

Determining the Cost of Education in Minnesota

Continuing the Work of the
Governor's Education Funding Reform Task Force

EXECUTIVE SUMMARY

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BACKGROUND

The Education Finance Reform Task Force believes that Minnesota has much about which to be proud when it comes to our public schools.

Thus begins “Investing In Our Future: Seeking a Fair, Understandable and Accountable Twenty-First Century Education Finance System for Minnesota,” an historic report commissioned in 2003 by Minnesota Governor Tim Pawlenty who appointed a 19-member Task Force to examine issues of education reform critical to the success of Minnesota students. “Investing In Our Future,” widely examined and often referenced by both lawmakers and educators, proved to be an excellent vehicle by which this important policy discussion has moved forward.

Yet, by the Task Force’s own admission, the group “was not charged with developing or determining what the final funding levels should be in Minnesota.” Instead, the creation of a formula which must be “logically linked to ... student learning” and “sufficient to cover full dollar costs of ensuring Minnesota public school students have an opportunity to achieve state specified academic standards” was left incomplete. The Task Force, with expert support from Management Analysis & Planning, Inc. (MAP), suggested that a “rationally determined process could be developed,” but Task Force members and observers alike have noted that the work itself has yet to be done.

While a new funding system was not created, the Governor’s Task Force did recommend several next steps in the implementation of a new education funding system. The first three of those recommendations are:

- *Conducting a follow-up study and analysis to determine the accuracy of the school-level instructional programs identified by the Professional Judgment Panel study.*
- *Determining the dollar value of the Instructional Services Allocation (ISA) through additional study and analysis*
- *Conducting research to determine the appropriate “weighting” for the various relevant characteristics of individual students and the appropriate funding adjustments for uncontrollable conditions impacting a school district.*

Some 18 months after the release of “Investing in Our Future,” three education organizations representing approximately 80% of Minnesota’s public school students have acted upon the recommendations of the Task Force report. In September of 2005, the Association of Metropolitan School Districts (AMSD), the Minnesota Rural Education Association (MREA), and Schools for Equity in Education (SEE) contracted with national school finance expert John Myers of Augenblick, Palaich and Associates (APA) to examine the Task Force results and, using widely accepted methodologies, determine the costs necessary to ensure that each public school student is educated to meet the state’s academic standards.

FINDINGS

In “Determining the Cost of Education in Minnesota,” the first of a two phase study to determine the true cost of education in Minnesota, Myers explores the Governor’s Task Force report. Myers, drawing upon a rich national database of school finance information, extends the work of MAP’s costing teams (Professional Judgment Panels). Using data from the Professional Judgment Panels included in the appendix of the Task Force Report, Myers determines both base level student costs and recognized adjustment factors which comprise the total expenditure level required to ensure all students in Minnesota public schools have the opportunity to achieve state standards. These adjustment factors include accounting for the recognized challenges associated with special education, low income, and limited English proficiency students.

In reviewing the weightings implied by the MAP work to students in these categories, Myers found that adjustments were not correctly determined. As a result, Myers provides the appropriate adjustments to the Professional Judgment Panels’ findings.

In addition, because the Professional Judgment Panels’ data are based on 2001-02 figures, Myers extrapolates this resultant analysis to 2003-2004, the most recent year for which comprehensive Minnesota Department of Education (MDE) finance data are available.

When the data from the Professional Judgment Panels are “unpacked” and defensible special needs adjustments are factored in, Myers concludes that in 2003-04, the real cost of educational services necessary for all Minnesota students to achieve state standards should have been \$7.9 billion. However, actual expenditures for that fiscal year totaled just over \$7 billion. Thus it is clear from these findings that in 2003-04, Minnesota underfunded its public school students by nearly one billion dollars.

Total Operating Expenditures	2003-04 Cost Using MAP (Task Force) Base + APA Adjustments	2003-04 Actual Expenditures Comparable	Difference
Without Transportation and Capital	\$7.25567 billion	\$6.30278 billion	\$952.89 million
With Transportation and Capital	\$7.99843 billion	\$7.04554 billion	\$952.89 million

Phase I of Myers study, “Determining the Cost of Education in Minnesota,” reveals a significant gap between the investment Minnesota has been making in education and what is required in order for students to meet the state’s own academic standards. It has also shown that the key recommendation of the Governor’s original Task Force remains imperative: “Minnesota must actively pursue a new system for funding our public schools.”

NEXT STEPS

Phase II of Myers' work will examine the cost of delivering state standards using additional research tools beyond the scope of the Governor's effort and will build the base upon which a new system of funding Minnesota's schools can and should be created. It is evident that the need for an adequacy (i.e. costing-out) study still remains, and Myers' Phase II effort will fill this void.

This next phase will be designed to identify funding levels for a base student cost with adjustments for students with special needs. Once the analysis is complete, any emerging school funding system will require the separation of the revenue source from the expected expenditures for each component of the school finance formula. Simulation of a new formula will require that each school district's revenues and expenditures be identified. Finally, the new formula will need to be evaluated based on district wealth and student needs.

The needs of children who live in poverty and who may also experience language barriers must be accurately measured and recognized. The APA report shows that while MAP recognizes additional costs are associated with educating students in these demographical categories, it has understated the resources necessary to meet state and federally mandated accountability provisions for student achievement.

As Minnesota policymakers consider reforming the state's school finance formula, they must recognize the additional costs incurred with standards based reform. In the implementation of these reforms, several additional challenges will arise. In most states, the issue of economies of scale is raised concerning rural/small schools. Size adjustments, support for districts in sparsely populated areas, and declining enrollment provisions are generally incorporated. The Governor's Task Force also mentioned the need for a program assurance adjustment for smaller schools.

Another anticipated formula implementation issue relates to the cost differential among school districts of economically diverse areas. Several states use a cost-of-living adjustment to account for these differences. The Task Force suggested a labor market differential be considered in a new formula. These issues are critical in the creation of a new funding formula and must not be overlooked. Phase II of the Myers' study will address these issues as well.

This thorough analysis is work which, as the Governor's Task Force concluded, "We cannot delay." It is the intention of the education community to build upon what was started in "Investing In Our Future." APA believes that the true level of need facing school districts and students throughout Minnesota must be clearly defined in order that the need can best be met.