K-12 EDUCATION

FINANCE

OVERVIEW

2010-2011

Division of Program Finance

October 2010

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. 2009-10 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 25

B. Aid and Levy Computations 26

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 2011 begins July 1, 2010 and ends June 30, 2011.

b. With certain exceptions, the property tax levy certified in 2009 for taxes payable in 2010 is recognized as revenue in FY 2011.

2. Pupil Accounting

a. Average Daily Membership (ADM) = The average number of pupils enrolled in the school district throughout the school year

$$= \frac{\text{Number of Pupil-Days Enrolled}}{\text{Total Days in School Year}}$$

Since FY 2004, regular ADM has been 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 K (beginning FY 08)	.612
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 2010)

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 $1,010,000	0.55%
Over $1,010,000	1.00%
Agricultural Land and Buildings (nonhomestead)	1.00%
Commercial and Industrial	
First $150,000	1.50%
Remainder	2.00%
Seasonal Recreational Residential	
First $500,000	1.00%
Remainder	1.25%

c. Sales Ratio = $\frac{\text{Estimated Market Value}}{\text{Actual Sales Price}}$

(Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices.)

d. Adjusted Net Tax Capacity = $\frac{\text{Net Tax Capacity}}{\text{Sales Ratio}}$

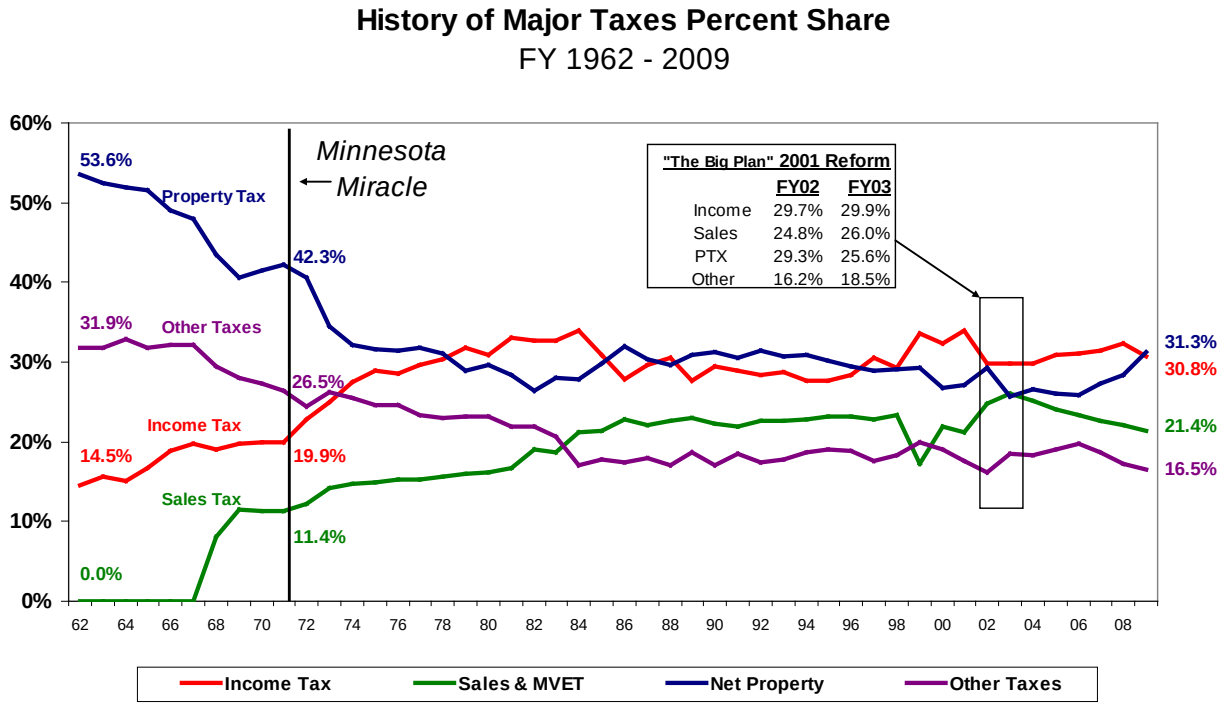
4. Referendum Market Value

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

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

C. Minnesota Public Finance System

1. Combined State and Local Tax Revenues



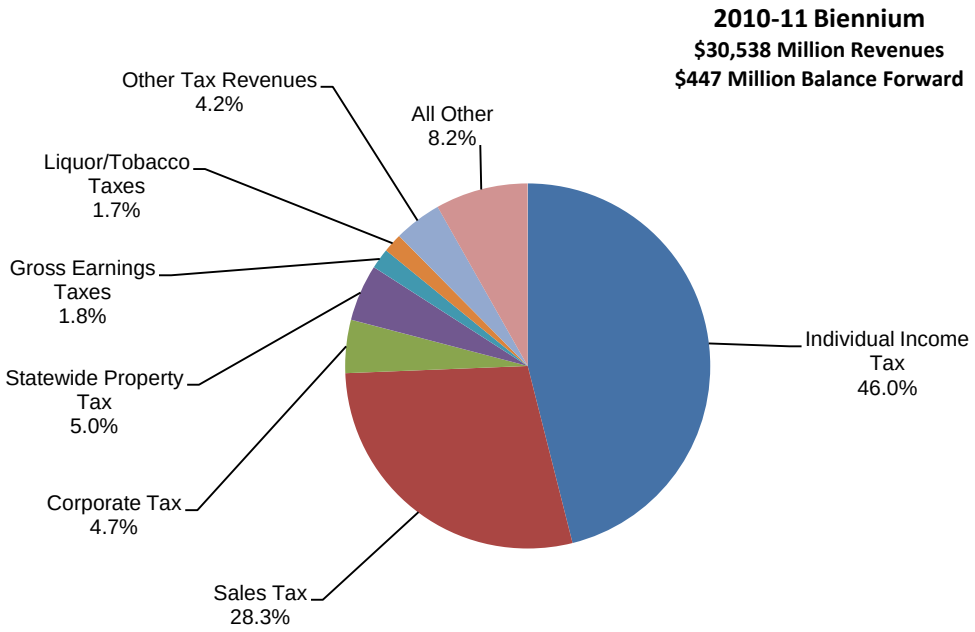
Fiscal Year	Income Tax	Sales and MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	40.7%	24.5%
1975	29.0%	14.9%	31.5%	24.6%
1978	30.3%	15.7%	31.1%	22.9%
1981	33.0%	16.7%	28.4%	21.8%
1984	33.9%	21.2%	27.9%	17.0%
1987	29.6%	22.0%	30.3%	18.0%
1990	29.5%	22.3%	31.2%	17.0%
1993	28.8%	22.7%	30.7%	17.9%
1996	28.4%	23.1%	29.5%	18.9%
1999	33.6%	16.6%	29.3%	20.5%
2002	29.7%	24.1%	29.3%	16.8%
2005	30.8%	24.0%	26.1%	19.0%
2008	32.4%	22.1%	28.3%	17.2%
2009	30.8%	21.4%	31.3%	16.5%

* 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, 2009 End of Session

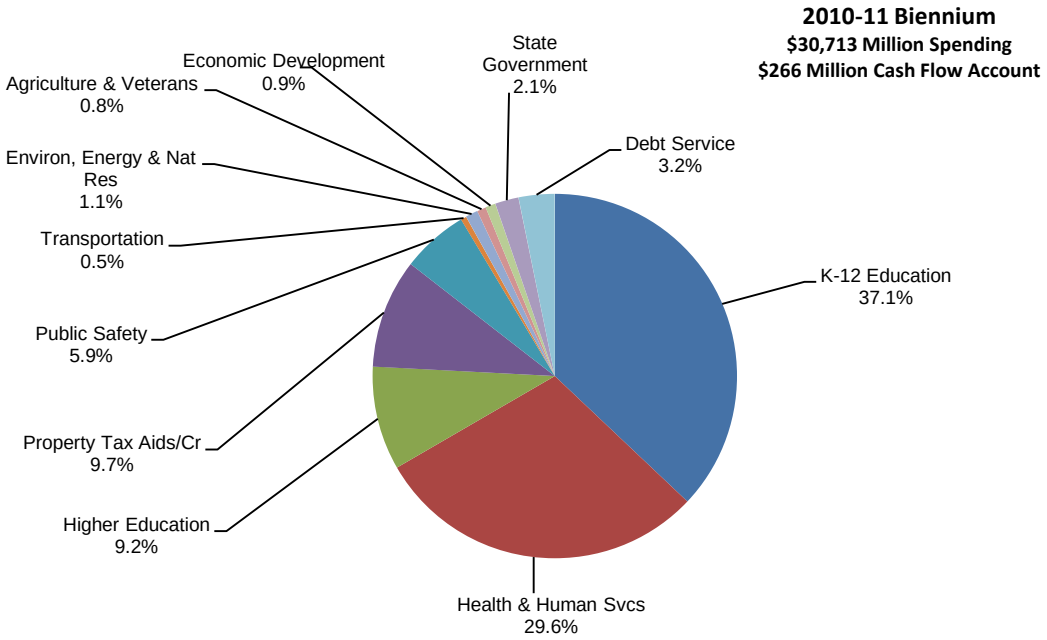
2. Where the General Fund Dollars Come From – End of 2010 Legislative Session



