



K-12 EDUCATION

FINANCE

OVERVIEW

2007-2008

Division of Program Finance

July 2007
(Updated November 2007)

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I. CONTEXT FOR SCHOOL FINANCE

A. Legal Context

1. Minnesota Constitution, Article 13, Section 1

...it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

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

...education is a fundamental right in Minnesota. However, the current system of state educational finance satisfies that fundamental right, particularly where all plaintiff districts are provided with an adequate level of education which meets or exceeds the state's basic educational requirements and where the districts are given sufficient funding to meet their basic needs...

...our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...

...the State of Minnesota provides an adequate and uniform education which meets all state standards. It merely allows localities to augment this basic amount...

...the determination of education finance policy, in the absence of glaring disparities, must be a legislative decision because it involves balancing the competing interests of equality, efficiency, and limited local control...

B. Minnesota Education Finance Terms

1. Fiscal Year

- a. The school district fiscal year runs from July 1 through June 30. FY 2008 begins July 1, 2007 and ends June 30, 2008.
- b. With certain exceptions, the property tax levy certified in 2006 for taxes payable in 2007 is recognized as revenue in FY 2008.

2. Pupil Accounting

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

Beginning in FY 2004, regular ADM is limited to 1.0 for each student. Students served more than full-time in a learning year program generate additional ADM, not to exceed 0.2 ADM per student, which is used only for the calculation of extended time revenue.

- b. Resident Weighted ADM Pupil Units (WADM) = Resident ADM X Pupil Weight

Pupil weights by grade level are as follows:

Pre-K	1.250
K-Disabled	1.000
Regular 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 2007)

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 \$690,000	0.55%
Over \$690,000	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

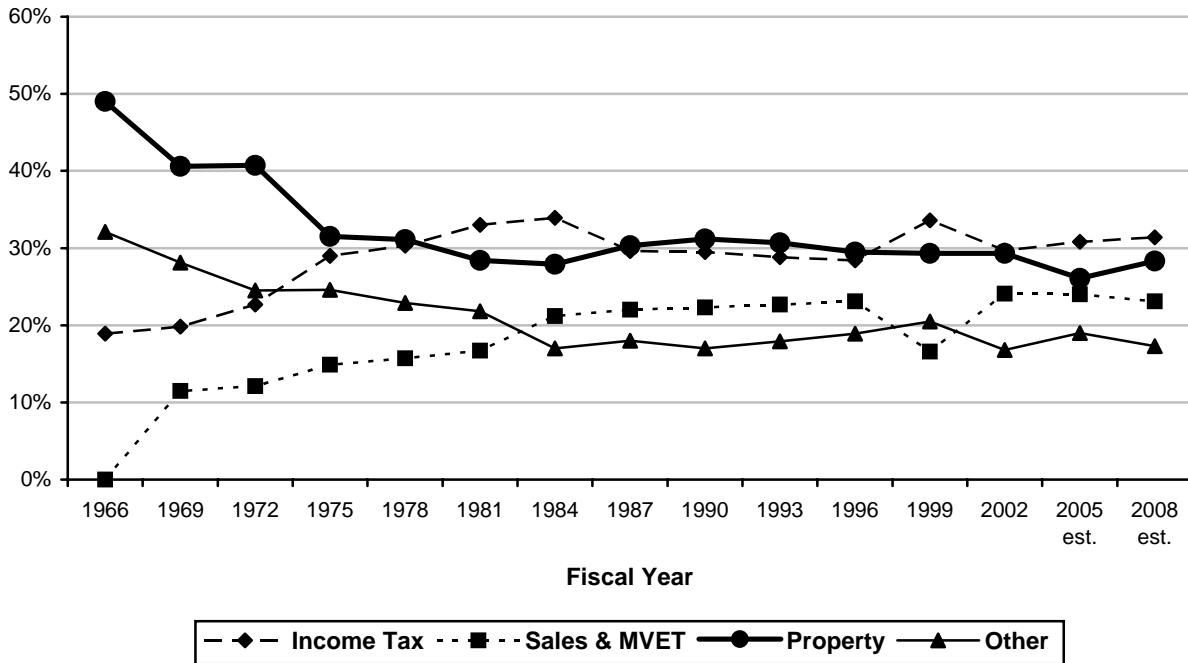
Referendum market value, used only for operating referendum, transition and equity levy calculations, equals the estimated market value of property, excluding the following property classes:

- 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

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



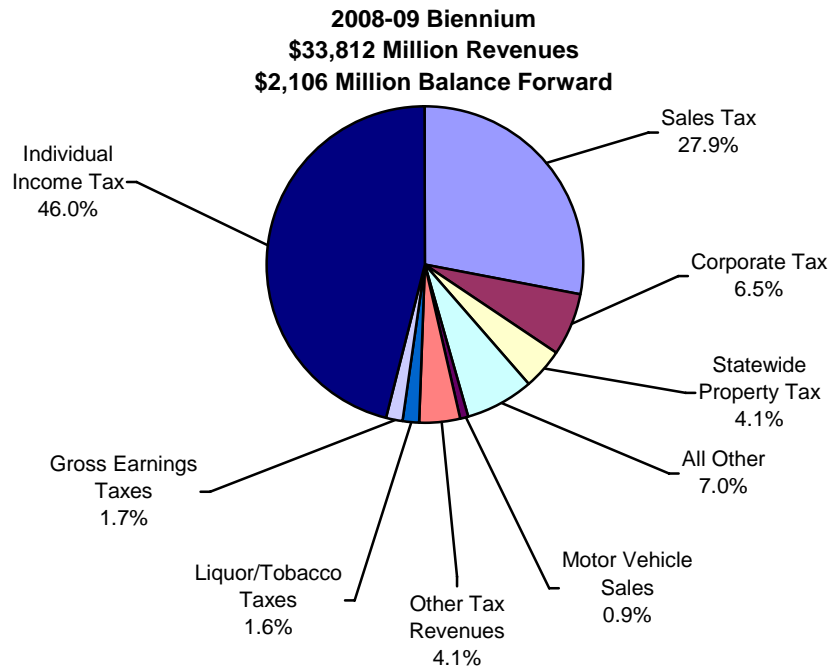
Fiscal Year	Income Tax	Sales & MVET	Property**	Other*
1966	18.9%	0.0%	49.0%	32.1%
1969	19.8%	11.5%	40.6%	28.1%
1972	22.7%	12.1%	40.7%	24.5%
1975	29.0%	14.9%	31.5%	24.6%
1978	30.3%	15.7%	31.1%	22.9%
1981	33.0%	16.7%	28.4%	21.8%
1984	33.9%	21.2%	27.9%	17.0%
1987	29.6%	22.0%	30.3%	18.0%
1990	29.5%	22.3%	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 est.	30.8%	24.0%	26.1%	19.0%
2008 est.	31.4%	23.1%	28.3%	17.3%

