

PRE K-12 EDUCATION FUNDING UPDATE

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MSBA LEADERSHIP CONFERENCE
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Agenda

- 2011 Education Finance Legislation Highlights
- Minnesota's Race to the Top Grant Award
- Federal Education Jobs Aid Update
- GASB Update
- Student ID Validation Enhancements
- November 2011 State Budget Forecast
- Funding Education for the Future

Highlights of 2011 Education Finance Legislation

- **Significant increases in K-12 Education Revenues**
 - \$50 + \$50 on General Education Formula
 - New Literacy Aid Beginning FY 2013
 - New Small Schools Aid Beginning FY 2013
 - One-time compensatory aid in FY 2013 for certain districts
 - Special Education Growth Factor Remains at 4.6% per year
 - Average increase of \$65 / pupil for FY 12 and \$230 /pupil for FY 13

Highlights of 2011 Education Finance Legislation

- **Significant Mandate Relief**
 - January 15 deadline & penalty repealed
 - 2% staff development requirement suspended for 2 more years
 - MOE requirement for licensed school support staff eliminated
 - Requirement to reserve \$3 / pupil of safe schools levy for licensed support staff eliminated
 - Uses of Operating Capital Revenue expanded to include vehicle leases and costs directly associated with closing a school facility
 - More flexibility for fund transfers in 2012 and 2013

Highlights of 2011 Education Finance Legislation

- **More predictable cash flow**
 - State's authority to delay aid payments to school districts to avoid short-term borrowing was repealed (Minn. Stat. § 127A.46)

Highlights of 2011 Education Finance Legislation

- **Slower cash flow as a result of the 60-40 payment shift**
- **Outlook for FY 14 – FY 15 budget is uncertain due to:**
 - Use of one-time money to balance FY 2012 - FY 2013 budget leaves \$1.3 billion shortfall in FY 2014 – FY 2015 budget
 - Integration funding repealed after FY 2013; replacement revenue is undefined

Highlights of 2011 Education Finance Legislation: Literacy Incentive Aid

- Begins with 2012-13 school year (Fiscal Year 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

- Example calculations:
 - Assume state average proficiency & growth percents. 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
 - 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 elementary schools) generate more with a given set of test results than schools with a narrower grade span (e.g., K-5 elementary schools). 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.
- Accounting: New source code, no finance or balance sheet codes

Literacy Incentive Aid Estimates:

Two spreadsheets posted to School Finance section of MDE web site under:

[MDE](#) > [School Support](#) > [School Finance](#) > *Funding Projections and Trends*

- **Detailed Calculations by school building, based on November 2011 Forecast:**
 - proficiency data for FY 10 & 11 used a proxy for 3 year average
 - growth data for FY 10 only used as proxy for 3 year average
 - FY 12 actual fall enrollment (Oct 2011) used
- [Literacy Incentive Aid](#) (12/21/2011)

- **Summary by school district** – Note: this is an earlier estimate, based on end of 2011 session data (see line 35):
 - [District Revenue FY 2003 - FY 2013 End-of-Session 2011](#)