	$ in Millions
Balance Forward 6-30-09	**$ 447**
Non-Dedicated Revenues:	
Individual Income Tax	14,062
Sales Tax	8,647
Corporate Tax	1,431
Statewide Property Tax	1,524
Gross Earnings Taxes	557
Liquor, Wine, Beer Taxes	154
Cigarette and Tobacco Taxes	360
Other Tax Revenues	1,293
All Other Revenues	1,598
Subtotal Non-Dedicated Revenues	29,624
Dedicated Revenue	60
Transfers from Other Funds	780
Prior Year Adjustments	74
SUBTOTAL CURRENT RESOURCES	30,538
TOTAL AVAILABLE RESOURCES – FY 2010-11	**$ 30,985**
Less: Estimated Expenditures	31,713
Cash Flow Account	266
Projected General Fund Balance 6-30-11 End of 2010 Legislative Session	$ 6

Source: Minnesota Management & Budget – June 11, 2010

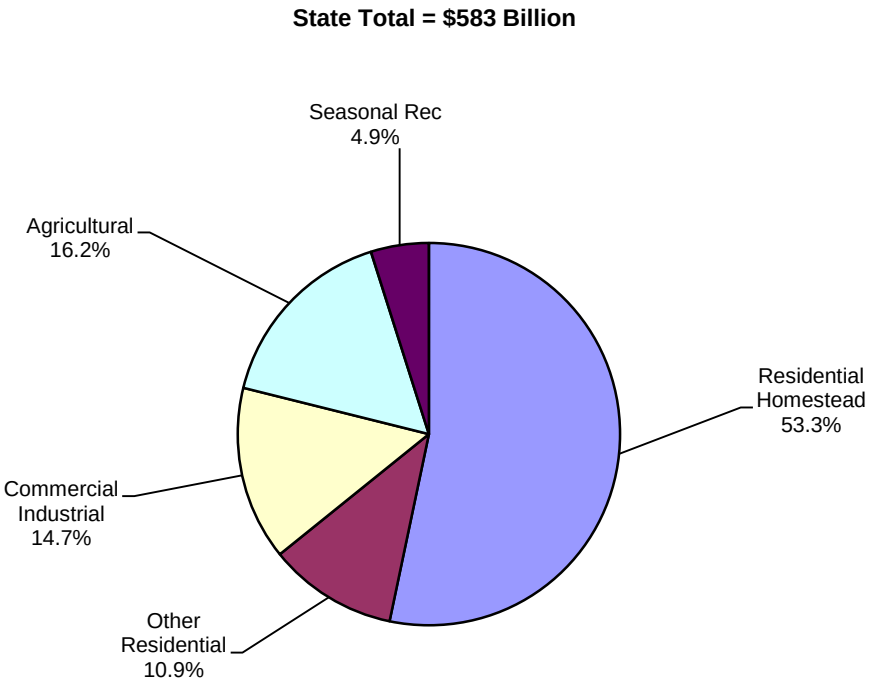
3. Where the General Fund Dollars Go – End of 2010 Legislative Session



	$ in Millions
Total Available Resources – FY 2010-11	**$ 30,985**
Omnibus Bills:	
K-12 Education	13,336
K-12 Ptx Rec/Aid Payment Shift	(1,947)
Health and Human Services	9,083
Higher Education	2,812
Property Tax Aids and Credits	2,976
Public Safety	1,800
Transportation	168
Environment, Energy and Natural Resources	351
Agriculture and Veterans	246
Economic Development	265
State Government	633
Debt Service	955
Capital Projects and Other	27
Estimated Cancellations	(22)
Subtotal – Omnibus Bills	30,682
Dedicated Expenditures	41
TOTAL ESTIMATED EXPENDITURES – FY 2010-11	**$ 30,713**
Cash Flow Account	266
Projected General Fund Balance 6-30-11 End of 2010 Legislative Session	$ 6

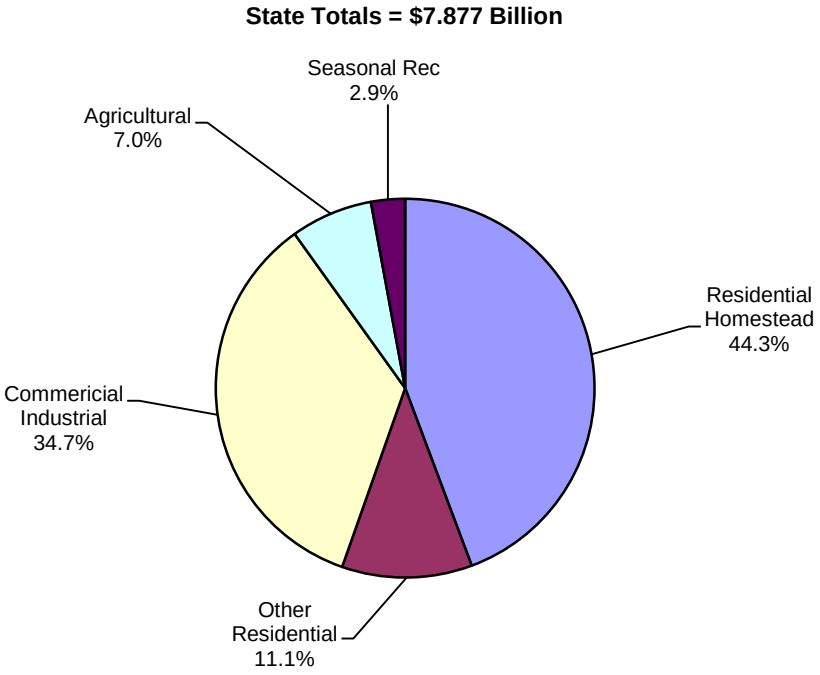
Source: Minnesota Management & Budget – June 11, 2010