* 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, February 2006 Forecast

2. Where the General Fund Dollars Come From – End of 2007 Legislative Session

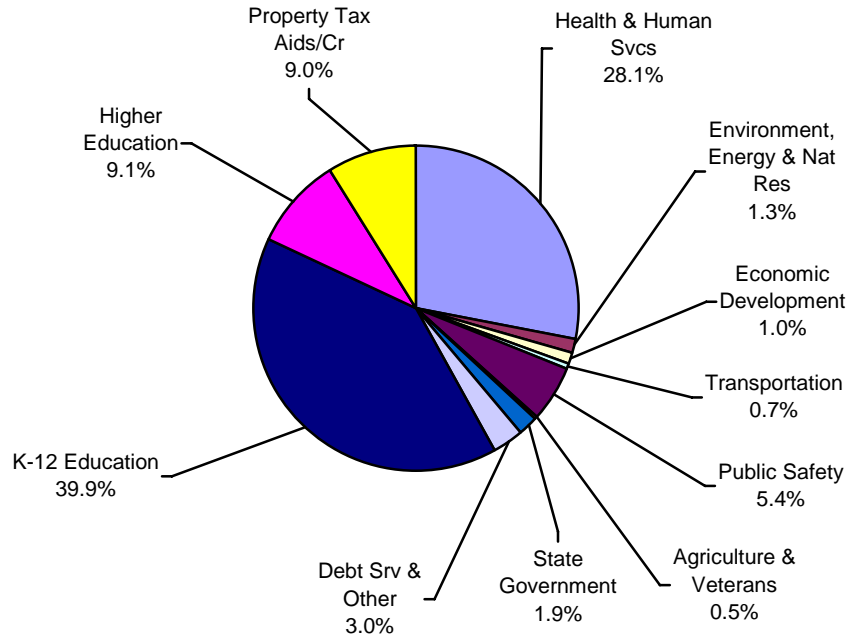


	<u>\$ in Millions</u>
Balance Forward 6-30-07	\$ 2,106
Non-Dedicated Revenues:	
Individual Income Tax	15,567
Sales Tax	9,432
Corporate Tax	2,209
Statewide Property Tax	1,402
Motor Vehicle Sales Tax	317
Gross Earnings Taxes	582
Liquor, Wine, Beer Taxes	151
Cigarette and Tobacco Taxes	383
Other Tax Revenues	1,398
All Other Revenues	<u>1,525</u>
Subtotal Non-Dedicated Revenues	32,966
Dedicated Revenue	151
Transfers from Other Funds	639
Prior Year Adjustments	<u>50</u>
SUBTOTAL CURRENT RESOURCES	<u>33,812</u>
TOTAL AVAILABLE RESOURCES – FY 2008-09	\$ 35,918
Less: Estimated Expenditures	34,509
Cash Flow Account	350
Budget Reserve	<u>686</u>
Projected General Fund Balance 6-30-09 End of 2007 Legislative Session	<u>\$ 373</u>

Source: Department of Finance – June 18, 2007

3. Where the General Fund Dollars Go – End of 2007 Legislative Session

2008-09 Biennium - \$34,509 Million Spending
\$350 Million Cash Flow Account
\$686 Million Budget Reserve



\$ in Millions

Total Available Resources – FY 2008-09

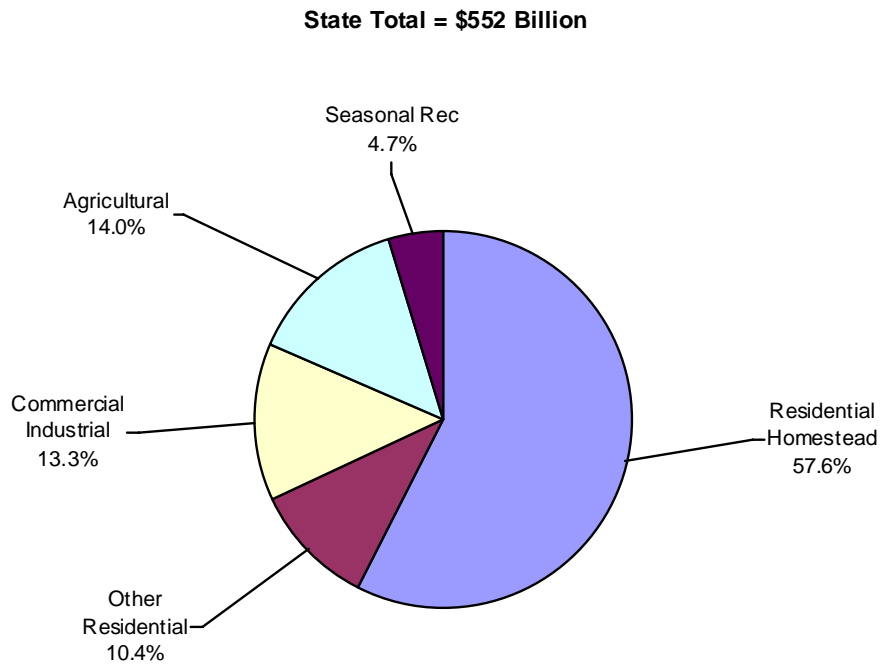
\$ 35,918

Omnibus Bills:

K-12 Education	13,784
Property Tax Recog/Payment Change	(4)
Higher Education	3,155
Property Tax Aids & Credits	3,108
Health & Human Services	9,695
Public Safety	1,877
Transportation	249
Environment, Energy & Natural Resources	445
Agriculture & Veterans	180
Economic Development	336
State Government	656
Debt Service	906
Capital Projects & Other	21
Estimated Cancellations	<u>(21)</u>
 Subtotal – Omnibus Bills	 34,387
 Dedicated Expenditures	 <u>122</u>
 TOTAL ESTIMATED EXPENDITURES – FY 2008-09	 \$ 34,509
 Cash Flow Account	 350
Budget Reserve	<u>686</u>
 Projected General Fund Balance 6-30-09 End of 2007 Legislative Sessions	 <u>\$ 373</u>