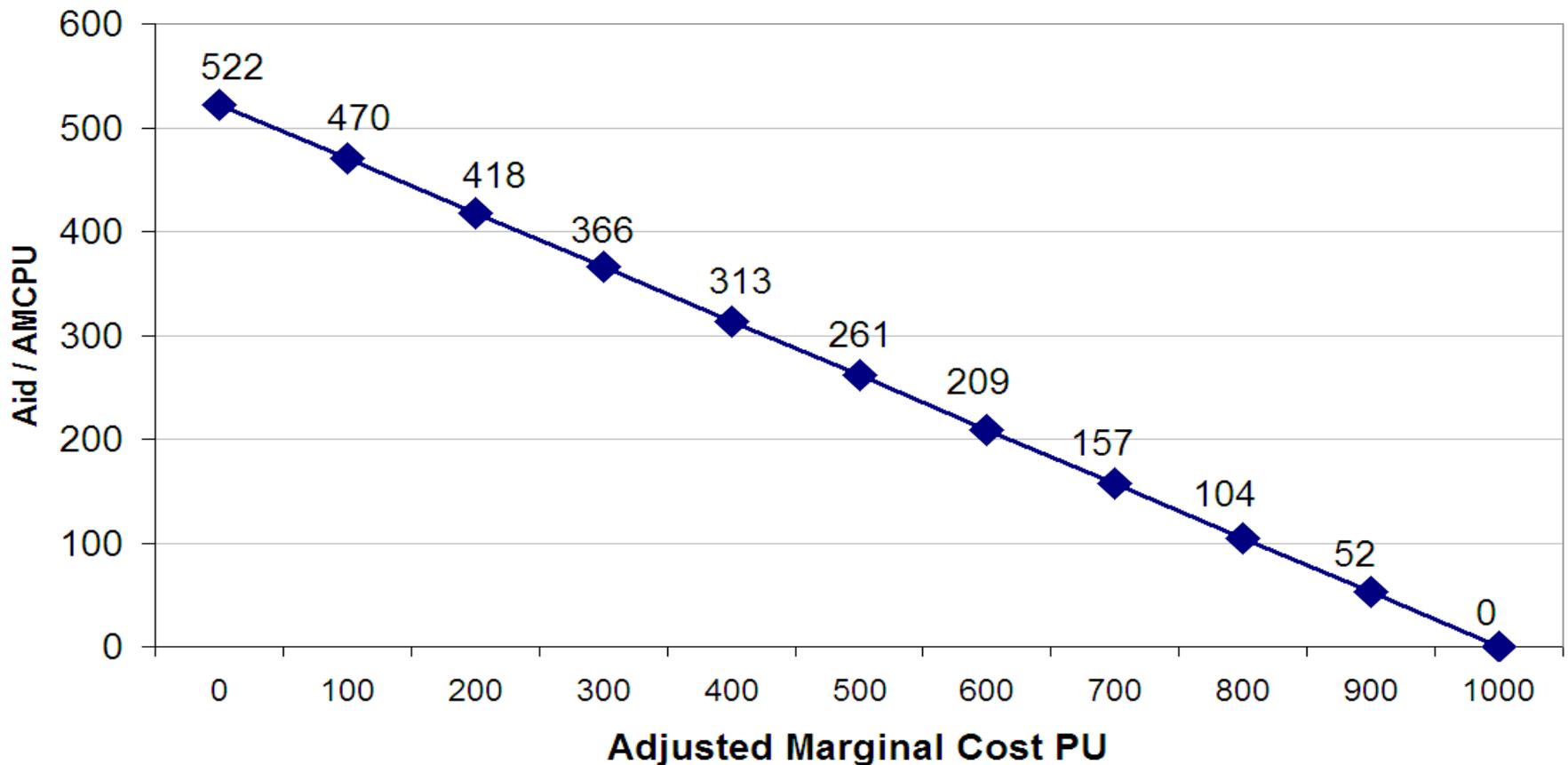
Literacy Incentive Aid Implementation Schedule

- July 2012:
 - Initial estimates of aid entitlement will be loaded to IDEAS
 - FY 2011 growth data will be included if available by early July
 - Any legislative changes will be reflected
- Later during FY 2013:
 - Final FY 2013 aid entitlements will be calculated and loaded to IDEAS as soon as FY 2012 proficiency and growth data are available. (Date is uncertain at this time)

