

E-12 Education Finance Update

Minnesota Department of Education

AMSD
May 28, 2010

Topics for Discussion

- Update on 2008 & 2009 Legislation
- 2010 Education Legislation
- Recent Trends in School Demographics and Finances

Update on 2008 Legislation

- Repeal of Gen Ed Aid Reduction for Permanent School Fund (Endowment) payments
 - Being implemented for FY 2010: Payments made on Sept 15 and March 15, total \$22,865,000 (\$28 / FY 09 resident ADM)
 - Projection for FY 2011 is that payments will total \$29.31 x FY 10 resident ADM
- \$51 / pupil unit transfer from operating capital allowed for FY 08, FY 09 & FY 10

Update on 2008 Legislation

- MOE requirement for licensed school support staff
 - FY 09 Base Year Data Collected on UFARS Compliance Report;
 - FY 10 data reported on Levy Information system.
 - Efforts to amend or repeal during 2010 session did not pass
- OPEB Bonding without voter approval
 - Voter approval required for bonds issued after Oct 1, 2009
 - New levy to fund annual OPEB expenses initiated with taxes payable in 2010 – capped
 - Pay 2010 Levy prorated at 60.4%
 - Estimated proration factor for Pay 2011 Levy is not yet determined

Update on 2009 Legislation

- \$500 million reduction in general education aid for FY 2010 (replaced with federal ARRA funds) was one-time -- general education aid fully restored for FY 2011
- Waiver of 2% staff development set-aside is retained for FY 2010 and FY 2011
 - Amendments to limit the waiver to FY 2010 and to allow fund balances to be transferred to the unreserved general fund balance **not** passed

2010 Legislation: Special Session Chapter 1 - Budget Bill General Fund Budget Summary

(\$ Millions)	FY 2010-11	FY 2012-13
February Forecast Deficit	(994)	(5,789)
Court Ruling on Unallotment:		
• K-12 Shifts	1,742	(1,177)
• <u>Other Changes</u>	689	(51)
Budget Problem	(3,425)	(4,561)
2010 Legislation:		
• K-12 Payment Shift	(1,385)	1,385
• K-12 Tax Shift	(576)	111
• <u>Other Changes</u>	(1,458)	(291)
Budget Balance	6	(5,766)

2010 Legislation: Special Session Chapter 1 - Budget Bill Payment Shift

- 73-27 Payment Schedule for FY 2010
- 70-30 Payment Schedule for FY 2011
- Reinstates 90-10 Payment Schedule beginning in FY 2012
- Allows districts and charter schools in Statutory Operating Debt (SOD) to receive early final payment on June 20 to bring total general education aid for the year up to 90% of aid entitlement, but not to exceed the amount of SOD in the school or district.

2010 Legislation: Special Session Chapter 1 - Budget Bill Property Tax Shift

- 48.6% property tax shift for FY 2011 and later
- Same calculation method and percent as previous tax shift enacted in 2003
 - (instead of alternate method outlined by Commissioner Seagren as part of Unallotment Plan)
- Tax shift will be repaid when state budget improves
 - (after state cash flow account balance reaches \$350 M, state budget reserve reaches \$653 M, and aid payment schedule is restored to 90-10)

2010 Legislation: Special Session Chapter 1 - Budget Bill State Aid Payment Delays

- Modifies MS 127A.46 to make state aid payment delays to school districts **optional** instead of mandatory before the state does short term borrowing
- Limits the delays to districts with fund balance of \$700/ resident pupil unit or more and deducts the first \$700 / pupil unit of cash balances in calculating the delays (same formula used by MDE for FY 2010 aid payment delays.)

2010 Legislation: Special Session Chapter 1 - Budget Bill MDE Budget

- \$796 K reduction (3.8%) in FY 2010;
- \$1.132 M reduction (5.4%) in FY 2011 and later
- Reflects Governor's recommendation

2010 Legislation: Special Session Chapter 1 - Budget Bill Other

- Sets standing appropriation for debt service equalization aid at \$17,161,000 for FY 2012 and at \$19,175,000 for FY 2013, which should eliminate the need for MDE to increase 2010 payable 2011 debt service levies for districts receiving debt service equalization aid to cover potential proration of the aid.
- Adjusts other appropriations to reflect the aid payment and property tax shifts, and for updated data from the February 2010 budget forecast.
- Requires Commissioner of Education to annually notify the legislature by January 15 of any changes made in recognition of revenue under UFARS statute.