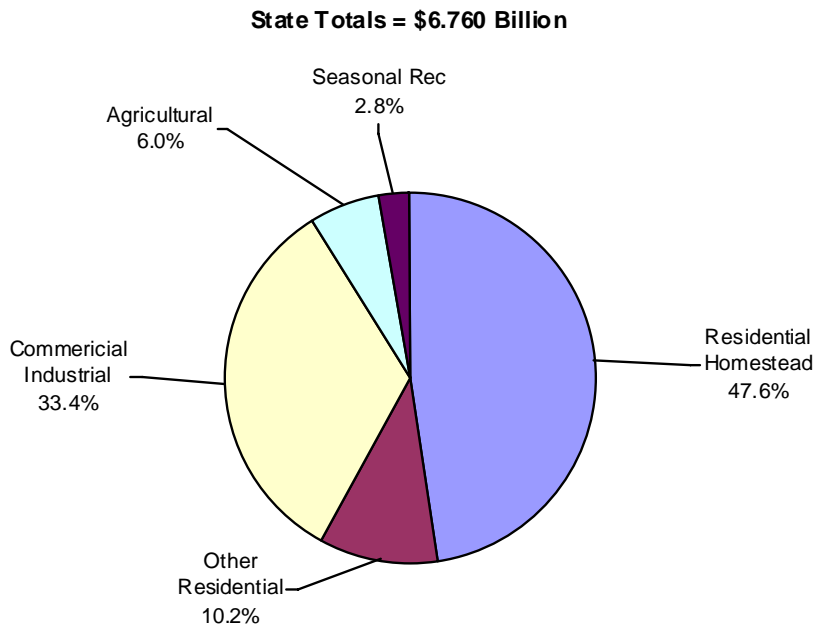
Source: Department of Finance – June 18, 2007

