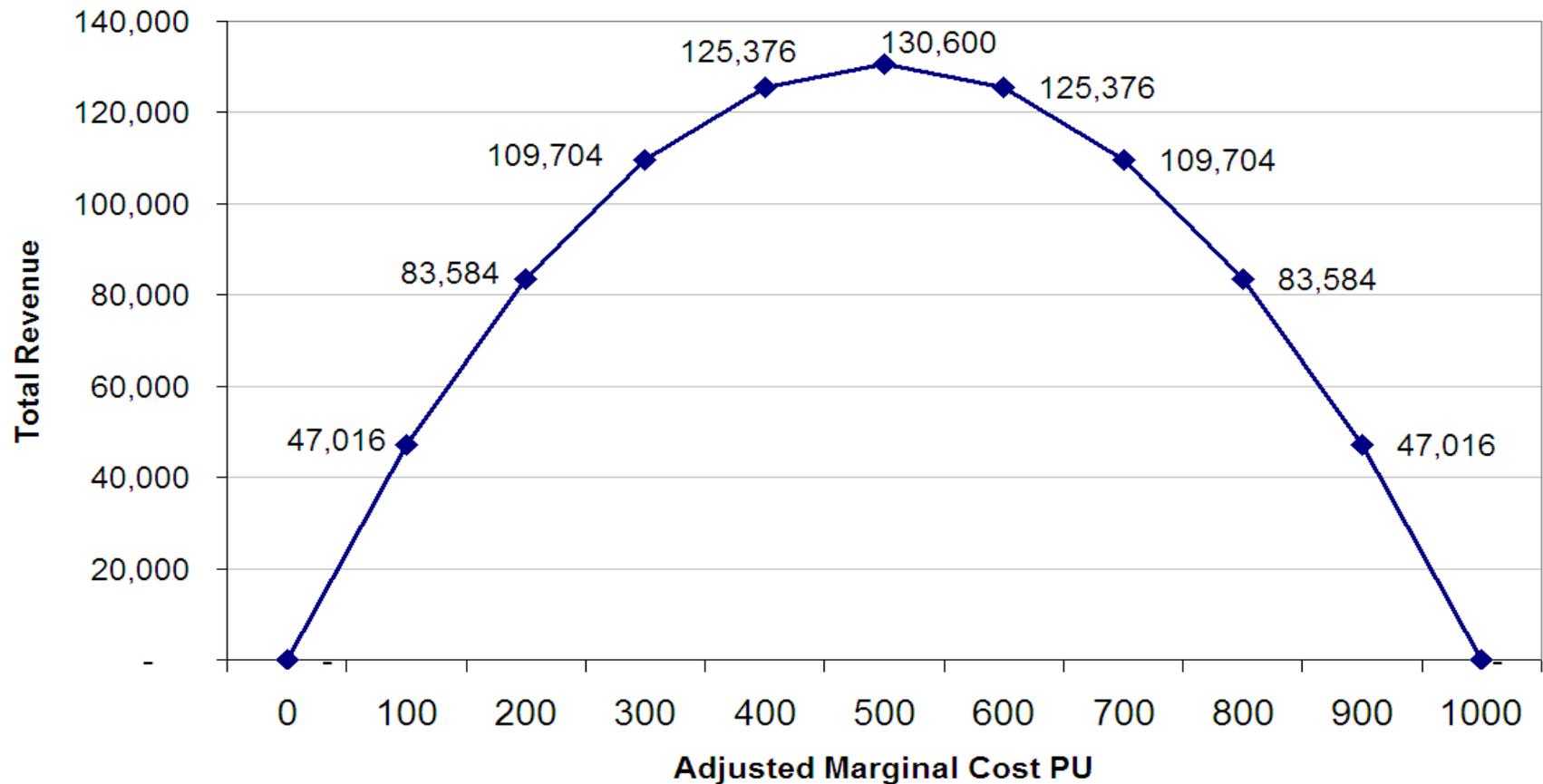
Small Schools Revenue

- New component of general education revenue, beginning in FY 2013. Funded with open & standing appropriation (no proration).
- School districts with fewer than 1,000 AMCPU qualify for revenue on a sliding scale:
 - $\text{Allowance} / \text{AMCPU} = \$522.40 \times (1,000 - \text{AMCPU}) / 1,000$
- Charter schools are not eligible for this revenue.