2010 Legislation: Chapter 346 – Early Childhood Education

School Readiness Program:

- Defines which children are eligible to participate:
 - At least three years old on September first,
 - Have completed Early Childhood Health and Developmental Screening within 90 days of program enrollment, and
 - Meet one or more of the following criteria: qualify for free or reduced-price lunch; be an English language learner; be homeless; be eligible for special education or services; be identified through screening as having a potential risk factor that may influence learning; or be identified as at risk by the school district.
- Specifies that School Readiness aid must be used for eligible children, but children who do not meet eligibility criteria may participate in the program on a fee-for-service basis.
- Adds School Readiness programs to the list of allowable uses of general community education revenue.

2010 Legislation: Chapter 346 – Early Childhood Education

Early Childhood Health and Developmental Screening

- Requires charter schools that elect to provide screening to comply with all program requirements.
- Expands the duties assigned to the State Advisory Council on Early Education and Care

2010 Legislation: Chapter 359 – Omnibus Pension Bill

Increases employee and employer contribution rates for various public employee pension programs:

- Employee and employer contribution rates for PERA coordinated plan increased by 0.25% effective January 1, 2011:
 - Employee rate from 6% to 6.25%;
 - Employer rate from 7% to 7.25%
- TRA rates will rise by 0.5 percent annually over a four-year period beginning July 1, 2011.
- TRA automatic 2.5 percent annual postretirement adjustment is suspended for 2011 and 2012 followed by a 2 percent increase until the plan becomes 90 percent funded.
- Duluth Teachers Plan and St. Paul Teachers Plan also have employee and employer rate increases.

2010 Legislation: Chapter 359 – Omnibus Pension Bill -- TRA

	Employee		Employer	
	Basic	Coordinated	Basic	Coordinated
Current	9.0%	5.5%	9.5%	5.5%
FY 2012	9.5%	6.0%	10.0%	6.0%
FY 2013	10.0%	6.5%	10.5%	6.5%
FY 2014	10.5%	7.0%	11.0%	7.0%
After FY 2014	11.0%	7.5%	11.5%	7.5%

2010 Legislation: Chapter 395/HF 3329 – Metro Deaf Payments

- Authorizes a charter school serving fewer than 150 students, all of whom are eligible for special education services, to request cash payments in excess of the current aid payment percentage (up to 100% of annual aid entitlement) for all state aid programs. The commissioner must approve a properly submitted request within 30 days of receipt. Only Metro Deaf Charter School currently qualifies.
- State special education aid for all other school districts and charter schools must be paid at a slightly smaller percentage than the statutory current aid percentage, so as to reduce the aid paid from the current account by the amount needed to offset the additional aid paid to the qualifying schools.
- Adjusts standing appropriation for debt service equalization aid in a manner similar to HF 1, but the provision in HF 1 overrides this provision.

2010 Legislation: Chapter 396/SF 2908 – Phy-Ed Standards & “Healthy Kids Awards Program”

- Establishes the National Association of Sport and Physical Education (NASPE) standards as the statewide physical education standards beginning in the 2012-2013 school year.
- Requires wellness policies are posted on school district websites.
- Encourages development of recess guidelines by MDE.
- Physical education courses to be included in the common course catalog under development by MDE.
- Establishes the Healthy Kids Awards Program – schools desiring to participate in the program must submit a letter of intent to MDE before September 15 of each year outlining how the district will promote “policies and practices that create opportunities for students to be physically active” and make healthy food choices. Schools will report their progress to MDE, and MDE will place a “Healthy Kids Award” icon on the school’s report card.

2010 Legislation: Miscellaneous Provisions

- **Chapter 183** – Requires 8 hours of boiler operator training for engineers.
- **Chapter 184** – Changes relating to August primary, including that August 20, 2010 is last date for school boards to adopt resolution calling for reference election in November general election.
- **Chapter 215** - \$3M reduction in operating budgets of state agencies through increased operating efficiencies.
- **Chapter 216** – Exempts property leased or rented to charter schools from taxation if certain conditions are met.
- **Chapter 230** – Adds “mental health” to list of information that can be disclosed by school districts in emergency situations.
- **Chapter 268** – Penalties changed for weapons in schools. Dangerous weapons on school property now a felony; “brandished” replica weapons a gross misdemeanor; possession of replica weapons a misdemeanor.
- **Chapter 276** – Requires MDE to notify parents within 10 days of receiving report of alleged maltreatment.
- **Chapter 285** – Excludes school concession stands from additional fees for additional locations.