4. Payable 2007 Market Value by Use Class



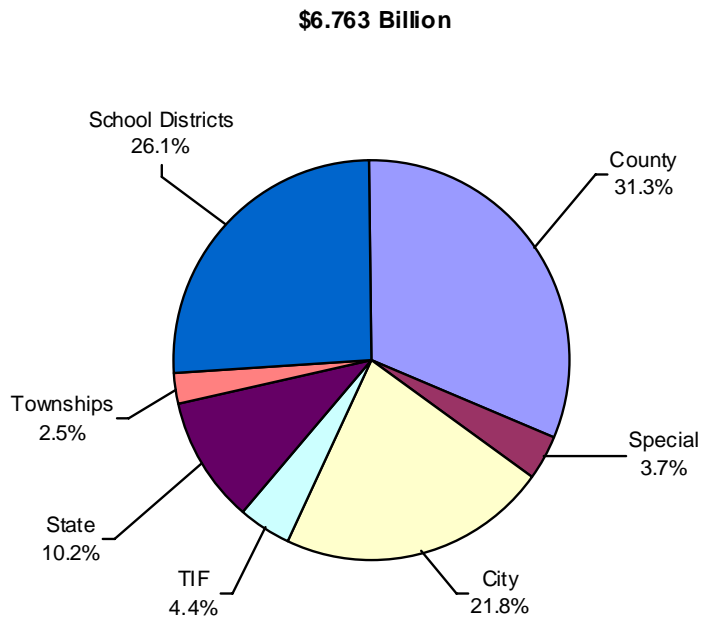
Source: House Research Department

5. Payable 2007 Net Property Tax by Use Class



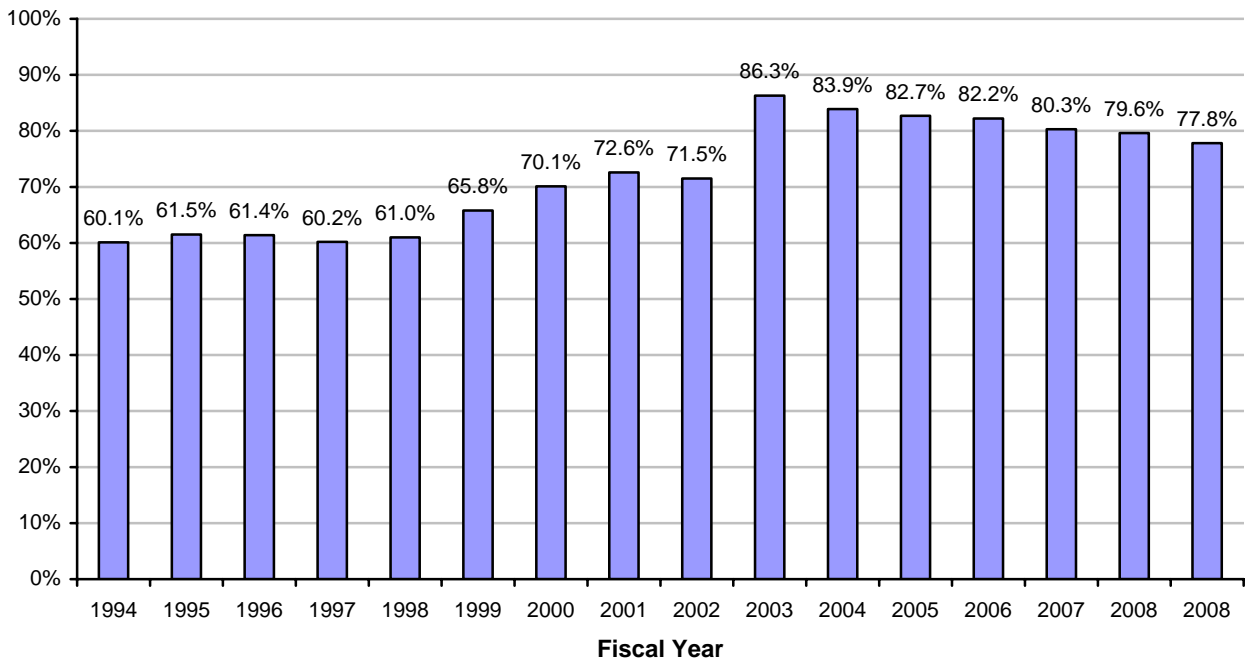
Source: House Research Department

6. Payable 2007 Property Tax Levy by Type of Government After Credits



Source: House Research Department

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



Source: MDE, Price of Government Data, End of Session 2007

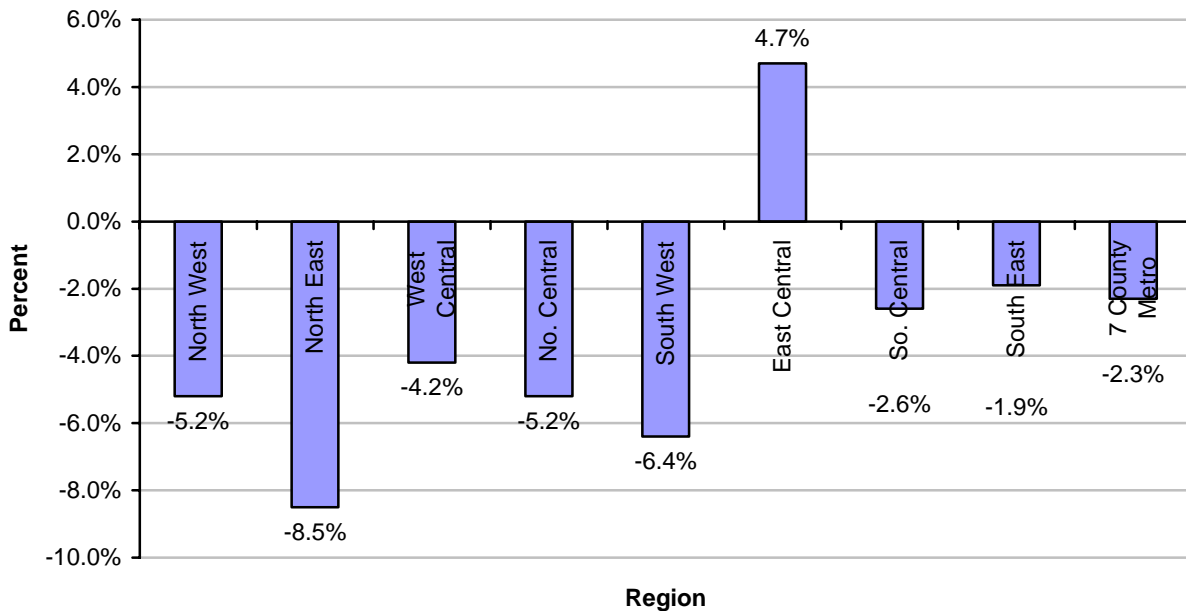
D. Characteristics of School Districts

Number of School Districts by Adjusted 2005-06 Average Daily Membership Group

ADM Group	No. of Districts	Total ADM	% of Total ADM
0-299	39	6,794	0.8%
300-999	137	82,112	10.2%
1,000-2,999	101	163,179	20.4%
3,000-9,999	48	258,986	32.3%
10,000 +	15	290,038	36.2%
Total	340	801,109	100.0%

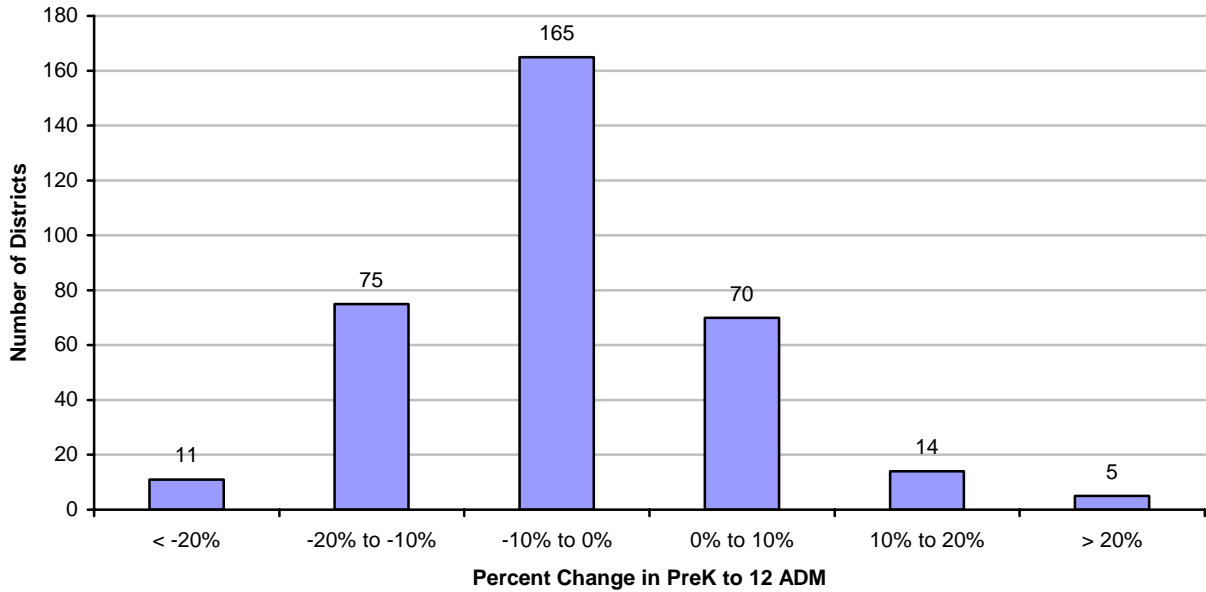
Source: MDE, FY 2006 Final MARSS Data
 Note: Excludes Charter Schools

School District Adjusted ADM Percent Change by Region FY 2005 to FY 2009



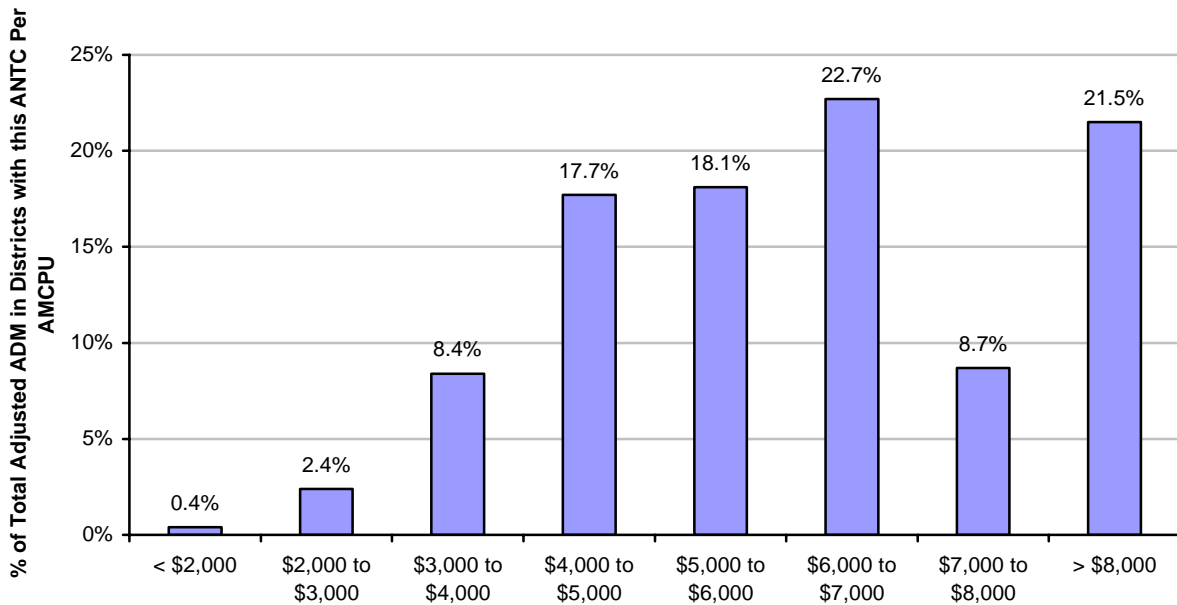
Source: MDE, Program Finance Division, February 2007 Forecast Data
 Note: Excludes Charter Schools

