



**Education Finance
Working Group
Recommendations
and Report**

November 2012

Executive Summary

There is broad agreement that Minnesota's current system of funding schools is in need of systemic overhaul. While the current funding system served the state well for many years, changing student demographics, higher numbers of students in poverty or in need of special education, and increasing demands for what every student should know and be able to demonstrate have left the system sorely outdated.

In preparing this report, the Education Finance Working Group considered expectations for students and schools, the needs of a changing student population, and the increased challenges of ensuring every student is well prepared for college or career.

The recommendations contained in this report are the result of intensive dialogue within the education community and with the public; a focus on student learning and instruction; careful analysis of funding patterns in districts of differing size, demographics and region; and study of school finance reform proposals developed over the past eight years.

Minnesota's future is dependent upon a strong system of public schools. The working group's conclusion is that clearly, there is a better way to fund Minnesota schools to ensure all students reach their full potential.

The recommendations focus on not only providing greater equity among districts but targeting the funding towards the needs of students and what they bring to the educational setting. More dollars are directed at students with disabilities, those in poverty and our increasing student diversity. Districts will be given greater flexibility in the use of funding to address the needs of these students but will be responsible for getting results.

Major Recommendations

Below are the major recommendations from the 2012 Commissioner's Education Finance Working Group and the principles that comprise the Minnesota Department of Education's (MDE's) proposal for education finance reform:

1. A strong foundation for every student with investments in early learning that include resources targeted toward all-day kindergarten for students living in poverty.
2. Reverse the regressive nature of school funding by lessening reliance on local referenda through:

- a. rolling a portion of referendum levies into the general education formula; and,
 - b. restoring the inflation-adjusted general education formula to the FY 2003 level.
3. Make existing school property tax levies less regressive, more stable and uniform throughout the state by:
 - a. replacing several existing school levies with a uniform general education levy, including the portion of referendum levies rolled into the formula;
 - b. restoring school levy equalization formulas; and,
 - c. indexing school levy equalization formulas to the state average tax base per student.
4. Reform special education funding by:
 - a. significantly increasing special education aid to reduce cross subsidies;
 - b. replacing the current expenditure reimbursement formula with a new formula based partly on school district enrollment and number of students in high-cost, low-incidence special education programs;
 - c. improving the special education excess cost formula; and,
 - d. requiring the serving school district or charter school to share in funding excess special education costs for open-enrolled students with the resident district.
5. Reform compensatory funding to more effectively close achievement gaps by:
 - a. allocating all compensatory revenue based on poverty concentration (instead of allocating a portion of compensatory revenue based on hours of extended time instruction); and,
 - b. allowing districts greater flexibility in the use of compensatory revenue.
6. Simplify funding formulas and student accounting to make E-12 education funding more understandable and transparent by:
 - a. eliminating unnecessary formulas and simplifying how students are counted for funding purposes;
 - b. recognizing and rewarding growth in student achievement by continuing literacy incentive aid;

- c. refocusing integration funding by clarifying the uses of the revenue and allocating the revenue based on the concentration of students of color in each eligible district; and,
 - d. recognizing 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.
7. Provide more uniform access to facilities funding, increase flexibility in the use of facilities funding, and reduce excessive monitoring and cumbersome paperwork by:
 - a. rolling health and safety revenue into the deferred maintenance formula; and,
 - b. significantly increasing the deferred maintenance allowance.
8. Phase in revenue increases and uniform general education levy to assure a smooth transition.

Background

The commissioner of education, seeking a blueprint for education funding for the 21st century, reconvened the Education Finance Working Group. The panel was charged with reviewing its original recommendations for education finance reform and developing a comprehensive school funding model that would do the following:

- Focus on supporting students and results (accountable).
- Allow decisions to be made closest to delivery of service (supports students, teachers and schools).
- Meet the state's commitments (adequate, equitable).
- Provide greater flexibility in how funds are used (preserve local control).
- Be more transparent, rational and comprehensible (simplification).
- Is structurally sound, yet nimble enough to meet emerging needs (sustainable).