Small Schools Revenue / AMCPU FY 2013 and Later



Total Small Schools Revenue FY 2013 and Later



Compensatory Pilot Project Formula Aid

- One-time aid for FY 2013.
- The 20 largest districts in the state are eligible for this one-time aid if their regular compensatory revenue per compensatory pupil unit (free + $\frac{1}{2}$ of reduced price lunch count) is less than \$1,400 per compensatory pupil unit. The aid equals the amount needed to bring the district's compensatory aid up to the \$1,400 level.
- This revenue must be used for basic skills purposes as defined in Minn. Stat. §126C.15, subdivision 1. The allocation by building is to be determined locally.

Compensatory Pilot Project Formula Aid

		Current Compensatory/ Adj Count (Free + 1/2 Red.)	Additional / Adj Count (Amount Under \$1,400)	Estimated Gross Revenue
194	LAKEVILLE PUBLIC SCHOOL DISTRICT	454	946	1,127,115
284	WAYZATA PUBLIC SCHOOL DISTRICT	610	790	1,077,014
834	STILLWATER PUBLIC SCHOOL DISTRICT	613	787	948,994
112	CHASKA PUBLIC SCHOOL DISTRICT	620	780	1,049,826
833	SOUTH WASHINGTON COUNTY SCHOOL DISTRICT	701	699	1,654,935
272	EDEN PRAIRIE PUBLIC SCHOOL DISTRICT	781	619	967,594
196	ROSEMOUNT-APPLE VALLEY-EAGLE LAKE	799	601	2,955,111
728	ELK RIVER PUBLIC SCHOOL DISTRICT	840	560	1,488,960
11	ANOKA-HENNEPIN PUBLIC SCHOOL DISTRICT	1,115	285	2,940,039
621	MOUNDS VIEW PUBLIC SCHOOL DISTRICT	1,145	255	631,677
535	ROCHESTER PUBLIC SCHOOL DISTRICT	1,300	100	502,653
191	BURNSVILLE PUBLIC SCHOOL DISTRICT	1,383	17	58,681

Compensatory Pilot Project Formula Aid

	Large Districts Not Eligible (Current Aid > \$1,400)	Current Compensatory/ Adj Count (Free + 1/2 Red.)	Additional / Adj Count (Amount Under \$1,400)	Estimated Gross Revenue
622	NORTH ST PAUL-MAPLEWOOD S	1,401	-	0
271	BLOOMINGTON PUBLIC SCHOOL	1,578	-	0
279	OSSEO PUBLIC SCHOOL DISTRICT	1,672	-	0
281	ROBBINSDALE PUBLIC SCHOOL D	1,719	-	0
742	ST. CLOUD PUBLIC SCHOOL DIST	1,836	-	0
709	DULUTH PUBLIC SCHOOL DISTRI	1,859	-	0
1	MINNEAPOLIS PUBLIC SCHOOL D	2,490	-	0
625	ST. PAUL PUBLIC SCHOOL DISTRI	2,549	-	0

Endowment / Permanent School Fund

Effective with March 2012 Payment:

- Charter schools become eligible for payments
 - Charter schools will receive about \$12 /ADM in FY 12 and about \$25/ADM in FY 13
- Payment basis changed from Resident ADM to Adjusted ADM
 - Districts with a net gain of students under open enrollment will receive more; districts losing students under open enrollment will receive less.

Sparsity Revenue - Districts Closing Facilities

- Expands the sparsity revenue grandfather to cover decreases caused by neighboring school districts' decisions to close or relocate school facilities
- Removes requirement that school districts file a resolution to close a school and receive an adjustment to their sparsity revenue 60 days prior to the start of the fiscal year.
- ISD 356, Lancaster made eligible for revenue to offset the loss of sparsity revenue due to a school closing in the Kittson Central school district, beginning FY 12
- ISD 118, Northland, eligible for closed school sparsity revenue despite missing deadline, effective for FY 2011 .

Early Graduation - Scholarships

- Beginning FY 2012, early graduation achievement scholarship program provides higher education scholarships:
 - \$2,500 for graduation one semester early,
 - \$5,000 for graduation 2 semesters early,
 - \$7,500 for graduation 3 or more semester early
- Allows the student to use the scholarship at any accredited higher education institution, inside or outside of Minnesota.
- Early graduation military service award program provides cash awards to students who graduate early and enter the military – same amounts as above

Early Graduation – Revenue Reduction to LEAs

- Beginning in FY 2012, school districts and charter schools will no longer generate pupil units and associated funding for mid-year graduates who participate in one of these programs.
- Students who plan to participate will be asked to notify MDE as soon as possible.
- MDE will adjust pupil units for mid-year graduates if notified before final payments are calculated for the school year of early graduation
- If notified later, MDE will make adjustment to general education aid and general fund levies for the year in which the notice is received, based on the district's aid and levy per pupil unit for pupil-driven formulas for the school year in which the student graduated mid-year.