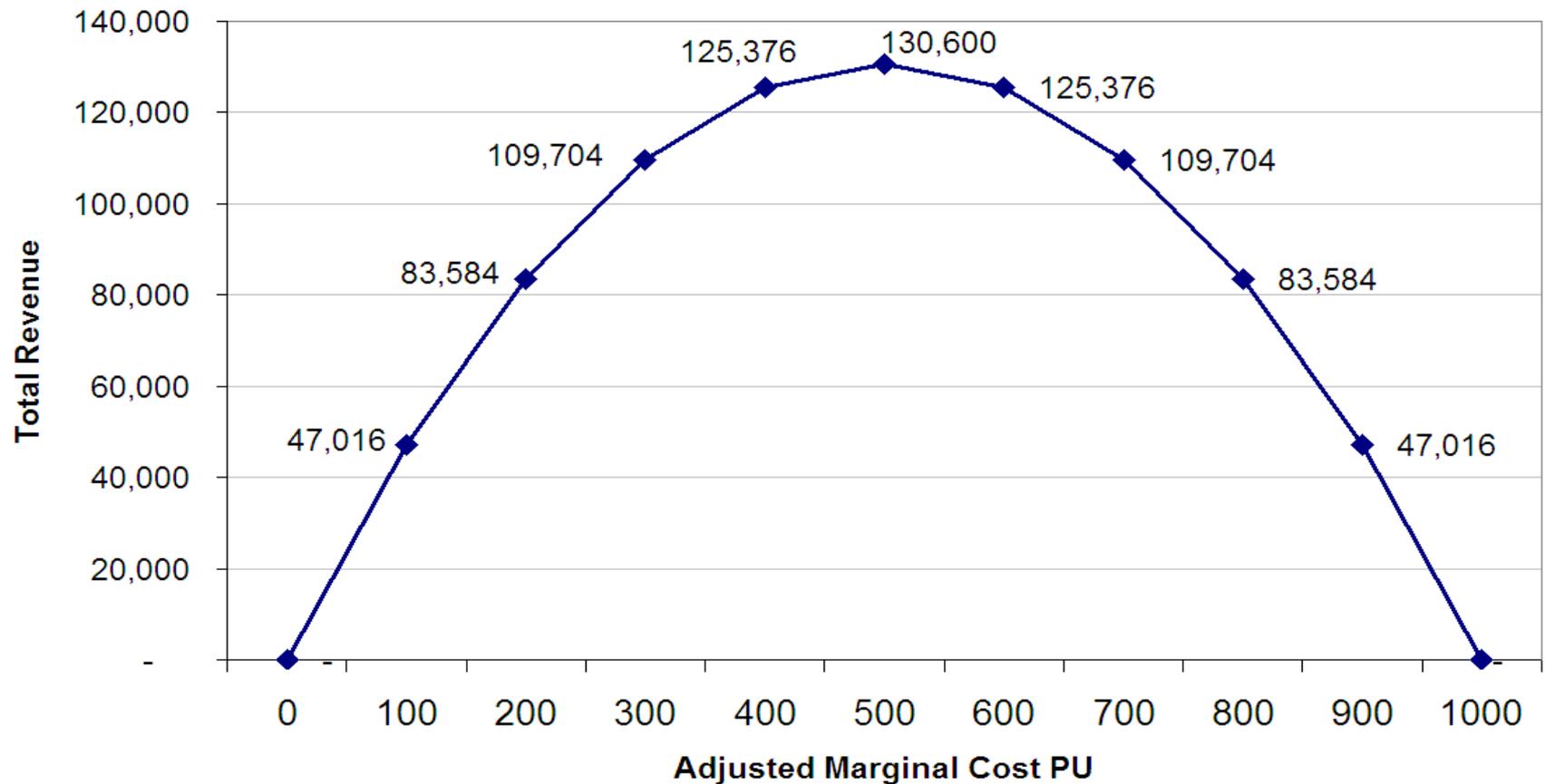
Highlights of 2011 Education Finance Legislation: Small Schools Revenue

- 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



Highlights of 2011 Education Finance Legislation: One-Time Compensatory Aid

- One-time aid for FY 2013.
- The 20 largest districts in the state are eligible for this 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

Minnesota's Race to the Top Grant Award

- Minnesota is one of 9 states to receive a Race to the Top Early Learning Challenge grant to advance early education efforts.
- Minnesota will receive \$45 million under this grant to develop a better aligned system of accountable and effective early childhood education.
 - \$20 million is targeted to high-poverty areas in Minneapolis, St Paul, the White Earth Indian Reservation, and Itasca County.
 - The remainder is designated for oversight and accountability measures, including a new state rating system to help parents shop for quality child care providers.