A rich and full discourse is essential in order to build the consensus necessary to enact fundamental change that will ensure Minnesota's system of education prepares our students for success in an increasingly competitive world. Membership on the working group consisted of parents, school officials, teachers,

business representatives and members of the public and was determined by the commissioner.

The working group held seven working meetings beginning on June 25, 2012. Those meetings were followed by 11 community outreach meetings throughout Minnesota designed to solicit input and gather feedback on the ideas and recommendations under consideration by the committee. The public was also encouraged to bring additional ideas and concerns to the table for discussion. Community outreach meetings were held in North Branch, Falcon Heights (AMSD), Rochester, Fergus Falls, Willmar, Apple Valley, Grand Rapids, Anoka, Brainerd (MREA), and Roseville (Charter Schools).

The working group also obtained support and technical assistance through a grant from the National Governor's Association (NGA.) In addition, the NGA provided advice and opportunities to interact with education leaders from other states seeking to make similar reforms.

The final meeting took place on November 27, 2012, at which time recommendations were adopted based on an affirmative vote of two-thirds of a quorum present.

[View membership, meeting schedules and meeting documents from both the 2011 work group and the 2012 work group on the MDE website](http://education.state.mn.us/MDE/Welcome/AdvBCT/EducFinanWork/index.html) or use this URL:

<http://education.state.mn.us/MDE/Welcome/AdvBCT/EducFinanWork/index.html>

Context

Many factors have contributed to the obsolescence of the state's funding system, including the following:

Minnesota's concentration of students living in poverty, special education students, students with limited English proficiency, and students of color has increased significantly in recent years. The portion of students served in charter schools has also increased significantly in recent years, although the total number remains a small percentage of total school enrollment (5 percent in FY 2011).

Minnesota's achievement gaps show white students performing at the very top, as indicated by measures such as ACT and NAEP, while students of color perform among the worst in the country. There are wide gaps in reading and math proficiency by race and by economic status. Little progress was made in closing these achievement gaps between 2006 and 2010.

State aid per student for K-12 education increased over the past eight years, but at a rate well below the rate of inflation. Property tax levies per student for K-12

education more than tripled between 2003 and 2012, and more than doubled after adjusting for inflation. Voter-approved operating referendum levies accounted for most of the increase.

Special education funding results in a large cross subsidy, in excess of \$600 per student. In addition, the formula for distribution of dollars would benefit from fundamental change to be equitable and efficient.

Minnesota's funding formula for integration revenue to support students of color has been widely criticized as lacking a clear focus and not reflecting current needs based on recent demographic trends. An integration task force has recommended changes to integration funding in response to direction from the Minnesota Legislature to review the current statute, which is repealed effective in 2014.

Perhaps most significant is that Minnesota's state share of tax revenues for K-12 has not kept pace with inflation over the past eight years, even as costs of special education, transportation, health care, testing and other operating expenses have increased. This has caused school districts to rely more heavily on voter-approved local property tax levies to fund the cost of mandated education costs.

Due to increasing reliance on referendum levies, and wide variations in districts' ability to pass referendums, the gap between the 95th and 5th percentiles of general education revenue per student (excluding cost factors) increased from 19 percent in FY 2003 to 31 percent in FY 2013. Further compounding the problem is the decline in state equalization aid for operating referendum and debt service levies during the past decade, and growing reliance on other un-equalized levies used cover educational costs, which increased from about \$223 million in 2002 to over \$707 million in 2011.

Finally, school finance decisions must consider the state's constitutional responsibility as interpreted by the courts. Minnesota's Constitution requires the state to provide adequate, uniform funding for all public school students in the state.

Minnesota's Constitution

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.

Skeen Court Decision

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 the fundamental right, particularly where all plaintiff districts are provided with an adequate level of education which meets or exceeds the state's basic educational requirement 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.