**Estimated Percentage Change in PreK - Grade 12 Adjusted ADM
FY 2005 to FY 2009**



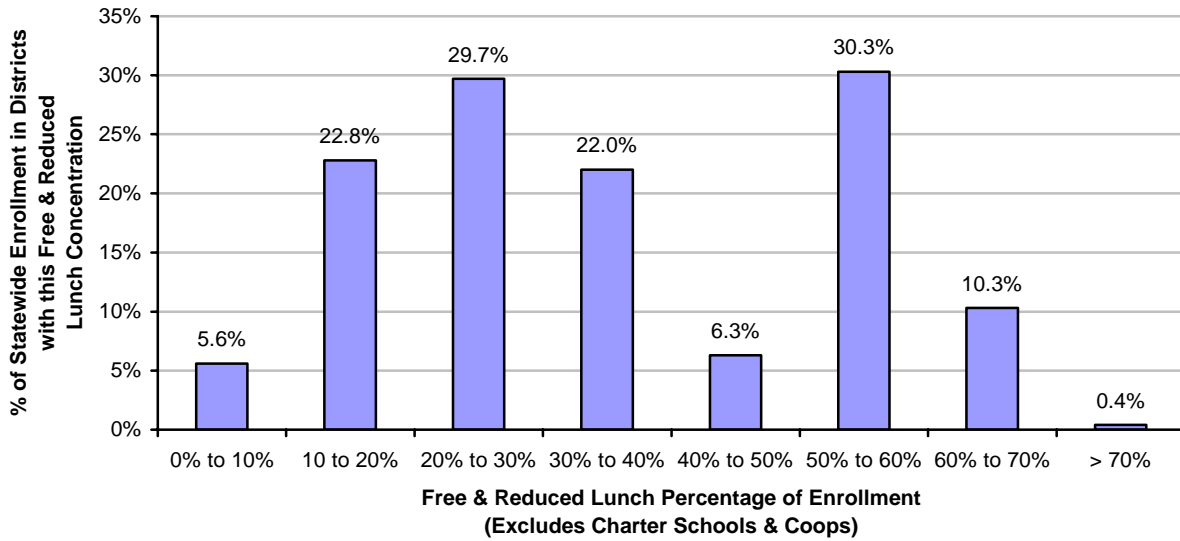
ADM capped at 1.0
 Excludes Charter Schools
 Source: MDE, February 2007 Forecast Data

2005 Adjusted Net Tax Capacity (ANTC) Per Estimated 2007-08 AMCPU

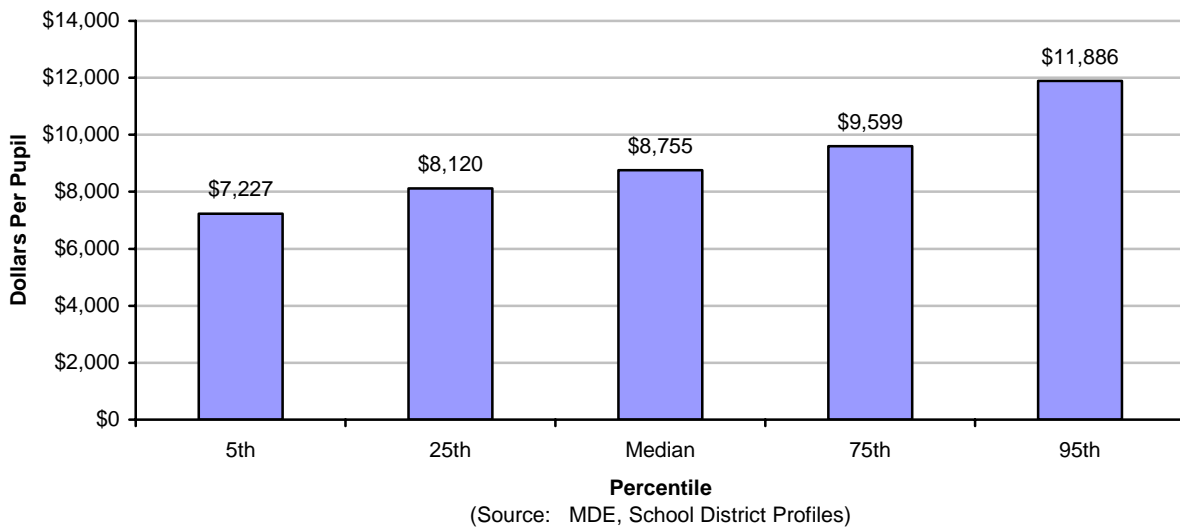


Source: MDE, February 2007 Forecast Data

**Percentage of Statewide Enrollment by
Free and Reduced Lunch Concentration of District
October 2006**



**Fiscal Year 2006 PK - 12 Operating Expenditures
Per Average Daily Membership**



II. K-12 EDUCATION REVENUE

A. School Revenue Trends

May 31, 2007
End of Session 2007

School District General Fund Revenue – FY 1991-2009* (State Aids and Property Taxes including Operating Referendum Revenue)

Fiscal Year	Total \$ in Millions			Pupils	---- Current Dollars per Pupil ----			--- CPI Factors ---				----Constant (2006) Dollars per Pupil** ----			
	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 (2006=1.0)	Annual Percent Increase	CPI Adjust to 2006 \$	Total Revenue (2006 \$)	Revenue per ADM (2006 \$)	Annual Percent Increase	Cumulative Percent Increase
1991	2,383.9	1,195.8	3,579.7	742,740	4,767	n/a	n/a	1.3391	0.6730		1.4858	5,318.9	7,084	n/a	n/a
1992	2,401.6	1,353.1	3,754.7	759,479	4,890	2.6%	2.6%	1.3818	0.6945	3.2%	1.4399	5,406.4	7,042	-0.6%	-0.6%
1993	2,459.2	1,474.4	3,933.6	776,578	5,010	2.5%	5.1%	1.4250	0.7162	3.1%	1.3963	5,492.4	6,996	-0.6%	-1.2%
1994	2,569.1	1,605.0	4,174.1	790,637	5,279	5.4%	10.7%	1.4624	0.7350	2.6%	1.3606	5,679.2	7,183	2.7%	1.4%
1995	2,856.9	1,632.9	4,489.8	803,789	5,586	5.8%	17.2%	1.5041	0.7559	2.9%	1.3229	5,939.3	7,389	2.9%	4.3%
1996	2,983.4	1,720.6	4,704.0	818,633	5,746	2.9%	20.5%	1.5451	0.7765	2.7%	1.2877	6,057.6	7,400	0.1%	4.5%
1997	3,009.4	1,793.6	4,803.0	829,265	5,792	0.8%	21.5%	1.5890	0.7986	2.8%	1.2522	6,014.2	7,252	-2.0%	2.4%
1998	3,248.7	1,824.0	5,072.7	835,972	6,068	4.8%	27.3%	1.6175	0.8129	1.8%	1.2301	6,240.0	7,464	2.9%	5.4%
1999	3,714.4	1,573.1	5,287.5	842,513	6,276	3.4%	31.6%	1.6455	0.8270	1.7%	1.2092	6,393.5	7,589	1.7%	7.1%
2000	4,180.4	1,428.2	5,608.6	843,449	6,650	6.0%	39.5%	1.6929	0.8508	2.9%	1.1753	6,591.9	7,815	3.0%	10.3%
2001	4,607.4	1,340.3	5,947.7	842,764	7,057	6.1%	48.0%	1.7507	0.8799	3.4%	1.1365	6,759.7	8,021	2.6%	13.2%
2002	4,685.3	1,397.7	6,083.0	839,424	7,247	2.7%	52.0%	1.7817	0.8955	1.8%	1.1167	6,793.1	8,093	0.9%	14.2%
2003	5,985.2	466.7	6,451.9	836,579	7,712	6.4%	61.8%	1.8211	0.9153	2.2%	1.0926	7,049.2	8,426	4.1%	19.0%
2004	5,946.3	607.7	6,554.0	829,832	7,898	2.4%	65.7%	1.8608	0.9352	2.2%	1.0693	7,008.0	8,445	0.2%	19.2%
2005	5,914.0	689.2	6,603.2	825,843	7,996	1.2%	67.7%	1.9168	0.9634	3.0%	1.0380	6,854.3	8,300	-1.7%	17.2%
2006	6,145.7	730.6	6,876.3	826,542	8,319	4.0%	74.5%	1.9897	1.0000	3.8%	1.0000	6,876.3	8,319	0.2%	17.4%
2007	6,337.0	923.9	7,260.9	825,679	8,794	5.7%	84.5%	2.0331	1.0218	2.2%	0.9787	7,105.9	8,606	3.4%	21.5%
2008	6,699.4	1,036.9	7,736.3	824,449	9,384	6.7%	96.8%	2.0748	1.0428	2.1%	0.9590	7,419.0	8,999	4.6%	27.0%
2009	6,744.1	1,202.9	7,947.0	823,533	9,650	2.8%	102.4%	2.1152	1.0631	1.9%	0.9407	7,475.5	9,077	0.9%	28.1%