Other General Education Revenue Changes:

- January 15 teacher contract deadline and penalty is eliminated.
- Training & Experience Aid repealed effective for FY 2012
- Albert Lea added to list of districts receiving compensatory revenue pilot project aid @ \$150,000, beginning FY 2012

Uses of Revenue

- Two percent staff development set-aside requirement suspended for two more years (FY 12 & FY 13).
- Maintenance of effort requirement for licensed school support personnel eliminated.
- Requirement to reserve \$3 per pupil of the safe schools levy proceeds for licensed school support staff eliminated.

Uses of Revenue

- Uses of Operating Capital Revenue expanded to include the costs of leasing vehicles and the costs directly associated with closing a school facility, including moving and storage costs.
- Clarifies that cooperatives are required to allocate compensatory revenue to the school site generating the revenue in the same manner as school districts
- Amends definitions under the nonpublic pupil aid statute to include electronic books and other materials delivered electronically in the in the definition of textbooks and individualized instructional materials.

Fund Transfers

- During fiscal years 2012 and 2013 only, authorizes a school district to transfer money from one fund or account to another if the following conditions are met:
 - The transfer must not increase state aid obligations or increase local property taxes;
 - Transfers cannot be made from the community service fund or the food service fund under this section;
 - The school board must adopt a resolution stating that the transfer will not diminish instructional opportunities for students;
 - The district must apply to the Commissioner to make the transfer. The application must include the amount to be transferred and the funds/accounts involved. It must be signed by the superintendent and approved by the school board.

Length of School Year

- Replaces length of school year requirement based on days in 1997 calendar with a minimum number of hours for student instruction:
 - 425 hours for kindergarten (equivalent of 170 days @ 2.5 hours)
 - 935 hours grades 1 - 6 (equivalent of 170 days @ 5.5 hours)
 - 1,020 hours grades 7 -12 (equivalent of 170 days @ 6 hours)
- Hours of instruction excludes all meal times, e.g., breakfast, lunch, but includes a supervised recess immediately before or after lunch for elementary students and includes passing time for secondary students.
- Clarifies that this section does not supersede the commissioner's approval authority of a four-day school week under section 124D.126.

Concurrent Enrollment / PSEO

- Allows 9th & 10th grade students to enroll in college in the schools classes if, after all the 11th and 12th grade students have applied, more students are needed to offer the course.
- Expands eligibility for concurrent enrollment program aid to include technical courses within a recognized career and technical ed program
- Directs districts to provide information on postsecondary enrollment options to students in eighth and ninth grade.
 - Note: Access to PSEO for 9th and 10th graders is limited to college in the schools, and only when more students are needed to offer a course after 11th and 12th grade students have applied (see above).
- Limits the number of academic years ninth and tenth grade students may enroll in postsecondary courses for secondary credit. Students first enrolling in grade 9 are limited to 4 years; students first enrolling in grade 10 are limited to 3 years.

Literacy Incentive Aid

- Begins FY 2013
- Includes Proficiency Aid and Growth Aid
- Proficiency aid = $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of third graders meeting or exceeding proficiency on the third grade reading MCA, averaged across the previous three test administrations (FY 10, 11 \& 12 for FY 13 aid)}$.
- Growth aid = $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of fourth graders making medium or high growth on the reading MCA, averaged across the previous three test administrations}$.
- For FY 2013 only, state total aid is capped at \$48,585,000. No proration is anticipated, but will depend on 2011 & 2012 test results.

Literacy Incentive Aid – Example Calculation

- In 2010:
 - 80% of 3rd graders were proficient in reading on MCAs
 - 75% of 4th graders made medium or high growth in reading on MCAs
- Example calculations:
 - Assume state average proficiency & growth percents from above
 - Assume 400 students enrolled in the school on prior October 1
 - Proficiency Aid = $\$85 \times 400 \times 80\% = \$27,200$
 - Growth Aid = $\$85 \times 400 \times 75\% = \underline{\$25,500}$
 - Total Literacy Aid = $\$52,700$
 - In the example, the aid comes to \$132 per student enrolled at the school ($\$52,700 / 400$ students)

Literacy Incentive Aid - Notes

- Includes district schools and charter schools
- Only those schools enrolling students in grades 3 or 4 and with MCA test results from the prior year generate revenue for the district or charter school.
- Schools with a broader grade span (e.g., K-8 elementaries) generate more with a given set of test results than schools with a narrower grade span (e.g., K-5 elementaries). This is probably an unintended consequence and may be adjusted down the road.
- While aid is generated using school level data, there is no requirement for funds to be spent at the school generating the revenue.
- The aid may be used for any general fund purpose.