Recommendations

1. Investment in Early Learning

A. *All-Day Kindergarten*

- Beginning in FY 2015, schools that provide an All-Day Kindergarten Program (All-Day K) at no cost to all students will receive state funding for the portion of All-Day K participants who are eligible for free and reduced-price meals. This is a first step toward state funding of All-Day K for all kindergarten students.
- Participation in the program would be optional.
- School districts and charter schools could choose to provide this option at one or more school sites. The pupil unit weighting for students eligible for free or reduced-price lunches participating in the program would be increased to 1.0.
- The balance of program costs not funded through All-Day K aid would be funded using other non-fee resources from the school district or charter school's general fund.
- Further study is needed to address transportation costs and facilities or space needs that may be a barrier to implementation of the program in some districts.

Background/Rationale

Kindergarten is a vital part of the overall K-12 education system, preparing students for success in first grade and later years.

The national Early Childhood Longitudinal Study – Kindergarten cohort found that students who attended All-Day K had significantly greater achievement than students attending half-day programs, including greater progress in language and literacy skills and mathematical thinking.

By improving the opportunities for students living in poverty and minority students to be successful, All-Day K helps to close the achievement gap.

Forty-nine percent of Minnesota kindergarten students currently receive free All-Day K, and another 17 percent participate in fee-based programs. State funding will make this opportunity more uniformly available to kindergarten students throughout the state.

B. Quality Early Learning Rating System

High-quality early learning is critical to long-term academic success, especially for young children living in poverty. Numerous studies demonstrate that high-quality early learning programs improve children's school readiness, which correlates with better K-12 outcomes and a reduction in the achievement gap.

- Continue to expand the Parent Aware QRIS to include all economic development regions.
- Participation in the QRIS is voluntary on the part of early learning programs.

Background/Rationale

QRIS provides a framework to guide both public and private investments in early learning, including access, quality improvement, and professional development. Parent Aware uses rating standards and indicators focused on program features that evidence shows are linked to improving children's school readiness outcomes, a critical first step toward accountability.

Ratings of school readiness quality allow investments to be targeted to high-quality programs, which economists have demonstrated yield significant return on public investment, particularly when children from low-income families are provided with access to those programs. Evaluation of the Parent Aware QRIS showed children in highly rated programs showed significant gains in expressive and receptive vocabulary, phonological awareness, print knowledge and social competence. Even more importantly, children from low-income families in highly rated programs made greater progress in language and literacy measures than the full sample of children in Parent Aware QRIS programs.

2. Roll a Portion of Referendum Levies into the General Education Formula

- Beginning in FY 2015, roll \$300 per pupil of operating referendum revenue into the basic general education formula.
- Reduce the referendum cap by \$300 per pupil.

Background/Rationale

Provide a more adequate, uniform and stable funding base for all districts and charter schools.

Lessen reliance on local referenda, and reduce funding disparities.

Inflation-adjusted basic formula allowance has declined by \$593 - \$1,349 / pupil unit over the past eight years, depending on the measure of inflation used.

Districts have used referendums to offset the reduction in real basic formula revenue; inflation-adjusted referendum revenue has increased by \$532 - \$590 / pupil unit over the past 10 years, depending on the measure of inflation used.

Not all districts have been able to pass referendums, and districts with strong tax bases have passed higher referendums than districts with lower tax bases. This has resulted in an increase in revenue disparities among districts, from 19 percent in FY 2003 to 31 percent in FY 2013.

Reducing the referendum cap by the amount of the roll-in would leave all districts the same distance from the cap as they are now.

Referendum revenue was previously rolled into the basic formula in FY 2003 (\$415) and in FY 1995 (\$100).

3. Establish a Uniform General Education Levy

- Fund a portion of general education revenue with a uniform general education levy, to include a component spread on tax capacity and a component spread on referendum market value. The uniform levy would replace the following existing levies on a dollar-for-dollar basis, with no change in state total school levies.
 - The \$300/pupil portion of referendum levies rolled into the basic formula;
 - Operating capitol levy; and,
 - A portion of:
 - Equity levy;
 - Transition levy;
 - Integration levy; and,
 - Safe Schools levy.
- School boards could choose to levy less than the maximum amount, but general education aid would be reduced on a dollar-for-dollar basis for districts electing to levy less than the maximum.