Education Jobs Update

- Federal Education Jobs funds are allocated based on each district's share of state total FY 2011 aid entitlements for:
 - General Education Aid
 - State Special Education Aid
 - State Special Education Excess Cost Aid

Education Jobs Allocations

- On 09/30/10, preliminary allocations were made based on estimated FY 2011 aid entitlements, and 90% of allocations were entered into SERVS
- On 10/30/11, the allocations were updated to reflect newer entitlement estimates, and an additional \$2.4M received from USDOE. 90% of the allocations were reloaded into SERVS
- It is anticipated that the final allocations at 100% will be loaded to SERVS Financial on 02/29/12.

Education Jobs Timelines

- Districts will have until September 30, 2012 to obligate these funds and submit budgets through SERVS Financial.
- Districts will have to draw the funds on or before December 17, 2012.

GASB UPDATE

- Governmental Accounting Standards Board (GASB) is proposing changes to pension reporting that:
 - Improve transparency of pension reporting on entity-wide financial statements by treating unfunded pension liabilities similar to other long-term liabilities.
 - Require actuarial determination of total pension liability for financial statement presentation.
 - Focus on accounting and financial statement presentation, not funding of the liabilities.

GASB UPDATE (cont.)

- Changes resulting from revisions to GASB 27 are not expected to affect audited financial statements or fund balances reported on these statements.
- The entity-wide balance sheet will carry a liability in a similar manner as OPEB (other post-employment benefits) liabilities are currently shown under GASB 45.
- Reporting by pension plans like TRA and PERA have similar new measurement and reporting requirements under GASB 25.
- Implementation date is FY 2014 or possibly later, and many questions remain.

Student ID Validation Enhancements

- MDE has implemented new constraints to improve the quality of the way MDE and school districts/charter schools identify students.
- New validations are enforced when student data is submitted to MDE.
- All student level data systems will be impacted .
- Stricter validations are currently being enforced:
 - On student data submitted via MARSS (Minnesota Automated Student Reporting System) and used for testing.
 - Student ID's in error will result in students not able to test
 - As warnings on MARSS data used for funding purposes.
 - Eventually the warnings will be turned into errors. Failure to resolve student identification errors will result in the student records being excluded from funding formulas. This will result in loss of state and federal aid.

Student ID Validation Enhancements

- To ensure a smooth transition to the stricter student identification standards, districts/charter schools should:
 - Consider resolving student identification errors a high priority
 - Identify who is responsible for resolving errors
 - This will often be the MARSS Coordinator
 - Allow for time and resources for district staff to resolve the errors
- For more information on this topic go to:
<http://education.state.mn.us/MDE/SchSup/DataSubLogin/StuIDValid/index.html>

State General Fund Budget

November 2011 Forecast --FY 2012 - FY 2013 Biennium

Before Statutory Reserve Allocations (\$ in millions)

	End of Session	November Forecast	Difference
Beginning Balance	725	1,289	564
Revenues	33,724	33,700	(24)
Spending*	34,339	33,991	(348)
Balance before Reserves	110	998	888
Reserves	95	122	27
Budget Balance	15	876	861

(Before Statutory Allocation to Reserves)

* Net spending after school shifts

State General Fund Budget November 2011 Forecast --FY 2012 - FY 2013 Biennium Statutory Reserve Allocations (\$ in millions)

M.S. 16A.152 requires unrestricted state general fund budget balances to be allocated in the following order:

1. \$350 Million to state's cash flow account
2. \$653 million to state's budget reserve account
3. Pay back school aid payment shift
4. Pay back school tax shift