4. Payable 2010 Market Value by Use Class



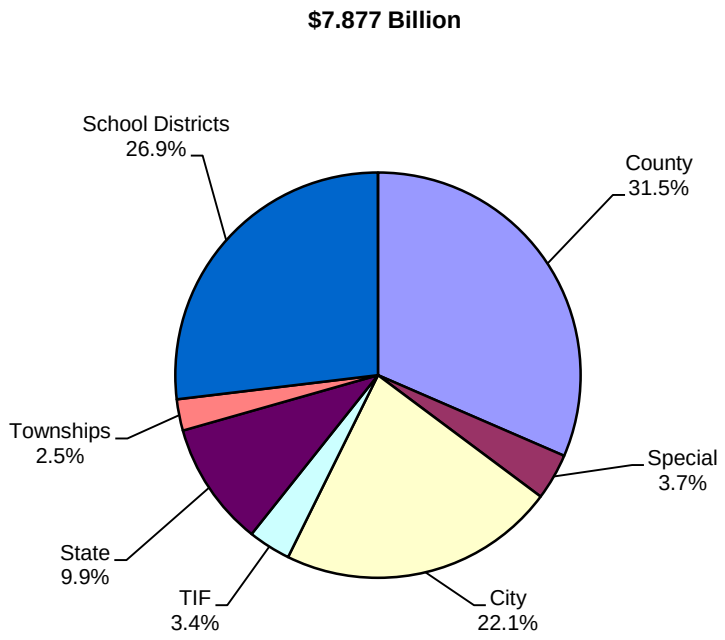
Source: House Research Department

5. Payable 2010 Net Property Tax by Use Class

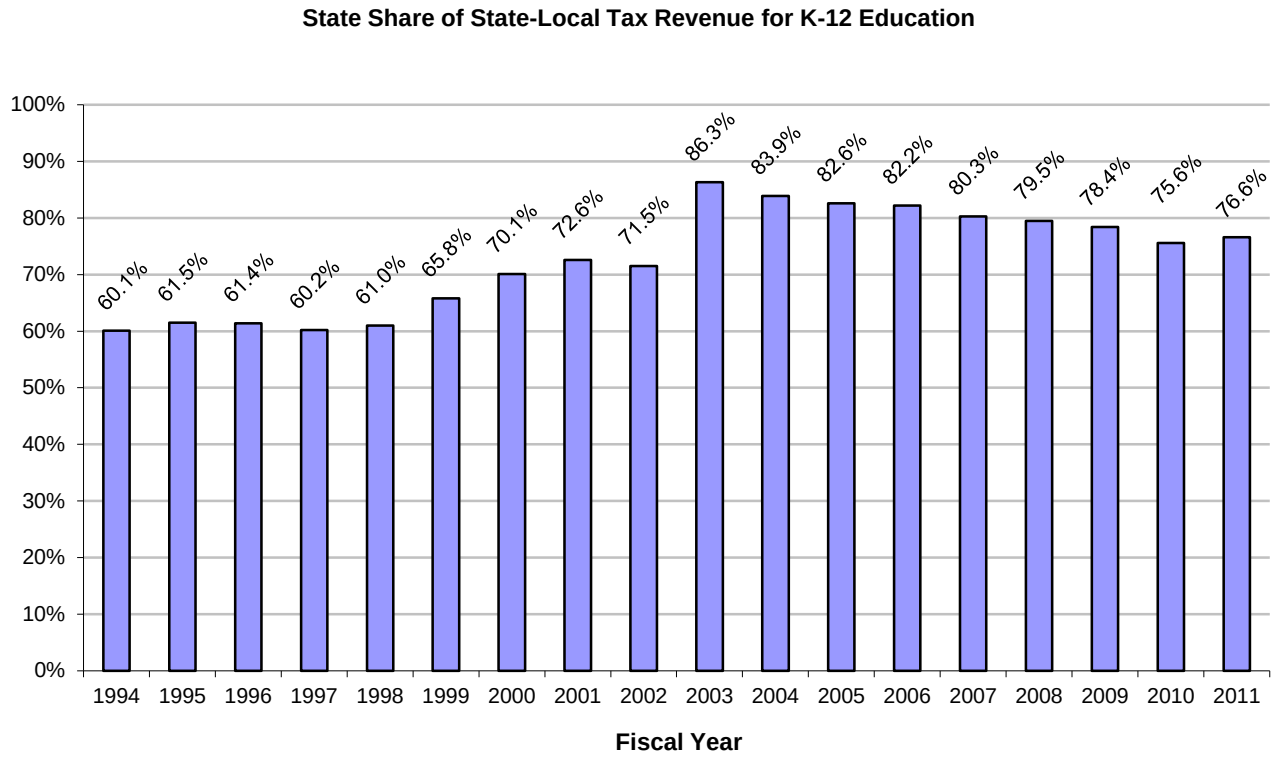


Source: House Research Department

6. Payable 2010 Property Tax Levy by Type of Government After Credits



Source: House Research Department



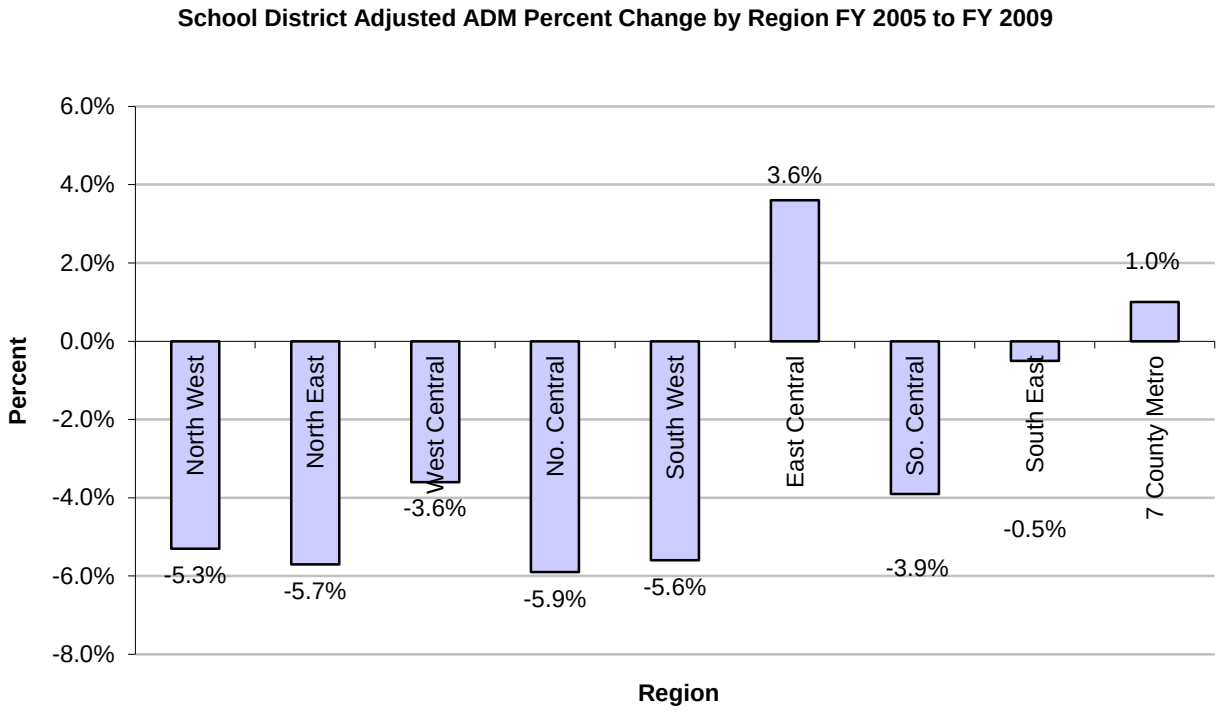
Source: MDE, Price of Government Data, February 2010 Forecast

D. Characteristics of School Districts

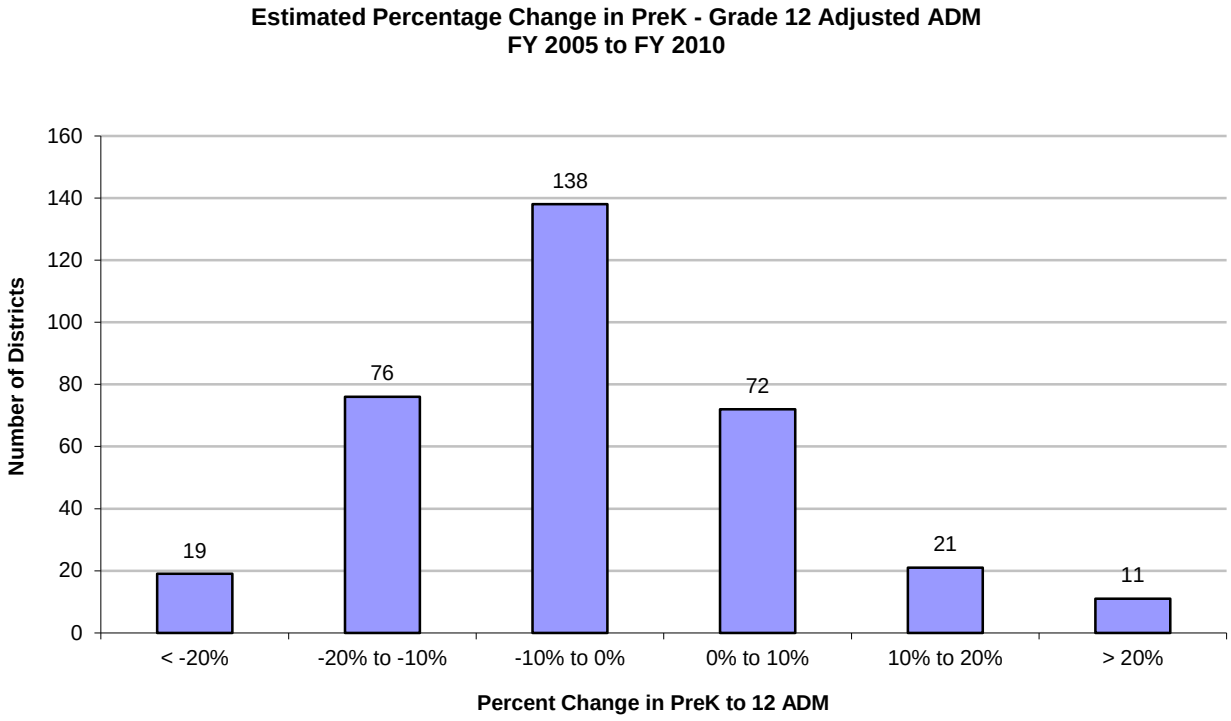
Number of School Districts by Adjusted 2008-09 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	44	7,900	1.0%
300-999	138	82,893	10.6%
1,000-2,999	94	151,653	19.3%
3,000-9,999	51	282,524	36.0%
10,000 +	13	260,060	33.1%
Total	340	785,030	100.0%