Background/Rationale

A uniform general education levy is used in nearly every other state, and was an integral part of Minnesota's general education funding formula from its inception in the 1950s through 2002.

It provides a more stable source of funding to support the basic general education formula.

In conjunction with referendum roll-in, it ensures that all districts have access to an adequate basic funding level with uniform local tax effort throughout the state.

Growing reliance on referendum levies to fund basic education, together with a decline in state equalization of referendum levies over the past 10 years, has led to growing disparity across Minnesota in tax rates needed to fund a basic education program.

4. Eliminate and Simplify Formulas and Student Calculations

- Simplify student weightings.
 - Grades 1-6 and Handicapped K at 1.0
 - Grades 7-12 at 1.2
 - K at 0.5
- Eliminate marginal cost pupil units and establish a separate declining enrollment component of general education revenue.
- Convert referendum allowances from an amount per resident student to an amount per adjusted (served) student; eliminate separate alternative attendance adjustment for referendum revenue.
- Adjust allowances to neutralize changes in pupil unit weights and use of adjusted vs. resident student counts.
- Reduce Equity Revenue and target remaining funds based on a sliding scale to districts with relatively low referendum revenue per student. Under the new equity revenue formula, revenue per pupil unit would range from \$100 for districts with no referendum revenue to zero for districts with referendum allowances exceeding \$1,400 per pupil unit. One uniform equity formula would be used statewide, and all districts with referendum allowances below \$1,400 per pupil unit after roll-ins would qualify for revenue.

- Eliminate existing Transition Revenue.
- New transition revenue would be much more limited—no districts and only two charter schools would qualify.
- Eliminate existing Pension Adjustment. Roll Safe Schools levy and Gifted and Talented revenue into basic formula.

Background/Rationale

Eliminate unnecessary complexity, making it easier for policymakers, school districts and the general public to understand and evaluate how schools are funded and make it easier to set and manage budgets.

Current pupil weights are overly complex and don't reflect actual expenditure patterns.

Current complexity makes it difficult for stakeholders to understand and evaluate the funding system.

Referendum roll-in combined with more targeted equity revenue will be much more effective in closing the spending gap between high-revenue and low-revenue districts than the current equity revenue.

Pension adjustment and transition adjustment are based on old data and create inequities among districts.

Eliminating the complexity of separate aid and levy calculations for funds currently being set aside for safe schools and gifted and talented programs will provide both greater flexibility and less paperwork.

5. Reform Basic Skills Funding

- Roll extended-time funding into compensatory formula with funds allocated in proportion to the number of students eligible for free or reduced-price meals on the previous October 1, at a rate of \$260 times the sum of the number of students eligible for free meals plus one-half of the number of students eligible for reduced-price meals.
- Roll the compensatory pilot grants into the statewide compensatory formula.
- Provide districts the flexibility to use an additional 10 percent of compensatory revenue based on district-wide compensatory/extended-effort plan (85 percent of revenue must be used at the site generating the revenue, rather than the current 95 percent).

- Extend eligibility for Limited English Proficiency (LEP) funding from five to seven years.
- Adjust the LEP concentration formula by extending the sliding scale up to \$350 for districts with 16 percent or higher concentration of LEP students.

Background/Rationale

Align funding more closely with educational need to better support high academic achievement for all students and closing achievement gaps.

Current extended-time formula rewards districts that choose to serve high-need students through an extension of the school day or year. Districts that choose to provide more intensive services during the regular school calendar do not receive this funding. Rolling this funding into the compensatory education formula would provide more flexibility to local districts to determine most effective strategies to close achievement gaps.

6. Refocus Integration Funding

- Roll integration funding into the general education revenue program as a separate funding category, and allocate based on the concentration of students of color in each district. Each district currently participating in the integration revenue program would receive revenue equal to the lesser of the approved budget or \$500 times the adjusted pupil units times the percent of students of color enrolled in the district. At a minimum, all eligible districts would be guaranteed to receive at least 60 percent of their per pupil revenue from FY 2013.
- Funding would be 100 percent from state aid. (Integration levy is rolled into uniform general education levy.)
- Clarify the uses of integration revenue.
 - Does the state have a compelling interest to integrate schools?
 - Should portions of this funding be set aside for integrating schools?
Closing the achievement gap?