State General Fund Budget

November 2011 Forecast --FY 2012 - FY 2013 Biennium

Statutory Reserve Allocations (\$ in millions)

Based on November forecast:

1. \$350 Million to state's cash flow account
2. \$648 million to state's budget reserve account
3. No funds available to pay back school aid payment shift
 - (just \$5 million short of amount needed to begin shift pay back)

State General Fund Budget February 2012 Forecast - FY 2012 - FY 2013 Biennium Statutory Reserve Allocations (\$ in millions)

If the February forecast improves:

- First \$5 million of improvement goes to state's budget reserve account to reach the \$653 million target
- Remainder (up to the \$2.2 billion needed to restore 90-10 funding) goes to increase the school aid payment percentage.
 - For each \$73 million of forecast improvement, the aid payment percentage would increase by 1 percentage point
 - The new current payment percent would take effect immediately in FY 2012; payments would increase beginning in March 2012.

**State General Fund Budget
FY 2014 - FY 2015 Biennium
November 2011 Forecast
Planning Estimates (\$ in millions)**

	FY 2014	FY 2015	Biennium
Resources	\$ 17,492	\$18,225	\$35,717
Spending (with no inflation)	<u>18,474</u>	<u>18,543</u>	<u>37,017</u>
Difference	\$ (982)	(\$318)	(\$1,300)
Inflation	425	\$882	\$1,307

FUNDING EDUCATION FOR THE FUTURE: Legal Requirements

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.

FUNDING EDUCATION FOR THE FUTURE: Legal Requirements

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

...education is a ***fundamental right*** in Minnesota.

...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 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...

Future Education Funding: Short Term Outlook

- February Forecast will be released around March 1
- If the forecast worsens even slightly, legislative / gubernatorial action will be needed to re-balance the budget.
- If the February forecast is close to the November level, or worsens by less than the \$648 million currently projected for the state's budget reserve, it is unlikely that there will be any major changes enacted in education funding during the 2012 session.
- If the February forecast improves even slightly, a partial payback of the aid payment shift seems likely.

Future Education Funding: Short Term Outlook

- If the February forecast worsens by more than \$900 million, spending cuts or tax increases would be needed to re-balance the state budget for the FY 2012- FY 2013 biennium
- Given the legislature's position during the 2011 session, state tax increases appear unlikely in 2012; budget balancing would likely be done with additional shifts or spending cuts
- Education funding is a priority, so state policy-makers would likely look to other areas of the state budget first
- While November forecast includes \$900 Million in state budget reserves for the current biennium, we still have a \$1.3 Billion deficit in the next biennium, and there is a lot of uncertainty in the economic outlook.

Future Education Funding: Short Term Outlook

Potential options for rebalancing FY 12-13 budget if outlook worsens significantly and K-12 education funding is cut:

- Additional payment shift
 - With a 50-50 payment schedule, one-time savings to the state would be about \$730 million
- Scale back planned increases for FY 13:
 - Additional \$50 on Formula
 - Small Schools Aid
 - Literacy Incentive Aid
 - One-time Compensatory Grants
- If rebalancing is necessary and no legislative action is taken, the Governor could unallot, after using up any projected reserves

Future Education Funding: Short Term Outlook

Decisions on the overall FY 14 – FY 15 budget will not be made until 2013 session. However:

- Any additional shifts or cuts enacted in 2012 to rebalance the FY 12 - FY 13 budget would likely continue in the next biennium.
- Integration funding is scheduled to expire after FY 2013, and funds to replace it are set aside in the base budget. Task force to make recommendations on replacement revenue by February 15, 2012. Decision on replacement could occur in 2012, but will likely be delayed until 2013 unless there is consensus on replacement strategy.