Integration Aid

- The current integration funding formula remains in place for FY 2012 and FY 2013. Districts will still be required to submit budgets for approval to MDE.
- Integration revenue statute is repealed beginning in FY 2014
- The current integration rule remains in effect with no sunset.
- Interdistrict desegregation transportation funding remains in the base for FY 2014 and later
- Magnet school grants are eliminated, beginning in FY 2012.
- School district levy limits for taxes payable in 2013 will include an amount equal to the district's certified integration levy for taxes payable in 2012.

Integration Aid

The base budget for FY 2014 includes:

- Funding to cover the final payment for FY 13
- Funding to cover the 31% of FY 2014 integration aid for cities of the first class that is paid on July 15 and is recognized early (in FY 2013)
- Funding sufficient to cover 60% of the projected old law integration aid for FY 2014

The base budget for FY 2015 includes:

- Funding sufficient to cover 40% of the projected old law integration aid for FY 2014, plus 60% of the projected old law integration aid for FY 2015

Integration Revenue Replacement Advisory Task Force

- Directs the Commissioner to convene a 12-member advisory task force to develop recommendations for repurposing integration revenue funds to create and sustain opportunities for students to achieve improved educational outcomes.
 - 6 members appointed by the Commissioner,
 - 3 members appointed by the House Speaker,
 - 3 members appointed by the Senate.
- Requires the task force to consider how to effectively narrow and close the academic achievement gap and foster students' academic success, among other things.

Integration Revenue Replacement Advisory Task Force

- Requires the Commissioner to submit a task force report to the legislature by February 15, 2012, recommending how best to allocate funds previously allocated as integration revenue funds in order to achieve improved educational outcomes for students.
- Specifies that the funding allocation for the new program should ensure funding stability for districts between the current integration program and the new program.
- The funding allocation for the new program must be approved and appropriated by the Legislature.

Homestead Market Value Credit

Current credit:

- 0.4% of the first \$76,000 of market value, minus 0.9% of market value over \$76,000
- (maximum credit is \$304 for a \$76,000 homestead)
- Provides \$57.6 million for school districts in FY 2012
- The credit is repealed effective for taxes payable in 2012

Homestead Market Value Exclusion

- To neutralize the impact of the credit repeal on homeowners, a portion of each homestead's market value is excluded in determining the net tax capacity-based taxes.
- The exclusion of market value is equal to:
 - For homes valued up to \$76,000: 40% of value;
 - For homes valued above \$76,000: \$30,400 minus 9% of the valuation over \$76,000, which phases down to zero for homes valued over \$413,800.
- The Commissioner of Education is directed to adjust tax rates and equalizing factors for levies based on ANTC to neutralize the impact on education aids and levies.
- This will not impact referendum market value-based taxes.

Career and Technical Education Levy

- Beginning with taxes payable in 2012, increases the career and technical education levy to the greater of \$80 times the district's average daily membership (ADM) in grades 9 through 12, or 35 percent of approved expenditures
 - (instead of the *lesser* of \$80 times the district's ADM in grades 10-12 or 25 percent of approved expenditures).
- Limits the total statewide levy to not more than \$17,850,000 for taxes payable in 2012, \$15,520,000 for taxes payable in 2013 and \$15,545,000 for taxes payable in 2014 and later. Calls for the 35% rate to be reduced as needed to meet the caps.
- MDE is seeking clarification from the legislature on implementation of this levy, as the new formula generates more than \$19 million of levy authority, even if the 35% rate is reduced to zero.

Charter School Funding

- Charter School Lease Aid grandfather provision is eliminated beginning in FY 2013.
- Charter school start-up aid is repealed beginning in FY 2013. Schools that opened in FY 2011 will receive aid for FY 2012, but new schools opening in FY 2012 will not receive aid.

Special Education Funding

- Special education-regular and excess cost aid growth factors remain as in current law (4.6% special education regular; 2% excess cost.)
- Declares that a school district is not required to provide educational services to a student who is not a resident of Minnesota without an individualized education program and without a tuition arrangement or agreement from the placing authority to pay the student's education costs when that student is placed in a Minnesota residential facility.
- Clarifies that the Commissioner is authorized to designate the district of residence if there is a dispute between school districts regarding residency.
- Allows a parent to submit an application for an eligible child with disabilities to the Minnesota Academy for the Deaf or the Minnesota Academy for the Blind for a 60- to 90-day trial placement.