Background/Rationale

Align funding more closely with need to better support achieving integrated schools and closing the achievement gap.

Current integration funding per student of color varies widely among districts; some districts with low concentrations of these students receive much higher funding than other districts with much higher concentrations.

Uses of integration revenue have not been well-defined.

7. Recognize and Reward Student Growth

- Continue funding for literacy incentive aid.
- Establish a noncompetitive grant program to recognize schools with outstanding growth in student achievement and enable these schools to provide best practices training or disseminate best practices information to other schools.
 - The top 20 percent of schools in the percent of tested students making exceptional growth in reading and math will be eligible for a grant. The amount of the grant will vary, depending on the percent of tested students making high growth.
 - Up to 50 percent of the grant may be used at the school to maintain the school's excellent performance. The remainder of the grant must be used to provide best practices training or to disseminate best practices information to other schools.
 - Participation for eligible schools is optional; to qualify for a grant, school districts and charter schools with eligible schools must accept the award and submit a budget to the Department of Education.

Background/Rationale

Reward schools with outstanding growth in student performance and facilitate dissemination of best practices to other schools.

8. Reform Special Education Funding

- Increase state special education aid by \$150 - \$200 million per year to reduce cross subsidies.
- Replace the current special education–regular formula with a census-based formula for high-incidence/low-cost disabilities and a weighted pupil formula for low- incidence/high-cost disabilities. The census-based portion of the formula would include adjustments for poverty concentration and district enrollment size in determining per-student allowances. The weighted pupil portion of the formula would include rates for three

different cost levels, which would be adjusted biennially to reflect up-to-date expenditure data as reported on UFARS and EDRS. Funding would be based on prior year data, except that new charter schools would be funded based on current year data.

- Modify the excess cost formula to include all special education expenditures used for tuition billing, including fringe benefits. Calculate excess cost aid based using prior year data. Target excess cost aid to the districts in greatest need by increasing the threshold to qualify for aid from 4.36 percent to 5.1 percent of general education revenue and fully funding the 75 percent reimbursement rate for eligible excess costs.
- Change special education tuition billing by requiring the serving district or charter school to cover 10 percent of unfunded costs for open-enrolled students.
- Intermediate districts, cooperatives and charter schools with more than 70 percent of enrolled students with Individual Education Programs would be exempt from this requirement.

Background/Rationale

The state's special education formula is very complex and is not aligned well with the state's student-driven general education formula.

Most other states use a pupil-driven formula for funding special education, in combination with an excess cost formula.

The current practice of requiring the resident district to cover 100 percent of unfunded special education costs does not provide an incentive for efficient service provision in districts serving nonresident students and in charter schools.

9. Recognize Regional Cost Differences

- Roll a portion of referendum revenue into a new location equity levy.
 - Lesser of \$400/per pupil or current referendum allowance exceeding \$300 for districts in the seven-county metro area.
 - Lesser of \$200/per pupil or current referendum exceeding \$400 for non-metro regional center districts (>2000 ADM).
- Location equity levy would be equalized at the same rate as Tier 1 referendum revenue.

- Location equity levy would be ongoing and board-approved; voter approval not required for renewal.
- In addition to the levy, metro districts would receive additional location equity revenue funded with state aid equal to 1.5 percent of the basic plus basic skills revenue, and regional center districts would receive an additional location equity allowance equal to 0.5 percent of the basic and basic skills revenue.
- Reduce the referendum grandfather cap by the amount of the location equity revenue.

Background/Rationale

Adjust for differences in the cost of delivering equivalent education services due to geographic location.

The average FY 2013 referendum revenue for metro area districts is \$622 more per student (ADM) than for non-metro districts. A portion of referendum revenue for metro area districts is currently used to pay for regional cost differences.