Future Education Funding: Short Term Outlook

- Given the projected \$1.3 billion deficit for the FY 14 - FY 15 biennium, additional cuts and/or tax increases will likely be on the table in 2013 for FY 2014 and later, if the forecast doesn't improve by then.
- Minnesota House and Senate Elections in 2012 will, at least in part, be a referendum on whether the FY 14 - FY 15 budget shortfall should be resolved through spending cuts only, or through a mix of spending cuts and state tax increases.
- Regardless of the election outcome, K-12 education will continue to be a priority for state policy makers, and efforts will be made to shield education from the impact of budget cuts.

Future Education Funding: Longer Term Outlook

Recent demographic trends are likely to continue:

- More enrollment decline in many districts
- More diverse student population
- Higher incidence of students living in poverty
- Higher incidence of special education students

This will increase cost per student, and make it even more critical to close achievement gaps

Future Education Funding: Longer Term Outlook Continuation of Status Quo

Until a consensus develops to support school finance reform, recent school funding trends will continue:

- General education formula and other state aids will remain stable or increase slowly, but won't keep pace with inflation
- Reliance on local referendum levies will increase, resulting in greater disparity among districts
- State share of equalized levies will decline, resulting in greater disparity in property tax burdens among districts
- Special education cross subsidy will continue to grow
- There will be more pressure on legislators to adopt localized solutions that fix funding for some districts, but not all

Future Education Funding: Longer Term Outlook

The Challenge Facing State Policy Makers

Given:

- the constitutional requirement for adequate and uniform education funding,
- the current state budget situation, and
- recent trends in student demographics and education funding,

What steps can be taken to:

- make education funding more adequate, equitable, stable, and understandable, while preserving local control, and
- close achievement gaps, while promoting high achievement for all students?

Future Education Funding: Longer Term Outlook Working Group Recommendations

1. Invest in early learning, with resources targeted first to all-day kindergarten for students living in poverty;
2. Roll \$400/student of referendum levies into the general education formula;
3. Establish a uniform general education levy by consolidating and replacing existing school levies, without increasing total school levies;
4. Simplify funding formulas and student accounting (including a 1.0 weight for elementary students and a 1.2 weight for secondary students) to make E-12 education funding more understandable and transparent;

Future Education Funding: Longer Term Outlook Working Group Recommendations

5. Reform basic skills funding by rolling in extended time revenue and providing districts flexibility with an additional 10% of revenue.
6. Refocus integration funding by including it in the basic skills portion of general education revenue and providing each district with \$600 per student of color enrolled in the district;
7. Provide state aid to recognize and reward growth in student achievement; with a portion of funds set aside to disseminate best practices;
8. Change special education tuition billing by sharing excess costs between the resident district and the serving district/ charter school;

Future Education Funding: Longer Term Outlook Working Group Recommendations

9. Recognize regional cost differences by rolling a portion of referendum revenue into a new location equity levy for the seven county metro area and for non-metro regional centers;
10. Restore inflation-adjusted general education formula to FY 2003 levels by setting the formula allowance at \$6,290 for FY 2013;
11. Reduce charter school lease aid as an offset to formula increases; and
12. Phase in revenue increases and uniform general education levy to assure a smooth transition.

Future Education Funding: Longer Term Outlook Status of Working Group Report

- Report was issued in late May 2011, after the legislature had completed its omnibus education finance bill and legislative session had ended.
- The Governor was presented a copy of the report when it was completed. He has expressed interest in the recommendations, and has asked for feedback from legislators and key stakeholders.
- The report was not part of the negotiations that preceded the special session. Since the state was shut down at that time, the negotiations were narrowly focused on proposals that had been discussed during the regular session, to expedite reaching an agreement.
- No legislative hearings have been held on the report to date.

Future Education Funding: Longer Term Outlook Status of Working Group Report

- A bill draft has been prepared that would implement the report recommendations.
- Informational hearings may be held on the bill during the 2012 legislative session, but is unlikely to receive serious consideration in 2012, since that is not a biennial budget year.
- The Governor will decide whether to include some or all of the working group recommendations in his budget proposals to the 2013 Legislature in January 2013.

For further information:

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