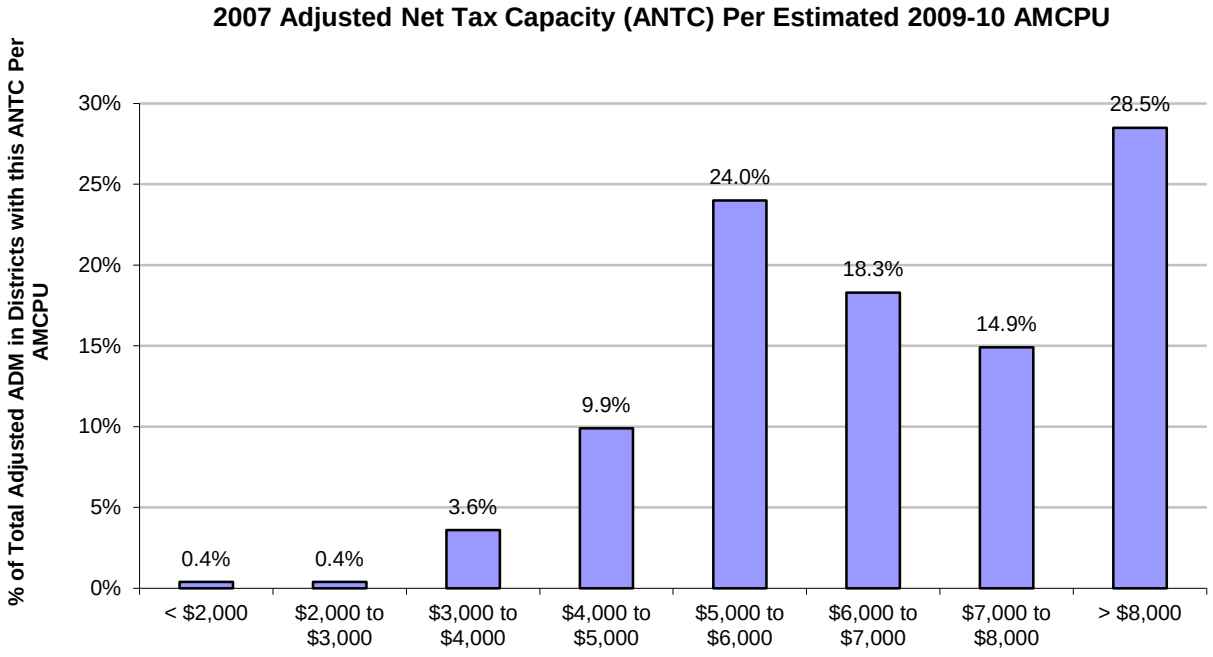
Source: MDE, FY 2009 Final MARSS Data
Note: Excludes Charter Schools



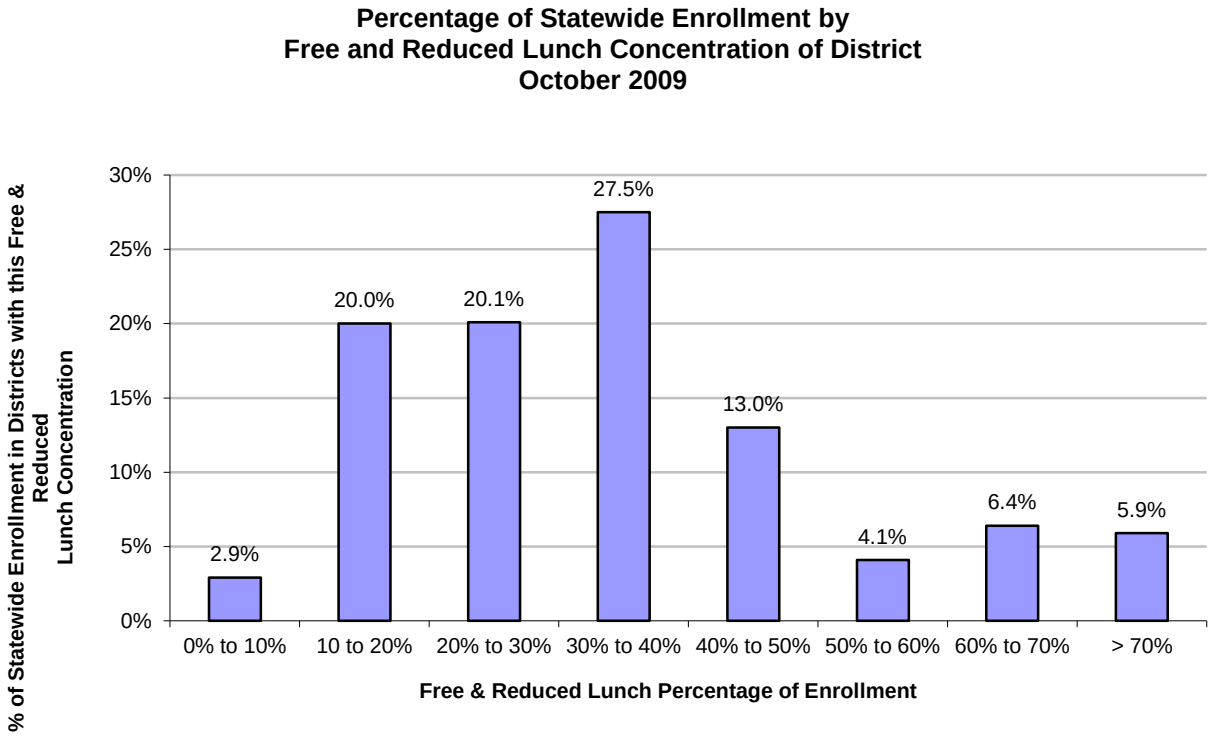
Source: MDE, Program Finance Division, February 2010 Forecast Data
Note: Includes Charter Schools



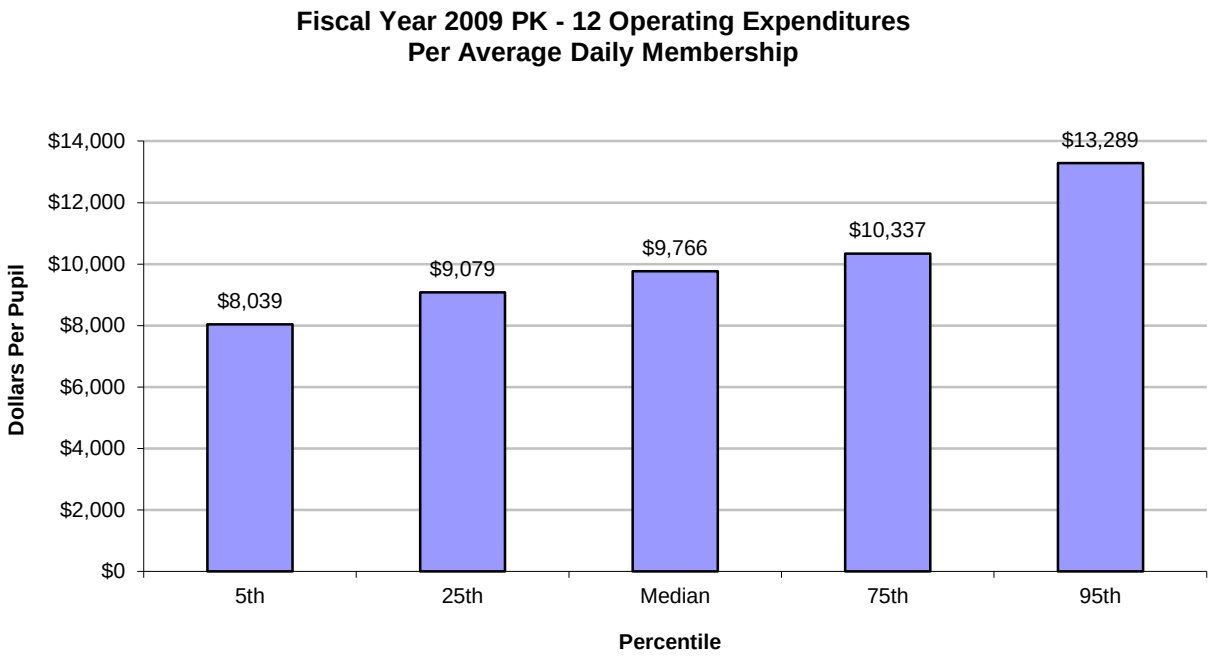
ADM capped at 1.0
Excludes Charter Schools
Source: MDE, February 2010 Forecast Data