* 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 February 2007 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 education aids and state paid tax credits, shown on 100% of annual entitlement basis – reflects school district revenue recognition.

Source: MDE, Division of Program Finance, District Revenue Tables, February 2007 Forecast Data

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2003 to FY 2009
State Totals

REVENUES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1 ADJUSTED ADM (CAP = 1.0)	829,220	824,475	820,425	821,416	820,490	819,323	818,406
2 BASIC	5,415	5,341	5,345	5,549	5,773	5,901	5,949
3 EXTENDED TIME	0	61	64	64	65	64	64
4 COMPENSATORY	317	302	323	356	385	404	408
5 LEP TOTAL	56	44	45	47	48	48	48
6 TRAINING & EXPERIENCE	30	23	16	10	6	4	2
7 SPARSITY	20	21	21	23	25	26	27
8 TRANSPORTATION SPARSITY	68	68	68	70	73	74	74
9 OPERATING CAPITAL	239	236	236	236	236	237	237
10 EQUITY	42	39	51	62	115	116	117
11 GIFTED & TALENTED	0	0	0	5	10	14	14
12 Q COMP	0	0	0	20	59	116	116
13 TRANSITION	0	39	38	38	37	37	36
14 LATE RATIFICATION	0	0	0	0	0	0	0
15 PENSION ADJUSTMENT	-56	-57	-57	-57	-57	-38	-38
16 OPTIONS ADJ: REFERENDUM AID	-1	-1	-1	-1	-2	-1	1
17 OPTIONS ADJ: CHARTER TRANSP	0	0	0	0	0	0	0
18 OPTIONS ADJ: FARIBAULT	0	0	0	0	0	0	0
19 REFERENDUM	352	517	615	650	730	784	890
20 GEN ED TOTAL = SUM OF (2) TO (19) =	6,482	6,632	6,763	7,072	7,502	7,787	7,945
21 REVENUE CHANGE FROM PRIOR YEAR	345	150	131	309	430	285	158
22 PERCENT CHANGE FROM PRIOR YEAR	5.6%	2.3%	2.0%	4.6%	6.1%	3.8%	2.0%
23 SPECIAL ED REGULAR	640	643	644	645	645	847	879
24 SPECIAL ED EXCESS	111	112	112	126	128	134	134
25 SPEC ED CROSS SUBSIDY	0	6	13	0	0	0	0
26 TRANSITION DISABLED	11	11	11	11	11	0	0
27 SPEC ED TOTAL = (23)+(24)+(25)+(26) =	762	772	780	782	783	981	1,014
28 REVENUE CHANGE FROM PRIOR YEAR	30	10	9	2	2	198	32
29 PERCENT CHANGE FROM PRIOR YEAR	4.1%	1.3%	1.1%	0.2%	0.2%	25.3%	3.3%
30 CAREER TECHNICAL	15	15	15	15	16	20	20
31 INTEGRATION	94	95	95	97	103	110	107
32 ALTERNATIVE FACILITIES	122	129	146	164	177	207	222
33 OPERATING CAPITAL TECH AID	0	0	0	0	0	47	64
MISCELLANEOUS LEVIES							
34 REEMPLOYMENT	5	10	4	4	11	10	11
35 SAFE SCHOOLS	12	33	30	29	29	29	37
36 ICE ARENA	1	1	1	1	1	1	1
37 SEVERANCE	2	2	2	2	1	2	2
38 SWIMMING POOL	0	0	1	1	1	1	1
39 LOST INTEREST	4	4	4	4	4	0	0
40 TREE GROWTH	0	1	1	1	1	1	1
41 OTHER GENERAL	0	0	0	0	0	0	0
42 BUILDING/LAND LEASES	47	50	46	44	50	53	56
43 OTHER CAPITAL	1	0	0	0	0	0	0
44 TOTAL MISCELLANEOUS LEVIES	71	101	87	85	99	98	108
45 TOTAL REVENUE LISTED ABOVE = (20)+(27)+(30)+(31)+(32)+(33)+(44) =	7,546	7,744	7,887	8,216	8,680	9,249	9,480
46 REVENUE CHANGE FROM PRIOR YEAR	413	198	143	329	464	570	231
47 PERCENT CHANGE FROM PRIOR YEAR	5.8%	2.6%	1.8%	4.2%	5.6%	6.6%	2.5%

End of 2007 Session Calculations

Estimated General Education and Major Categorical Revenues
State Aid and Property Taxes
FY 2003 to FY 2009
State Totals