10. Restore Inflation-adjusted General Education Formula to FY 2003 Level

- Set General Education Formula Allowance for FY 2013 at \$6,300.

Background/Rationale

Increasing the general education formula from \$5,224 to \$5,700 would adjust for changes proposed above in pupil weights with no new revenue to districts and charter schools. Roll-in of the safe schools levy, gifted and talented revenue, and a portion of equity revenue, together with changes proposed in the pension adjustment, would require an additional \$47 increase in the formula allowance to \$5,747 to maintain revenues at current levels.

Prices as measured by the Consumer Price Index (CPI) will increase 26.4 percent between FY 2003 and FY 2013, while the general education formula has increase by 13.5 percent. After adjusting for the proposed change in pupil unit weights, for inflation as measured by the CPI, and for new categoricals such as literacy incentive aid, a formula allowance of approximately \$6,300 is needed to maintain constant spending at the FY 2003 level.

11. Reform Facilities Maintenance Funding

- Roll health and safety revenue into the deferred maintenance formula, increasing the allowance from \$60 to \$230 per pupil unit for districts that do not qualify for alternative facilities revenue. Districts qualifying for alternative facilities revenue would levy for health and safety costs under the alternative facilities program instead of the health and safety program.
- Funding would be increased by \$34 million to narrow the funding gap between the 25 largest districts and other districts. For the 25 largest districts, the change would be revenue neutral.
- Districts would have the flexibility to use the deferred maintenance funds for either deferred maintenance or health and safety, as determined locally. Districts would not be required to submit budgets to MDE for approval.

Background/Rationale

The 25 largest districts currently qualify for unlimited deferred maintenance funding, while other districts qualify for a maximum of \$60 per pupil unit.

Average deferred maintenance plus health and safety revenue per pupil unit for the 25 largest districts is \$426, versus \$226 for other districts.

Health and safety funding is currently determined using a cost-based system that employs a narrow statutory definition of health and safety and requires excessive paperwork. The proposed pupil-driven formula would reduce paperwork and allow districts to have greater flexibility in budgeting for facilities maintenance needs.

12. Improve School Levy Equalization

- Provide additional state aid to restore the state share of operating referendum revenue and debt service equalization revenue.
- Equalizing factors would be indexed to state average tax base per student to prevent future erosion of state support.
 - Referendum equalization would be set at 125 percent of the state average Referendum Market Value (RMV)/pupil unit for Tier 1 and 75 percent of the state average RMV /pupil unit for Tier 2.

- Debt equalization would be set at 75 percent of the state average Adjusted Net Tax Capacity (ANTC)/pupil unit for Tier 1 and at 125 percent of the state average ANTC/pupil unit for Tier 2.
- Q Comp equalization would be set at 120 percent of the state average ANTC/pupil unit.
- Deferred maintenance equalization would be set at 160 percent of the state average ANTC/pupil unit.

Background/Rationale

The state share of equalized levy revenues has declined significantly since 1998.

The state share of referendum revenue has declined from 34 percent to 11 percent.

The state share of debt service revenue has declined from 10 percent to 3 percent.

The declining state share of equalized levy revenues has made it difficult for low tax base districts to pass operating referendum and bond levies, increasing disparities among districts.

13. Phase in Revenue Increases and Uniform General Education Levy

- Revenue for the first year of implementation would be calculated using both old and new formulas. The increase per pupil would be divided by the number of years of phase-in to determine annual increases. Revenue for later years would be calculated using the new formula, minus the transition adjustment for the portion of the phase-in not yet completed.

For Example: \$400/PU increase with four year phase-in: deduct transition adjustment of \$300/PU in year one, \$200/PU in year two, \$100/PU in year three from new formula calculation.

- Levies for the first year of implementation would be calculated under both the new formula and the old formulas. The transition adjustment equals the difference between the two levy amounts—may be positive or negative—divided by the number of years of transition.
- The actual levy each year would equal the amount computed under the new formula plus or minus the transition adjustment. General education aid would be adjusted to offset the transition adjustment (no net impact on general education revenue).