Source: MDE, February 2010 Forecast Data



Excludes Charter Schools and Coops



Source: MDE, School District Profiles
Excludes OPEB except Pay-As-You-Go
Excludes Charter Schools

School District General Fund Revenue – FY 1991-2011*
(State Aids and Property Taxes including Operating Referendum Revenue)

			Total $ in Millions			Pupils	---- Current Dollars per Pupil -----			--- CPI Factors ---					--Constant (2009) Dollars per Pupil** --		
Fiscal Year	Education Aids****	Tax Credits	State Aids****	Net Levy	Total Revenue	Unweighted ADM*** 1.0 limit	Revenue Per ADM current $	Annual Percent Increase	Cumulative Percent Increase	CPI-U (1984=1.0)	CPI-U (2009=1.0)	Annual Percent Increase	CPI Adjust to 2009 $	Total Revenue (2009 $)	Revenue per ADM (2009 $)	Annual Percent Increase	Cumulative Percent Increase
1991	2,230.2	153.7	2,383.9	1,195.8	3,579.7	742,740	4,767	n/a	n/a	1.3391	0.6239		1.6027	5,737.3	7,641	n/a	n/a
1992	2,288.0	113.6	2,401.6	1,353.1	3,754.7	759,479	4,890	2.6%	2.6%	1.3818	0.6438	3.2%	1.5532	5,831.6	7,595	-0.6%	-0.6%
1993	2,327.9	131.3	2,459.2	1,474.4	3,933.6	776,578	5,010	2.5%	5.1%	1.4250	0.6640	3.1%	1.5061	5,924.4	7,546	-0.6%	-1.2%
1994	2,416.1	153.0	2,569.1	1,605.0	4,174.1	790,637	5,279	5.4%	10.7%	1.4624	0.6814	2.6%	1.4676	6,125.9	7,748	2.7%	1.4%
1995	2,762.8	94.1	2,856.9	1,632.9	4,489.8	803,789	5,586	5.8%	17.2%	1.5041	0.7008	2.9%	1.4269	6,406.5	7,970	2.9%	4.3%
1996	2,883.2	100.2	2,983.4	1,720.6	4,704.0	818,633	5,746	2.9%	20.5%	1.5451	0.7199	2.7%	1.3890	6,534.0	7,982	0.1%	4.5%
1997	2,940.1	69.3	3,009.4	1,793.6	4,803.0	829,265	5,792	0.8%	21.5%	1.5890	0.7404	2.8%	1.3507	6,487.2	7,823	-2.0%	2.4%
1998	3,193.8	54.9	3,248.7	1,824.0	5,072.7	835,972	6,068	4.8%	27.3%	1.6175	0.7537	1.8%	1.3269	6,730.8	8,051	2.9%	5.4%
1999	3,480.1	234.3	3,714.4	1,573.1	5,287.5	842,513	6,276	3.4%	31.6%	1.6455	0.7667	1.7%	1.3043	6,896.4	8,186	1.7%	7.1%
2000	3,827.9	352.5	4,180.4	1,428.2	5,608.6	843,449	6,650	6.0%	39.5%	1.6929	0.7888	2.9%	1.2678	7,110.4	8,430	3.0%	10.3%
2001	4,132.7	474.7	4,607.4	1,340.3	5,947.7	842,764	7,057	6.1%	48.0%	1.7507	0.8157	3.4%	1.2259	7,291.3	8,652	2.6%	13.2%
2002	4,202.2	483.1	4,685.3	1,397.7	6,083.0	839,424	7,247	2.7%	52.0%	1.7817	0.8302	1.8%	1.2046	7,327.5	8,729	0.9%	14.2%
2003	5,955.8	29.4	5,985.2	466.7	6,451.9	836,579	7,712	6.4%	61.8%	1.8211	0.8485	2.2%	1.1785	7,603.7	9,089	4.1%	19.0%
2004	5,919.4	26.9	5,946.3	607.7	6,554.0	829,832	7,898	2.4%	65.7%	1.8609	0.8671	2.2%	1.1533	7,558.8	9,109	0.2%	19.2%
2005	5,888.6	25.4	5,914.0	689.2	6,603.2	825,843	7,996	1.2%	67.7%	1.9168	0.8931	3.0%	1.1197	7,393.5	8,953	-1.7%	17.2%
2006	6,121.7	23.9	6,145.6	730.6	6,876.2	826,542	8,319	4.0%	74.5%	1.9897	0.9271	3.8%	1.0787	7,417.0	8,974	0.2%	17.4%
2007	6,310.8	25.4	6,336.2	923.6	7,259.8	827,197	8,776	5.5%	84.1%	2.0413	0.9511	2.6%	1.0514	7,632.9	9,227	2.8%	20.8%
2008	6,646.0	24.8	6,670.8	1,036.4	7,707.2	823,755	9,356	6.6%	96.3%	2.1170	0.9864	3.7%	1.0138	7,813.5	9,485	2.8%	24.1%
2009	6,754.6	23.9	6,778.5	1,159.1	7,937.6	823,093	9,644	3.1%	102.3%	2.1462	1.0000	1.4%	1.0000	7,937.6	9,644	1.7%	26.2%
2010*****	6,675.8	23.1	6,698.9	1,247.9	7,946.8	825,224	9,630	-0.1%	102.0%	2.1612	1.0070	0.7%	0.9931	7,891.6	9,563	-0.8%	25.2%
2011	6,761.4	23.0	6,784.4	1,277.1	8,061.5	828,791	9,727	1.0%	104.0%	2.1962	1.0233	1.6%	0.9772	7,878.0	9,505	-0.6%	24.4%

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

** Adjusted for inflation using Consumer Price Index; inflation adjustment factors are consistent with November 2009 Forecast.

*** For purposes of this analysis, ADMs are shown at the current law level, with a cap of 1.0 ADM per student. For years prior to 2002, it is assumed that the same ratio of capped ADM to uncapped ADM applies as in FY 2002 (earliest year of actual data).

**** Includes K-12 education aids and state paid tax credits for K-12 education, shown on 100% of annual entitlement basis – reflects school district revenue recognition.

***** Education aid shown for FY 2010 includes $500 million of Federal Fiscal Stabilization aid, which offsets a $500 million reduction in state aid.