Third Party Reimbursement

- Clarifies that for children enrolled in medical assistance or MinnesotaCare, a district must provide an initial and then annual notice to the parent of a child with disabilities of the district's intent to seek IEP-MA revenue.
- The initial notice must comply with IDEA and MN Statutes.
- Clarifies that third party revenue must be used for students with IEPs.

Facilities and Technology Funding

- Streamlines application procedures for school districts to apply for health and safety revenue; clarifies health & safety statute.
- Capital project levy referendum ballot language for renewals with no change in tax rate to indicate that voting yes would renew an existing capital projects referendum that is scheduled to expire.
- Authorizes building lease levy to finance building improvements for districts that are members of the “Technology and Information Education Systems” (TIES) joint board. Limits the total levy authority for participating districts to \$632,000 for taxes payable in 2012. No levy authority for taxes payable in 2013 and later.

Facilities and Technology Funding

- Makes Independent School District No. 284, Wayzata, eligible for the alternative facilities revenue program, beginning with taxes payable in 2012.
- Authorizes a school district that received a capital loan prior to January 1, 1997, to repay the full outstanding original principal on its capital loan prior to July 1, 2012, to satisfy its obligation to the state of Minnesota.

Libraries

- Removes the maintenance of effort requirements of cities and school districts for a library jointly operated by a city and school district.
- Makes this section effective retroactively to fiscal year 2011 and later.

Community Education

- Allows a school board of a school district with fewer than 6,000 residents, instead of 2,000 residents, to identify a person with a valid Minnesota superintendent license to serve as the community education director instead of a licensed community education director serving in that position. Deletes authority for a person with a principal's license to serve as community education director, but grandfathers in principals serving as a community education director on June 1, 2011.
- Reduces the program growth factor for Adult Basic Education (ABE) from 1.03 to 1.02.

Student Transportation

- Broadens a school district's pupil transportation authority for students attending area learning centers by allowing the district to transport area learning center pupils between buildings if space exists on an existing bus.
- Includes transportation of pupils for a curricular field trip activity on a school bus with a power lift when the lift is required by the student's disability or section 504 plan in the definition of "transportation services for pupils with disabilities," making this transportation eligible for state special education aid.
- Deletes cost per hour and cost per route from the options used to allocate costs among transportation categories.
- Authorizes an exemption from standard cost method for districts that contract for transportation services when certain criteria are met, including:
 - District bids contracts separately for regular/excess, special and non-authorized transportation;
 - District receives bids from more than one vendor for these categories;
 - Cost per mile does not vary by more than 10% among categories.

State Agency Budgets

- MDE budget reduced \$991,000 (5%) each year
 - Reflects Governor's recommendation
- Perpich Center for Arts Education also reduced 5% (\$534,000 each year)
- Minnesota State Academies operating budget not reduced, but \$309,000 reduction each year for food service restructuring

Reminder from 2010 Legislation: Omnibus Pension Bill (Chapter 359)

Increases employee and employer contribution rates for various public employee pension programs:

- Employee and employer contribution rates for PERA coordinated plan increased by 0.25% effective January 1, 2011:
 - Employee rate from 6% to 6.25%
 - Employer rate from 7% to 7.25%
- TRA rates will rise by 0.5 percent annually over a four-year period beginning July 1, 2011.
- TRA automatic 2.5 percent annual postretirement adjustment is suspended for 2011 and 2012 followed by a 2 percent increase until the plan becomes 90 percent funded.
- Duluth Teachers Plan and St. Paul Teachers Plan also have employee and employer rate increases.

Reminder from 2010 Legislation: Omnibus Pension Bill (Chapter 359)

	Employee		Employer	
	Basic	Coordinated	Basic	Coordinated
Current	9.0%	5.5%	9.5%	5.5%
FY 2012	9.5%	6.0%	10.0%	6.0%
FY 2013	10.0%	6.5%	10.5%	6.5%
FY 2014	10.5%	7.0%	11.0%	7.0%
After FY 2014	11.0%	7.5%	11.5%	7.5%

Levy Limitation and Certification Timelines

- Due to the State government shutdown and MDE hiring freeze, the Levy Limitation and Certification Report may not be available by September 8th.
- MDE is exploring options for delaying the September 30th proposed certification deadline.
- School districts should schedule a board meeting late in September to accommodate the delay.

Questions?

More detailed summaries and spreadsheets are available on the MDE web site.

For general questions, please contact:

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