DISTRICT NAME:	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1 ADJUSTED ADM (CAP = 1.0)	829,220	824,475	820,425	821,416	820,490	819,323	818,406
2 BASIC	4,490,104,858	4,403,575,277	4,384,973,848	4,558,383,719	4,736,393,019	4,834,710,844	4,868,556,118
3 EXTENDED TIME	0	50,351,550	52,327,357	52,766,200	52,939,154	52,676,810	52,673,929
4 COMPENSATORY	262,543,865	249,146,954	265,074,503	292,547,478	315,701,687	331,160,153	334,293,212
5 LEP TOTAL	46,636,335	36,095,471	36,912,006	38,795,826	39,297,826	39,198,501	38,949,789
6 TRAINING & EXPERIENCE	25,114,611	18,869,558	12,876,817	8,213,502	4,933,052	2,956,679	1,846,004
7 SPARSITY	16,471,673	16,909,578	17,548,649	18,853,061	20,136,664	21,058,153	21,866,869
8 TRANSPORTATION SPARSITY	56,478,387	55,913,098	55,511,193	57,332,807	59,740,767	60,687,451	60,852,969
9 OPERATING CAPITAL	198,440,390	194,217,096	193,697,082	194,018,388	193,891,062	194,072,823	193,627,995
10 EQUITY	34,642,870	32,112,369	41,731,237	50,999,434	94,061,602	95,385,288	95,730,034
11 GIFTED & TALENTED	0	0	0	3,812,154	8,570,071	11,434,049	11,401,781
12 Q COMP	0	0	0	16,348,850	48,590,328	95,381,228	95,329,463
13 TRANSITION	0	31,986,524	31,326,609	31,033,742	30,452,421	30,216,356	29,591,457
14 LATE RATIFICATION	0	0	0	-344,932	0	-150,000	0
15 PENSION ADJUSTMENT	-46,569,939	-46,686,660	-46,733,667	-46,807,695	-47,007,584	-30,802,915	-30,945,216
16 OPTIONS ADJ: REFERENDUM AID	-461,981	-679,856	-1,089,964	-895,442	-1,540,127	-498,248	429,576
17 OPTIONS ADJ: CHARTER TRANSP	-1,039	1,059	0	0	-1,013	-18,196	-25,096
18 OPTIONS ADJ: FARIBAULT	0	0	0	0	-484	-494	-500
19 REFERENDUM	291,707,317	426,336,542	504,721,085	534,314,512	599,354,237	642,670,693	727,996,293
20 GEN ED TOTAL = SUM OF (2) TO (19)	5,375,107,347	5,468,148,558	5,548,876,756	5,809,371,605	6,155,512,682	6,380,139,175	6,502,174,677
21 REVENUE CHANGE FROM PRIOR YEAR	260,765,560	93,041,211	80,728,198	260,494,849	346,141,077	224,626,493	122,035,502
22 PERCENT CHANGE FROM PRIOR YEAR	5.1%	1.7%	1.5%	4.7%	6.0%	3.6%	1.9%
23 SPECIAL ED REGULAR	530,470,681	530,240,299	528,700,965	529,804,000	529,247,000	694,063,000	719,470,000
24 SPECIAL ED EXCESS	92,112,000	92,067,000	91,661,000	103,600,000	104,700,000	110,000,000	110,000,000
25 SPEC ED CROSS SUBSIDY	0	5,000,000	11,000,000	0	0	0	0
26 TRANSITION DISABLED	8,895,000	8,840,000	8,797,000	8,808,000	8,799,000	0	0
27 SPEC ED TOTAL = (23)+(24)+(25)+(26)	631,477,681	636,147,299	640,158,965	642,212,000	642,746,000	804,063,000	829,470,001
28 REVENUE CHANGE FROM PRIOR YEAR	21,667,254	4,669,617	4,011,666	2,053,035	534,000	161,316,999	25,407,001
29 PERCENT CHANGE FROM PRIOR YEAR	3.6%	0.7%	0.6%	0.3%	0.1%	25.1%	3.2%
30 CAREER TECHNICAL	12,620,339	12,505,734	12,678,199	12,420,744	12,824,677	16,530,948	16,636,200
31 INTEGRATION	77,552,564	78,165,527	77,583,792	80,023,454	84,242,231	89,767,889	87,807,945
32 ALTERNATIVE FACILITIES	101,476,734	106,159,851	119,536,246	134,762,321	145,125,099	169,726,339	181,714,916
33 OPERATING CAPITAL TECH AID	0	0	0	0	0	38,113,130	52,258,125
MISCELLANEOUS LEVIES							
34 REEMPLOYMENT	3,775,158	8,251,077	3,333,521	3,201,646	9,420,615	8,483,400	8,907,600
35 SAFE SCHOOLS	10,065,900	27,615,178	24,395,053	24,196,134	24,055,063	24,148,182	30,118,530
36 ICE ARENA	751,386	840,116	747,158	742,519	895,246	901,964	947,064
37 SEVERANCE	1,299,345	1,283,515	1,407,957	1,502,586	1,228,668	1,432,246	1,493,246
38 SWIMMING POOL	411,656	383,435	424,237	457,040	508,503	561,249	617,349
39 LOST INTEREST	2,995,864	2,994,227	2,992,787	2,987,734	2,975,099	0	0
40 TREE GROWTH	0	631,523	630,203	618,043	620,796	622,115	622,115
41 OTHER GENERAL	135,246	342,081	231,994	216,430	223,157	134,067	134,067
42 BUILDING/LAND LEASES	39,326,131	40,959,503	37,483,558	35,854,600	41,277,749	43,600,737	45,600,737
43 OTHER CAPITAL	439,000	39,000	39,000	39,000	56,012	39,000	39,000
44 TOTAL MISCELLANEOUS LEVIES	59,199,686	83,339,655	71,685,469	69,815,731	81,260,908	79,922,960	88,479,708
45 TOTAL REVENUE LISTED ABOVE = (20)+(27)+(30)+(31)+(32)+(33)+(44)	6,257,434,352	6,384,466,623	6,470,519,426	6,748,605,855	7,121,711,597	7,578,263,441	7,758,541,572
46 REVENUE CHANGE FROM PRIOR YEAR	312,723,663	127,032,271	86,052,803	278,086,429	373,105,742	456,551,844	180,278,132
47 PERCENT CHANGE FROM PRIOR YEAR	5.3%	2.0%	1.3%	4.3%	5.5%	6.4%	2.4%

End of 2007 Session 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%

SOURCES: U.S. Department of Education, National Center for Education Statistics, *State Comparisons of Education Statistics: 1969-70 to 1996-97, Table 41, Digest of Education Statistics, 1999, Table 172, Revenues and Expenditures for Elementary and Secondary Education: School Year 1997-98 through 2002-03 editions, Table 5; Current Expenditures for Public Elementary and Secondary Education: School Year 2003-04, Table 3; Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2005, Table 3.*

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

B. 2007-2008 Elementary Secondary Education Revenue Summary*

Program	Total Revenue (\$ Millions)	Revenue Per Pupil in ADM	Percent of Total Revenue
General Education**	\$ 5,777.3	\$ 7,007	66.7%
Referendum	642.7	780	7.4%
Special Education	806.8	979	9.3%
Other General Programs***	510.0	619	5.9%
Subtotal General Fund	7,736.8	9,385	89.3%
Food Service	16.7	20	0.2%
Community Service	162.1	N/A ****	1.9%
Debt Redemption	743.0	901	8.6%
Total All Funds	\$ 8,658.6	\$ 10,306 ****	100.0%
ADM Pupils	824,449		

* Revenue includes estimated state aid entitlements and gross levies.
Excludes federal aids, local non-tax revenues, and appropriations to state agencies.