Source: MDE, Division of Program Finance, District Revenue Tables, November 2009 Forecast

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes – FY 2005 to FY 2011 – State Totals

	REVENUES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1	ADJUSTED ADM (CAP = 1.0)	820,425	821,416	822,328	819,436	816,716	817,518	819,315
2	BASIC	4,384,973,848	4,558,383,719	4,741,676,895	4,837,724,471	4,860,574,699	4,851,170,076	4,854,026,593
3	ONE TIME	0	0	0	0	48,378,085	0	0
4	EXTENDED TIME	52,327,357	52,766,200	55,436,989	59,590,818	60,995,641	64,854,827	67,868,065
5	COMPENSATORY	265,074,503	292,547,478	315,471,905	333,928,094	348,510,686	361,029,907	413,144,502
6	LEP TOTAL	36,912,006	38,795,826	39,531,867	40,623,289	40,375,022	40,342,743	40,266,479
7	TRAINING & EXPERIENCE	12,876,817	8,213,502	4,354,429	2,146,056	1,207,448	639,445	469,810
8	SPARSITY	17,548,649	18,853,061	20,254,233	21,637,534	22,898,807	23,037,670	23,725,554
9	TRANSPORTATION SPARSITY	55,511,193	57,332,807	59,221,789	60,083,765	60,159,097	60,533,775	60,403,058
10	OPERATING CAPITAL	193,697,082	194,018,388	194,117,024	194,635,565	194,299,107	194,349,665	194,478,366
11	EQUITY	41,731,237	50,999,434	94,274,070	95,708,805	93,361,990	92,538,361	92,807,124
12	GIFTED & TALENTED	0	3,812,154	8,579,633	11,441,209	11,383,079	11,361,051	11,367,760
13	Q COMP	0	16,348,850	48,603,714	60,763,649	63,348,360	58,187,773	90,953,724
14	TRANSITION	31,326,609	31,033,742	30,462,514	30,143,319	29,711,997	29,397,206	29,157,929
15	LATE RATIFICATION	0	-344,932	0	-730,499	0	-2,691,984	0
16	PENSION ADJUSTMENT	-46,733,667	-46,807,695	-46,967,509	-30,637,836	-30,753,090	-30,857,758	-30,993,440
17	OPTIONS ADJ: REFERENDUM AID	-1,089,964	-895,442	-885,672	-181,964	262,096	722,737	835,104
18	OPTIONS ADJ: CHARTER TRANSPORT	0	0	0	0	0	-1,563	9,984
19	OPTIONS ADJ: FARIBAULT	0	0	-398	-355	-461	-198	-198
20	REFERENDUM	504,721,085	534,314,512	598,966,155	644,192,179	720,567,181	783,191,190	804,042,316
21	SCHOOL LAND TRUST ENDOWMENT	0	0	0	0	0	22,912,561	22,937,645
22	ENERGY GRANT	0	3,497,652	0	0	0	0	0
23	ONE TIME STATE AID REDUCTION	0	0	0	0	0	-500,000,000	0
24	FEDERAL FISCAL STABILIZATION AID	0	0	0	0	0	500,000,000	0
25	GEN ED TOTAL = SUM OF (2) TO (24) =	5,548,876,756	5,812,869,256	6,163,097,636	6,361,068,098	6,525,279,745	6,560,717,485	6,675,500,375
26	GENED CHANGE FROM PRIOR YEAR	80,728,198	263,992,501	350,228,379	197,970,462	164,211,647	35,437,740	114,782,890
27	PERCENT CHANGE FROM PRIOR YEAR	1.5%	4.8%	6.0%	3.2%	2.6%	0.5%	1.7%
28	SPECIAL ED REGULAR, GROSS	528,700,965	529,804,000	529,197,903	694,060,748	719,263,572	735,693,000	786,586,000
29	SPECIAL ED NET TUITION (BY MDE)	N/A	N/A	0	-1,992	0	0	0
30	SPECIAL ED NET = (28)+(29) =	N/A	N/A	529,197,903	694,058,756	719,263,572	735,693,000	786,586,000
31	SPECIAL ED EXCESS	91,661,000	103,600,000	104,700,000	110,641,000	110,918,000	110,847,000	110,892,000
32	SPECIAL ED CROSS SUBSIDY	11,000,000	0	0	0	0	0	0
33	TRANSITION DISABLED	8,797,000	8,808,000	8,799,000	0	0	0	0
34	SPEC ED TOTAL = (28)+(31)+(32)+(33) =	640,158,965	642,212,000	642,696,903	804,701,748	830,181,572	846,540,000	897,478,000
35	SPEC ED CHANGE FROM PRIOR YEAR	4,011,666	2,053,035	484,903	162,004,845	25,479,824	16,358,428	50,938,000
36	PERCENT CHANGE FROM PRIOR YEAR	0.6%	0.3%	0.1%	25.2%	3.2%	2.0%	6.0%
37	CAREER TECHNICAL	12,678,199	12,689,227	12,773,681	14,420,567	14,852,104	15,051,706	16,391,972
38	INTEGRATION	77,583,792	80,023,454	83,530,139	84,346,689	86,903,985	88,811,317	89,090,790
39	ALT FACILITIES/DEFERRED MAINT	119,536,246	134,762,321	145,125,099	168,068,746	171,169,951	181,029,823	182,682,056
40	OPERATING CAPITAL TECH AID	0	0	0	38,137,363	52,172,445	0	0
41	MISCELLANEOUS LEVIES, TOTAL	71,259,399	69,613,091	81,487,140	80,001,459	86,778,421	87,718,037	91,141,700
42	TELECOMMUNICATIONS	0	3,750,000	3,750,000	7,622,000	8,742,891	3,749,914	3,749,914
43	TOTAL REVENUE = (25)+(34)+[SUM OF (37) TO (42)] =	6,470,093,356	6,755,919,350	7,132,460,598	7,558,366,669	7,776,081,115	7,783,618,282	7,956,034,807
44	TOTAL REVENUE, CHANGE FROM PY	85,626,733	285,825,994	376,541,248	425,906,071	217,714,446	7,537,168	172,416,524
45	PERCENT CHANGE FROM PRIOR YEAR	1.3%	4.4%	5.6%	6.0%	2.9%	0.1%	2.2%

February 2010 Forecast Calculations

Estimated General Education and Major Categorical Revenues Per ADM
State Aid and Property Taxes – FY 2005 to FY 2011 – State Totals

	REVENUES PER ADJ ADM (CAP = 1.0)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1	ADJUSTED ADM (CAP = 1.0)	820,425	821,416	822,328	819,436	816,716	817,518	819,315
2	BASIC	5,345	5,549	5,766	5,904	5,951	5,934	5,924
3	ONE TIME	0	0	0	0	59	0	0
4	EXTENDED TIME	64	64	67	73	75	79	83
5	COMPENSATORY	323	356	384	408	427	442	504
6	LEP TOTAL	45	47	48	50	49	49	49
7	TRAINING & EXPERIENCE	16	10	5	3	1	1	1
8	SPARSITY	21	23	25	26	28	28	29
9	TRANSPORTATION SPARSITY	68	70	72	73	74	74	74
10	OPERATING CAPITAL	236	236	236	238	238	238	237
11	EQUITY	51	62	115	117	114	113	113
12	GIFTED & TALENTED	0	5	10	14	14	14	14
13	Q COMP	0	20	59	74	78	71	111
14	TRANSITION	38	38	37	37	36	36	36
15	LATE RATIFICATION	0	0	0	-1	0	-3	0
16	PENSION ADJUSTMENT	-57	-57	-57	-37	-38	-38	-38
17	OPTIONS ADJ: REFERENDUM AID	-1	-1	-1	0	0	1	1
18	OPTIONS ADJ: CHARTER TRANSPORT	0	0	0	0	0	0	0
19	OPTIONS ADJ: FARIBAULT	0	0	0	0	0	0	0
20	REFERENDUM	615	650	728	786	882	958	981
21	SCHOOL LAND TRUST ENDOWMENT	0	0	0	0	0	28	28
22	ENERGY GRANT	0	4	0	0	0	0	0
23	ONE TIME STATE AID REDUCTION	0	0	0	0	0	-612	0
24	FEDERAL FISCAL STABILIZATION AID	0	0	0	0	0	612	0
25	GEN ED TOTAL = SUM OF (2) TO (24) =	6,763	7,077	7,495	7,763	7,990	8,025	8,148
26	REVENUE CHANGE FROM PRIOR YEAR	131	313	418	268	227	36	122
27	PERCENT CHANGE FROM PRIOR YEAR	2.0%	4.6%	5.9%	3.6%	2.9%	0.4%	1.5%
28	SPECIAL ED REGULAR, GROSS	644	645	644	847	881	900	960
29	SPECIAL ED NET TUITION (MDE)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	SPECIAL ED NET = (28)+(29) =	644	645	644	847	881	900	960
31	SPECIAL ED EXCESS	112	126	127	135	136	136	135
32	SPECIAL ED CROSS SUBSIDY	13	0	0	0	0	0	0
33	TRANSITION DISABLED	11	11	11	0	0	0	0
34	SPEC ED TOTAL = (28)+(31)+(32)+(33) =	780	782	782	982	1,016	1,035	1,095
35	REVENUE CHANGE FROM PRIOR YEAR	9	2	0	200	34	19	60
36	PERCENT CHANGE FROM PRIOR YEAR	1.1%	0.2%	0.0%	25.6%	3.5%	1.9%	5.8%
37	CAREER TECHNICAL	15	15	16	18	18	18	20
38	INTEGRATION	95	97	102	103	106	109	109
39	ALT FACILITIES/DEFERRED MAINT	146	164	176	205	210	221	223
40	OPERATING CAPITAL TECH AID	0	0	0	47	64	0	0
41	MISCELLANEOUS LEVIES, TOTAL	87	85	99	98	106	107	111
42	TELECOMMUNICATIONS	0	5	5	9	11	5	5
43	TOTAL REVENUE = (25)+(34)+[SUM OF (37) TO (42)] =	7,886	8,225	8,673	9,224	9,521	9,521	9,711
44	TOTAL REVENUE, CHANGE FROM PY	143	338	449	550	297	0	190
45	PERCENT CHANGE FROM PRIOR YEAR	1.8%	4.3%	5.5%	6.3%	3.2%	0.0%	2.0%