For Example: *\$100,000 increase in levy with four year phase-in: deduct transition adjustment of \$75,000 in year one, \$50,000 in year two, and \$25,000 in year three. General education aid increased by \$75,000 the first year, \$50,000 the second year, and \$25,000 third year to offset levy adjustment.*

For Example: *\$100,000 decrease in levy with four year phase-in: add transition adjustment of \$75,000 in year one, \$50,000 in year two, and \$25,000 in year three. General education aid decreased by \$75,000 the first year, \$50,000 the second year, and \$25,000 the third year to offset levy adjustment.*

- Alternative facilities aid would be reallocated among alternative facilities districts to help neutralize the overall impact of levy changes in the proposal.

Background/Rationale

The proposal is scalable and could be implemented all at once or phased-in. Given the current state budget shortfall, it was assumed that revenue increases will be phased in, with the length of the phase-in period dependent on the state budget situation.

Since there is no change in state total property tax levies, the state budget situation is not a factor in determining the phase-in period for levy changes.

The phase-in period should strike a balance between achieving greater taxpayer equity through uniform tax levies and providing a smooth transition by minimizing annual changes for taxpayers. The levy phase-in could be the same length as revenue phase-in period, faster or slower.

Conclusion

[View a summary of the statewide revenue and levy impact of the recommendations](#) on the Minnesota Department of Education website.

Available Information

The working group reviewed and discussed numerous documents with background information. [All documents reviewed by the group can be found on the Minnesota Department of Education website](#) or visit this URL:

<http://education.state.mn.us/MDE/Welcome/AdvBCT/EducFinanWork/index.html>

Other Considerations

Several related funding issues also have direct links to policy that may need further resolution. It is not this committee's purview to determine policy. These policy issues need further resolution in the legislative arena. Some of these issues are:

Adequacy

The recommendations of the 2012 Commissioner's Education Finance Working Group go a long way in correcting an imbalance in the current school funding formula by providing greater transparency, stability and flexibility. However, the repair does not go far enough on the issue of school funding adequacy. The issue of adequacy was a focal point in public meetings held throughout the state.

Even after a period of years when revenue is fully phased in, a large special education cross subsidy will still burden school districts, a school district currently with a high voter-approved levy will see little increase in state aid, inflation is not addressed, access to early education opportunities will not be accessible to all children, and there are no recommendations allowing for the unmet needs in our schools. It would be a wise move to review the per-pupil funding formula and categorical aids on a biennial basis, with the focus being adequately funding the formula to student needs.

Policy Question:

The state is responsible for setting academic standards and determining expected outcomes for Minnesota's public school students. How will the state provide the adequate school funding necessary to meet these expectations?

Educator Effectiveness

Legislation passed in 2011 requires school districts to develop and implement evaluation processes for both principals and teachers. Requirements to implement these systems will create additional financial needs for many districts. Several districts currently have access to resources to meet some these requirements because of a parallel process commonly known as Q Comp. Because the evaluation system is currently in development, the related implementation costs are not yet known but are expected to equal or exceed the costs associated with Q Comp.

Policy Questions:

What is the state's responsibility to adequately fund this new requirement to assure successful implementation?

Should all districts have access to equal funding to assure compliance?

Integration

Globalization has had an enormous effect on our nation and state, our economies, and our futures. It requires us to think differently and consider that diverse cultural perspectives and languages might now represent an asset in helping Minnesota relate to international convergence.

Policy Questions:

Does the state have a compelling interest to integrate schools?

Is there a need for revision of the current integration rule which determines funding?

Poverty

Global competition demands an educated work force at a time when the increased number of children living in poverty has created challenges for many. In Minnesota, 37 percent of school-age children live in poverty. The Brookings Institute has drawn direct links between family income and a child's readiness to learn. For Minnesota's economy to thrive, all children must be educated

Policy Question:

Does the state have a compelling interest to ensure the educational success of children whose families live in poverty?

Accountability

Policy Question:

How do we measure success in the above areas?