** Includes transportation and operating capital funding enrolled into general education program beginning in 1996-97.

*** Includes Health & Safety Revenue (\$72.7), Alternate Facilities Annual Levy/Aid Revenue (\$66.9), Building Lease Levies (\$43.6), Charter School Building Lease Aid (\$32.3), Safe Schools Levy (\$24.1), Desegregation/Integration Revenue (\$87.8), Nonpublic Transportation Aid (\$21.6), Capital Project Referendum (\$29.1), and many smaller categorical revenues.

**** Community service revenue is excluded in computing revenue per pupil because these programs primarily serve preschool and adult learners, who are not included in the ADM pupil count.

Source: MDE, Division of Program Finance, District Revenue Tables and General Education work papers, End of 2007 Legislative Session.

C. General Education Revenue by Component: 2007-2008 Estimate

Component	Number of Districts	Number of Charter Schools	Amount (Millions)	Percent of Total
<u>Formula – Based Revenue:</u>				
Basic	339	131	\$ 4,834.7	75.3%
Extended Time	120	5	52.7	0.8%
Gifted and Talented	339	131	11.4	0.2%
Basic Skills:				
Compensatory	339	124	331.2	5.2%
LEP	214	55	31.0	0.5%
LEP Concentration	214	55	8.2	0.1%
Sparsity	86	131	21.1	0.3%
Transportation Sparsity	339	131	60.7	0.9%
Training & Experience	89	131	3.0	0.1%
Operating Capital	339	131	194.1	3.0%
Alternative Teacher Comp.	37	15	95.4	1.5%
Equity	339	131	95.4	1.5%
Transition	201	45	30.2	0.5%
Alternative Attendance Adj.	288	127	(0.5)	0.0%
Miscellaneous Adjustments:				
Pension Adjustment	339	131	(30.8)	(0.5%)
PSEO-College	N/A	N/A	22.1	0.3%
Shared Time	N/A	N/A	3.8	0.1%
Contract Alternative	N/A	N/A	13.6	0.2%
Subtotal	340	131	\$ 5,777.3	90.0%
<u>Referendum-Based Revenues:</u>				
Operating Referendum	300	0	642.7	10.0%
Grand Total Revenue	340	131	\$ 6,420.0	100.0%

Source: MDE, Division of Program Finance, End of 2007 Session work papers. Includes state aids and levies. Levies are shown by formula year.

D. General Education Revenue Formulas

1. Basic Revenue

Basic Revenue = Formula Allowance X Adjusted Marginal Cost Pupil Units

	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%

- (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 & experience revenue and \$170 of pupil transportation revenue rolled into basic formula
- (c) \$130 of training & 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 practices methods. *Note: This requirement was waived for FY 2004 and FY 2005 only; it is back in effect for FY 2006 and later.*

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

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

$$\text{Compensatory Revenue} = (\text{Formula Allowance} - \$415) \times \text{Compensatory Pupil Units}$$

$$\text{Compensatory Pupil Units} = (\text{Free} + \frac{1}{2} \text{ of reduced price lunch count}) \times \text{Concentration Factor} \times .60$$

$$\text{Concentration Factor} = \text{Ratio of (free} + \frac{1}{2} \text{ of reduced price lunch count) to } 80\% \text{ of total building enrollment, but not } > 1$$

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 than 20, 20 is used in the calculations; if current year count is zero, district does not qualify for revenue).

2) Concentration Revenue = $\frac{\text{LEP enrollment} \times \$250}{\text{LEP concentration factor}}$

- 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 than 400 students in grades 7-12 and an "isolation index" greater than 23; elementary schools must average 20 or fewer students per grade level and be 19 or more miles to the nearest elementary school.

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 \$246.09 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 & 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 = $\$73 + \$100 * [1 + (\text{Avg Building Age}/100)]$.
- Note: in addition to the regular operating capital revenue, school districts will receive additional one-time technology and operating capital aid of \$40 per AMC pupil unit for FY 2008 and \$55 per AMCPU for FY 2009, as a separate categorical.

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 is 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 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 (changes to \$169 per pupil of aid and a \$91 per pupil equalized levy beginning in FY 2010).

11. Transition Revenue

Transition revenue is a hold-harmless provision 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.

For FY 2005 and later, a district's transition revenue equals the district's FY 2004 transition allowance per pupil unit times the district's current year AMCPU.

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 1/12th of an ADM for each completed semester course or equivalent times the pupil's grade level weight times the formula allowance.
- The enrolling district generates 12% of 1/12th of a regular ADM for each completed semester course or equivalent, which is used in regular general education revenue calculations.

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. 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: 2006 Payable 2007 (FY 2008)

Levy Type	Amount (\$ in Millions)	Percent of Total Before Reductions
Formula-Driven Levies:		
Operating Capital	111.4	6.1%
Equity	69.5	3.8%
Transition	23.1	1.3%
Alternative Teacher Comp	11.2	0.6%
Health & Safety	59.4	3.2%
Building Lease	43.6	2.4%
Deferred Maintenance	22.8	1.2%
Alternative Facilities	64.4	3.5%
Integration	26.1	1.4%
Safe Schools	24.2	1.3%
Career Technical	12.8	0.7%
Other General Fund	22.5	1.2%
Community Service Fund	70.8	3.9%
Debt Service Fund	155.1	8.4%
Subtotal, Formula-Driven Levies	716.9	39.0%
Voter Approved Levies:		
Operating Referendum	534.4	29.1%
Capital Projects Referendum	29.1	1.6%
Debt Service	556.5	30.3%
Subtotal, Voter Approved Levies	1,120.0	61.0%
Total Levy Before Credits	1,836.9	100.0%
Estimated Credits:		
Market Value Homestead Credit	(55.2)	
Homestead Ag Land MV Credit	(5.7)	
Other Credits	(9.5)	
Total Levy After Credits:	1,766.5	

Source: MDE, Division of Program Finance, February 2007 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 & 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 2006 Payable 2007 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 2008, 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 (\$1,293/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 \$1,319/PU, the local tax levy pays for 86% of the revenue, and the state pays 14%.

Example #2: Health & Safety

State aid is provided to “equalize” this levy, using an “equalizing factor” of \$2,935. If a district’s ANTC/WADM is 60% of this amount, the district’s property tax levy pays for 60% of the revenue, and state aid pays for 40% of the revenue.

- c. “Unequalized” Levies – The school district levies the full amount of the revenue; there is no state equalization aid (e.g., building lease levy, unemployment levy).

3. State Aid = Revenue – Levy