February 2010 Forecast Calculations

CURRENT EXPENDITURE PER PUPIL IN FALL ENROLLMENT

Minnesota vs. U.S. Average

Fiscal Year	U.S.	Minnesota	Minnesota Rank	Minnesota Percent of U.S.
1970	$ 751	$ 855	5	113.8%
1975	1,257	1,407	6	111.9%
1980	2,088	2,296	12	110.0%
1985	3,222	3,508	12	108.9%
1990	4,643	4,698	17	101.2%
1991	4,902	4,946	17	100.9%
1992	5,023	5,089	18	101.3%
1993	5,160	5,210	20	101.0%
1994	5,327	5,342	18	100.3%
1995	5,529	5,626	17	101.8%
1996	5,689	5,801	16	102.0%
1997	5,923	6,005	16	101.4%
1998	6,189	6,388	15	103.2%
1999	6,508	6,791	16	104.3%
2000	6,911	7,190	16	104.0%
2001	7,376	7,645	15	103.6%
2002	7,734	7,736	20	100.0%
2003	8,041	8,109	19	100.8%
2004	8,310	8,405	22	101.1%
2005	8,701	8,718	23	100.2%
2006	9,154	9,159	21	100.1%
2007	9,683	9,589	22	99.0%
2008	10,297	10,048	22	97.6%

SOURCES: U.S. Department of Education, National Center for Education Statistics, *State Comparisons of Education Statistics: 1970 – 1997, Table 41, Digest of Education Statistics, 1999, Table 172. 1998-2003: NCES. Revenues and Expenditures for Elementary and Secondary Education – various editions. 2004-2006: NCES, Revenues and Expenditures for Public Elementary and Secondary Education – various editions:*

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

B. 2010-2011 Elementary Secondary Education Revenue Summary*

Program	Total Revenue ($ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	$ 5,884.6	$ 7,138	64.5%
Referendum	804.0	975	8.8%
Special Education	899.3	1,091	9.9%
Other General Programs***	498.4	605	5.5%
Subtotal General Fund	8,086.3	9,808	88.6%
Food Service	17.4	21	0.2%
Community Service	167.7	N/A ****	1.8%
Debt Redemption	857.6	1,040	9.4%
Total All Funds	$ 9,129.0	$ 11,073 ****	100.0%
ADM Pupils	824,455		

* Revenue includes estimated state aid entitlements and gross levies. Excludes other 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 and Safety Revenue ($58.1), Alternate Facilities Annual Levy/Aid Revenue ($63.8), Building Lease Levies ($48.9), Charter School Building Lease Aid ($47.7), Safe Schools Levy ($28.4), Desegregation/Integration Revenue ($91.3), Nonpublic Transportation Aid ($20.1), Capital Project Referendum ($39.2), 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, February 2010 Forecast data.

C. General Education Revenue by Component: 2010-2011 Estimate

Component	Number of Districts	Number of Charter Schools	Amount (Millions)	Percent of Total
Formula – Based Revenue:				
Basic	336	152	$ 4,854.0	72.6%
Gifted and Talented	336	152	11.4	0.2%
Extended Time	127	6	67.9	1.0%
Basic Skills:				
Compensatory	336	150	413.1	6.2%
LEP	208	61	31.9	0.5%
LEP Concentration	208	61	8.4	0.1%
Sparsity	97	152	23.7	0.4%
Transportation Sparsity	336	152	60.4	0.9%
Training and Experience	23	152	0.3	0.0%
Operating Capital	336	152	194.5	2.9%
Alternative Teacher Comp.	45	32	91.0	1.4%
Equity	336	152	92.8	1.4%
Transition	200	42	29.2	0.4%
Alternative Attendance Adjustments	265	139	0.8	0.0%
Miscellaneous Adjustments:				
Pension Adjustment	336	152	(31.0)	(0.5%)
Online Learning	4	3	1.2	0.0%
PSEO-College	N/A	N/A	21.7	0.3%
Shared-Time	N/A	N/A	3.8	0.1%
Contract Alternative	N/A	N/A	9.5	0.1%
Subtotal	337	152	$ 5,884.6	88.0%
Referendum-Based Revenues:				
Operating Referendum	302	0	804.0	12.0%
Grand Total Revenue	337	152	$ 6,688.6	100.0%

Source: MDE, Division of Program Finance, February 2010 Forecast work papers. Includes state aids and levies. Levies are shown by formula year.

D. General Education Revenue Formulas

1. Basic Revenue

Basic Revenue = Formula Allowance X Adjusted Marginal Cost Pupil Units

	Gross Formula Allowance	Referendum Roll-in (a)	Other Roll-ins		Net Increase Excluding Roll-Ins	Net Percent Increase
1990-91	$2,953				$115	4.1%
1991-92	$3,050				$97	3.3%
1992-93	$3,050				$0	0.0%
1993-94	$3,050				$0	0.0%
1994-95	$3,150	$100			$0	0.0%
1995-96	$3,205				$55	1.7%
1996-97	$3,505		$300	(b)	$0	0.0%
1997-98	$3,581				$76	2.2%
1998-99	$3,530		-$130	(c)	$79	2.2%
1999-00	$3,740		$43	(d)	$167	4.7%
2000-01	$3,964		$67	(e)	$157	4.2%
2001-02	$4,068				$104	2.6%
2002-03	$4,601	$415	$14	(f)	$104	2.6%
2003-04	$4,601				$0	0.0%
2004-05	$4,601				$0	0.0%
2005-06	$4,783				$182	4.0%
2006-07	$4,974				$191	4.0%
2007-08	$5,074				$100	2.0%
2008-09	$5,124				$50	1.0%
2009-10	$5,124				$0	0.0%
2010-11	$5,124				$0	0.0%

(a) In 1994-95 and 2002-03, the increase in the general education formula was offset by a reduction in operating referendum revenue. Districts with no operating referendum received an additional revenue increase equal to the amount of the roll-in; districts with an operating referendum greater than the amount of the roll-in received property tax relief but no additional revenue; districts with an operating referendum less than the roll-in amount received a revenue increase less than the full roll-in amount and some property tax relief.

(b) $130 of training and experience revenue and $170 of pupil transportation revenue rolled into basic formula

(c) $130 of training and experience revenue rolled out of basic formula

(d) $43 of graduation standards aid rolled into basic formula

(e) $67 of district cooperation revenue rolled into basic formula. Of the net increase of $157, $39 was set aside for staff development (increase from 1% to 2% set aside)

(f) $14 of assurance of mastery revenue rolled into basic formula

Class Size Reduction Set-Aside:

The portion of basic revenue generated by .057 of the 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 is temporarily suspended for FY 2010 and FY 2011 (Laws 2009, Chapter 96, Article 2, Section 64).*

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. Gifted and Talented Revenue

For FY 2008 and later, a district's gifted & talented allowance equals $12 per AMCPU..(The allowance was $4 per AMCPU for FY 2006 and $9 per AMCPU for ; for FY 2007). Gifted and talented revenue must be reserved and used only to identify gifted and talented students, provide educational programs for gifted and talented students, or provide staff development for teachers to best meet the needs of gifted and talented students.

4. 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) *Basic Revenue* = $700 X Adjusted Marginal Cost (AMC) eligible LEP average daily membership served

   - Students who have generated 5 or more ADM in Minnesota public schools before the start of the current school year are not eligible to be counted for LEP revenue calculations. Students in grades 4 – 12 who were enrolled in a Minnesota public school when the Test of Emerging Academic English (TEAE) was administered during the prior year are not eligible unless they scored below the state cutoff score on the TEAE. AMC LEP ADM served is the greater of current year eligible LEP ADM served or the sum of 77% of current year plus 23% of prior year (if AMC LEP ADM served is greater than 0 but less that 20, 20 is used in the calculations; if current year count is zero, district does not qualify for revenue).

2) *Concentration Revenue* = LEP enrollment X $250 X LEP concentration factor

   - The LEP concentration factor equals the lesser of 1 or the ratio of the district's LEP concentration percent to 11.5%.
   - Additional Basic Skills Revenue targeted to school districts with high concentrations of LEP students.

5. 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.

6. Transportation Sparsity Revenue

- Funds added costs of providing transportation in districts with fewer than 200 pupil units per square mile. (Transportation funding for all districts of $248.51 per pupil unit (4.85% of formula allowance) 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.

7. Training and Experience (T&E) Revenue

- 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.

8. Operating Capital Revenue

- Provides funding for capital expenditure facilities and equipment costs.
- Revenue per AMC pupil unit = $73 + $100* [1 + (Avg Building Age/100)].
- Operating capital revenue is reserved for certain facilities, equipment and technology purposes; however, school districts were allowed to transfer up to $51 per AMCPU from the operating capital account to the unreserved general fund in each of FY 2008, FY 2009, and FY 2010.

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

9. Equity Revenue

- 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, except as noted below for FY 2007 and later.
- For qualifying districts with no referendum levy, the initial revenue allowance = $13.
- For qualifying districts with a referendum levy, the initial revenue allowance = $13 + up to $75, depending on how far the district's revenue per pupil unit is below the regional 95th percentile (sliding scale).
- Districts with referendum revenue below 10% of the state average per pupil unit (approximately $57 / PU for FY 2006) receive additional equity revenue equal to the difference between 10% of the state average and the district's referendum revenue per pupil unit (includes districts with no referendum).
- For districts in the 7 county metro area, the equity revenue as computed above is increased by 25%.
- All districts, (including Minneapolis, St. Paul, and Duluth), receive an additional $46 per pupil unit; (for FY 2007 only, districts at or above the 95th percentile received an additional $23 per pupil unit, while others received an additional $46 per pupil unit).

10. Alternative Teacher Compensation (Q Comp) Revenue

- Beginning in FY 2006, the maximum revenue for participating school districts, charter schools and intermediate districts is $260 times the October 1 enrollment in the previous school year. For districts where only selected sites are participating, the funding is based on the prior school year's October 1 enrollment at the participating sites. For FY 2006, participation was limited to districts and schools making up 9% of the state's total enrollment; for FY 2007 and later, participation is limited to districts and schools making up approximately 48% of the state's total enrollment.
- Funding is all aid in FY 2006; for FY 2007 – FY 2009, funding includes $190 per pupil of aid and a $70 per pupil equalized levy. For FY 2010 and later, funding includes $169 per pupil of aid and a $91 per pupil of equalized levy.

11. Transition Revenue

Transition revenue is a hold-harmless provision which includes three components:

- The largest component of transition revenue was created in 2003 to ensure 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, would 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.

  A district's FY 2004 hold harmless transition revenue equals the district's FY 2004 transition allowance per pupil unit times the district's current year AMCPU.

- Districts that had prekindergarten programs implemented before July 1, 2003, that were reported as kindergarten programs, receive prekindergarten transition revenue equal to 4% of the amount they received based on FY 2004 data for the prekindergarten program.
-
- Districts along the South Dakota border that incurred a net revenue loss in FY 2010 due to implementation of the interstate K-12 tuition reciprocity agreement receive tuition reciprocity transition revenue equal to the amount of the net revenue loss in FY 2010, if any, resulting from the agreement.

12. 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. The size of the aid reduction is lowered by 0.5% of the district's TRA salaries for FY 2007, to offset an increase in TRA employer contribution rates beginning in FY 2008.

13. 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.
- Beginning in FY 2008, districts where (a) net open enrollment pupil units exceed 20% of the district's resident pupil units and (b) fewer than 50% of open enrollment pupil units are enrolled solely in on-line learning receive an additional alternative attendance adjustment.
- 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.

14. Post-Secondary Enrollment Options (PSEO)

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

  [(Formula Allowance - $415) X 88% X 1.3 Secondary Weight] /
  (30 for semester credit)

15. On-Line Learning

- Beginning in FY 2006, students taking on-line learning courses provided by the school district or charter school in which they are enrolled are counted as regular pupil units by the enrolling district or charter school, regardless of whether they were enrolled in a Minnesota public school the year before they enrolled in on-line learning.
- School districts and charter schools providing on-line learning courses for students enrolled in other Minnesota public schools receive on-line learning aid equal to 88% of $1/12^{th}$ 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 $1/12^{th}$ of a regular ADM for each completed semester course or equivalent, which is used in regular general education revenue calculations.

16. 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.

17. 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.

18. Late Contract Penalty

- State aid is reduced by $25 per adjusted pupil unit for the first year of a biennium (even-numbered fiscal years) if a district and the exclusive representative of the teachers in the district have not signed a collective bargaining agreement by January 15 of the even-numbered calendar year. The penalty does not apply if the unresolved issues have been submitted to binding arbitration by December 31. For districts reorganized the previous year, the deadline is extended to March 15. Applies to co-ops that negotiate agreements with teacher as well as school districts.

19. 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 : (1) 26% of the formula allowance or (2) the greater of product of (a) the greater of $1,294 per pupil unit or 117.7% of the district's FY 1994 referendum allowance minus $215, times (b) a statutory inflation factor based on the Consumer Price Index (CPI). (Sparsity districts exempted.)
- Until the early 90s, referendums were typically ongoing, were based on a fixed tax rate, and were spread against tax capacity. Newer referendums have a limited duration (currently up to ten years), are based on a fixed amount per pupil unit, and are spread against referendum market value.
- For FY 2003 and later, $415 per pupil unit was transferred from referendum revenue to the basic formula, thereby increasing basic revenue by $415 per pupil unit and decreasing referendum revenue by the lesser of a district's referendum allowance or $415 per pupil unit.

III. STATE AID AND PROPERTY TAX LEVY COMPUTATIONS

A. K-12 Education Property Tax Levy Summary: 2009 Payable 2010 (FY 2011)

Levy Type	Amount ($ in Millions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Operating Capital	125.0	5.7%
Equity	79.1	3.6%
Transition	25.2	1.2%
Alternative Teacher Comp	15.9	0.7%
Health and Safety/Alt. Facilities	112.4	5.1%
Building Lease	48.9	2.2%
Deferred Maintenance	22.9	1.0%
Integration	27.0	1.2%
Safe Schools	28.5	1.3%
Career Technical	14.6	0.7%
Other Post-Employment (OPEB) Nondebt	9.2	0.4%
Other General Fund	16.0	0.8%
Community Service Fund	72.7	3.3%
Debt Service Fund	179.0	8.2%
Other Post-Employment (OPEB) Debt	56.9	2.6%
Subtotal, Formula-Driven Levies	**833.3**	**38.0%**
Voter Approved Levies:		
Operating Referendum	727.8	33.1%
Capital Projects Referendum	39.2	1.8%
Debt Service	596.0	27.1%
Subtotal, Voter Approved Levies	**1,363.0**	**62.0%**
Total Levy Before Credits	**2,196.3**	**100.0%**
Estimated Credits:		
Market Value Homestead Credit	(54.0)	
Homestead Ag Land MV Credit	(5.3)	
Other Credits	(9.8)	
Total Levy After Credits:	**2,127.2**	

Source: MDE, Division of Program Finance, February 2010 Forecast work papers.

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 and 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 2008 Payable 2009 levy was 0.09% of ANTC.

b. *"Equalized" Levies* – The school district levies for a percentage of the revenue based on the ratio of the district's ANTC per Pupil Unit (referendum market value/PU for operating referendum levies spread against referendum market value) to an "equalizing factor" specified in law. "Equalizing factors" vary among programs.

Example #1: Operating Referendum
For FY 2010, state aid is provided to "equalize" access to the first $700/PU using an "equalizing factor" of $476,000 of referendum market value per pupil unit. In addition, referendum revenue over $700/PU up to 26% of the formula allowance ($1,332/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 $700/PU of the referendum revenue, and the state pays 50%. For referendum revenue over $700/PU, up to $1,332/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%.

Example #2: Health and 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