2010 Legislation: Miscellaneous Provisions

- **Chapter 297** – Requires data sharing agreements between MDE and BOT/BOSA for the purpose of program approval.
- **Chapter 319** – Establishes Collaborative Governance Council to develop recommendations designed to increase collaboration in government.
- **Chapter 333** – Allows fee waivers in certain circumstances for students with parents in active military service. Also exempts teachers from dismissal protections of Veterans Preference Act.
- **Chapter 351** – Schools may transport students to designated after school programs operated by political subdivisions of the state within the attendance area. Permits towing of vehicle parked in school zone during prohibited hours. Changes to requirements for Type III drivers.
- **Chapter 365** – Change to Data Practices Act prohibiting charges for compilation of copies.
- **Chapter 392** – Establishes Commission on Service Innovation to provide the legislature with strategic plan to reengineer delivery of state and local government to improve efficiency.

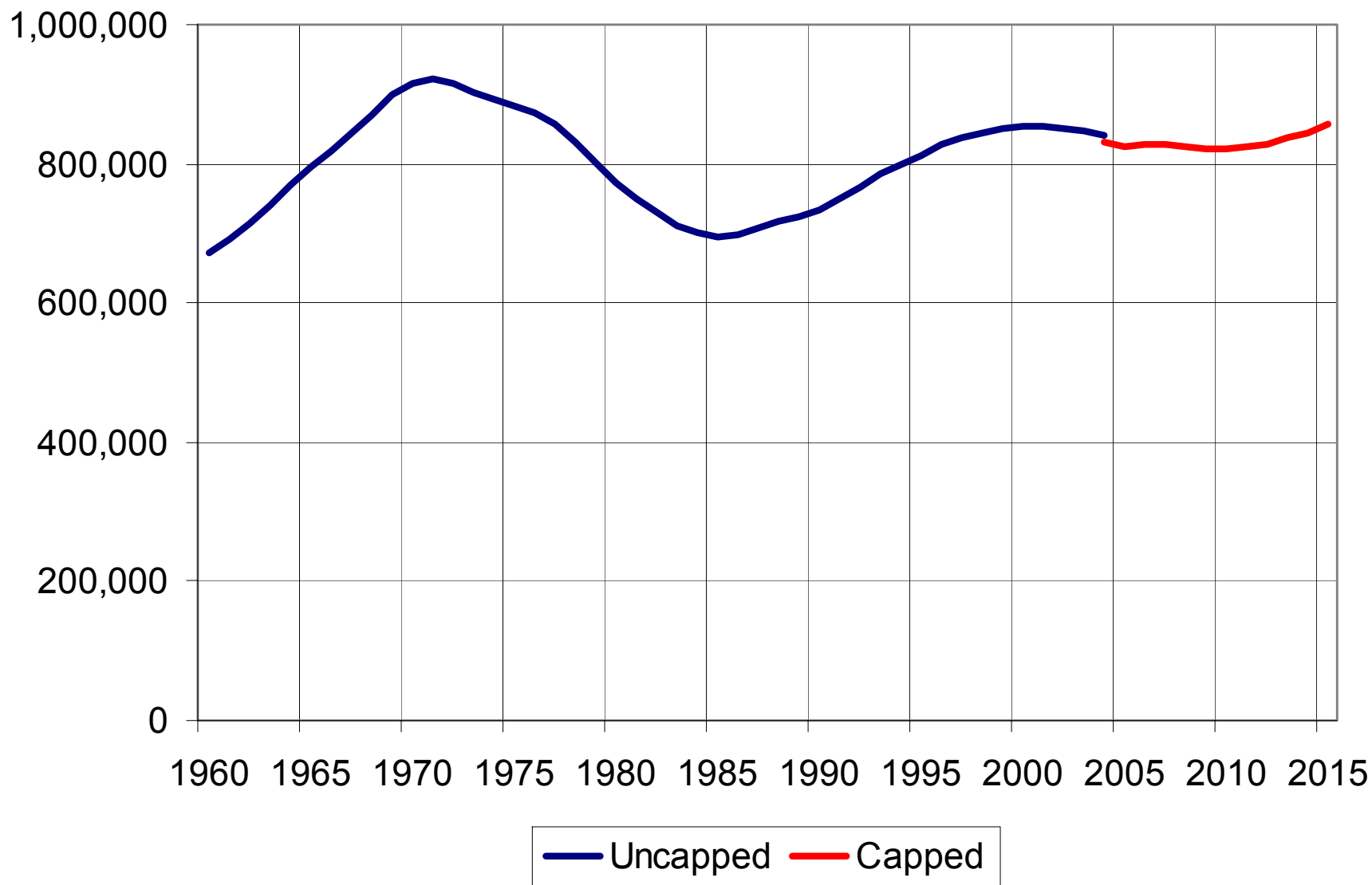
Considered But Not Enacted In 2010:

- Renewal of operating referendum without voter approval (House)
- New Minnesota Miracle (House)
- Charter School Facilities Changes (Senate)
- Health & Safety changes (House)
- State Tax Increases (House & Senate)

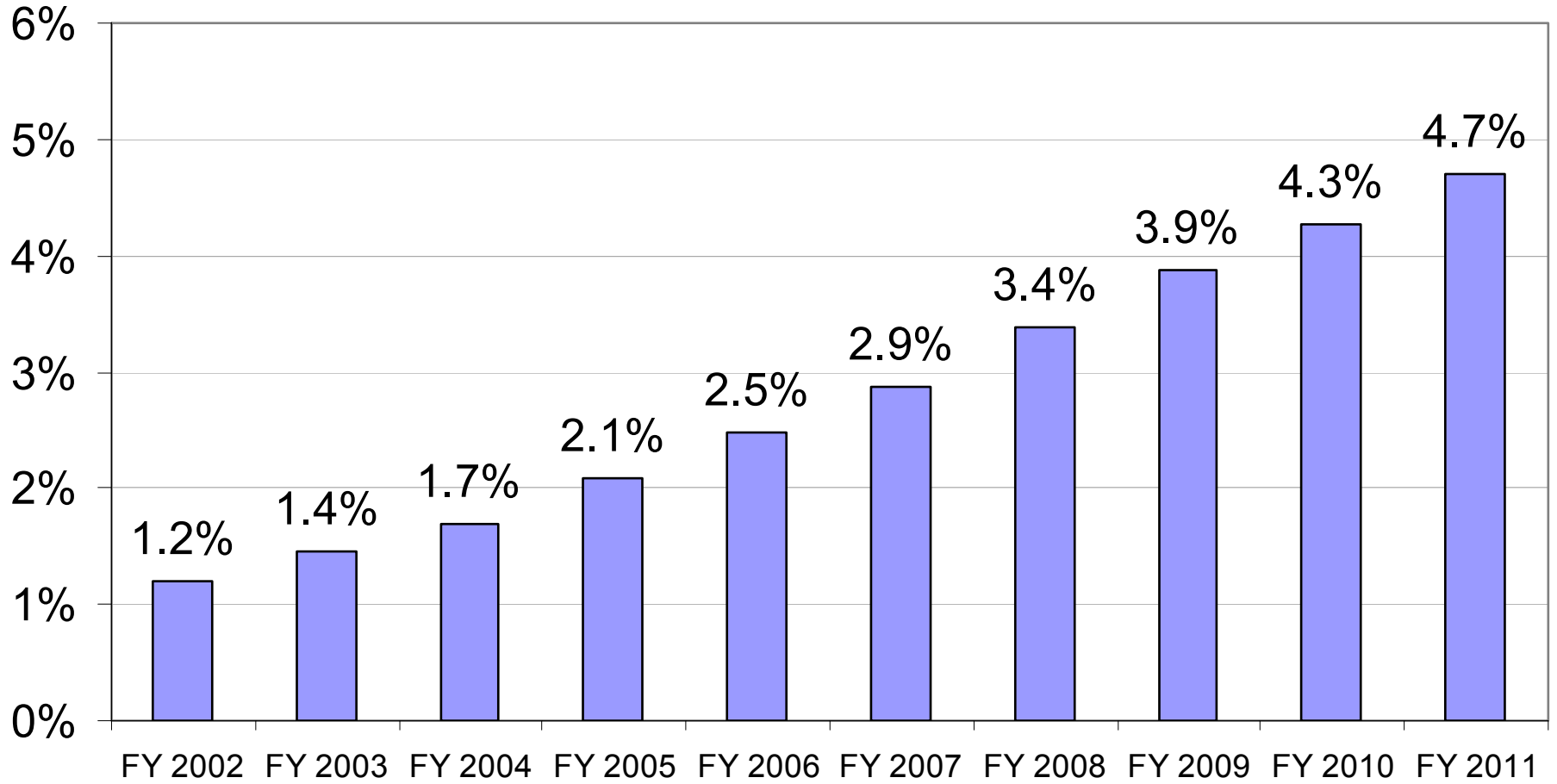
Coming up in 2011:

- A new set of policy makers:
 - New Governor
 - House and Senate all up for election
 - 8 Senators not seeking re-election
 - 14 House members not seeking reelection
- \$5.8 Billion budget shortfall for FY 2012 – 2013 Biennium
 - \$4.4 billion if K-12 payment schedule remains at 70-30
 - Significant increase in General Education funding is not likely
 - Running out of shift opportunities – hard cuts and / or tax increases more likely

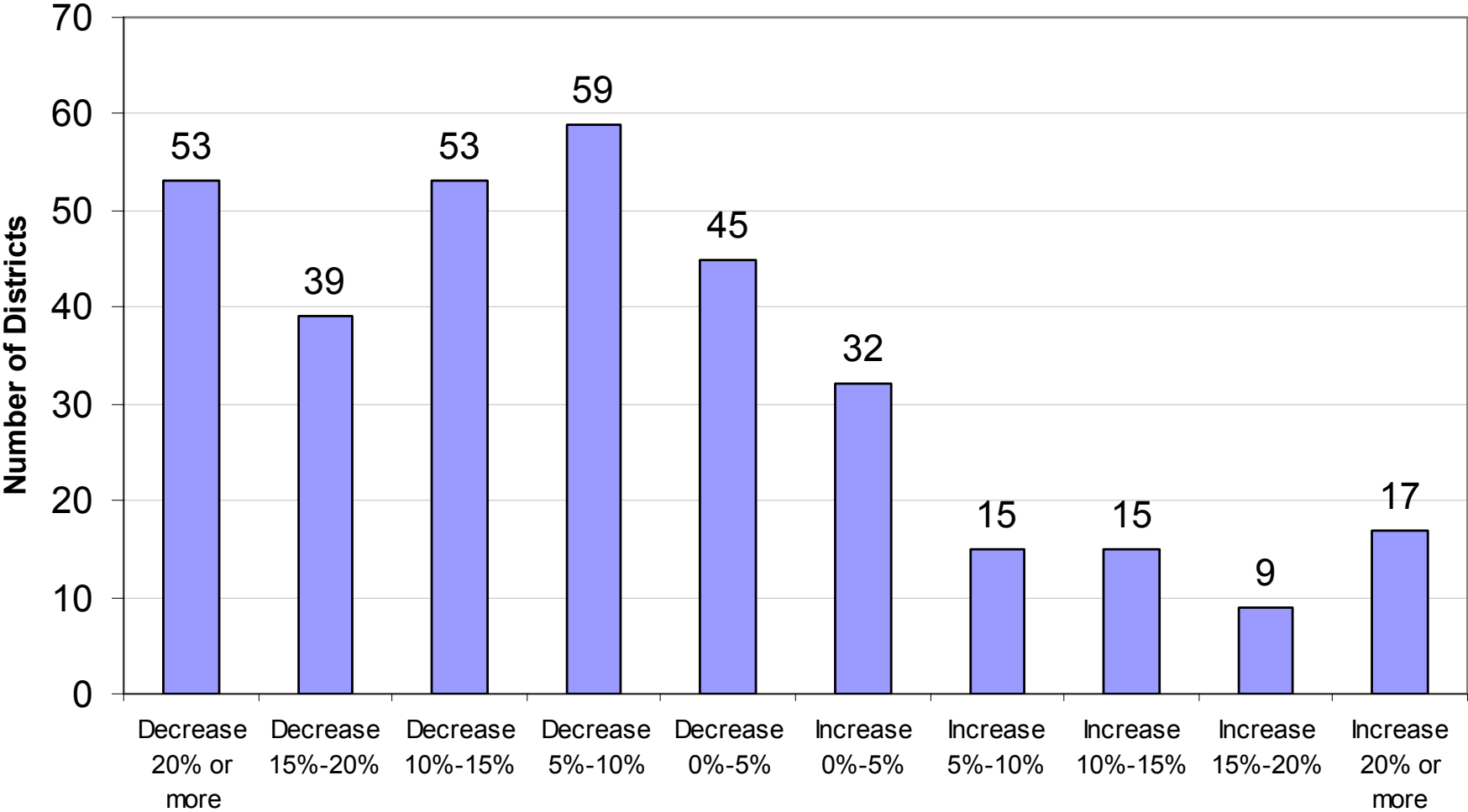
STATE TOTAL AVERAGE DAILY MEMBERSHIP



Portion of Students in Charter Schools



Percent Change in Adjusted Pupil Units FY 2003 - 2010



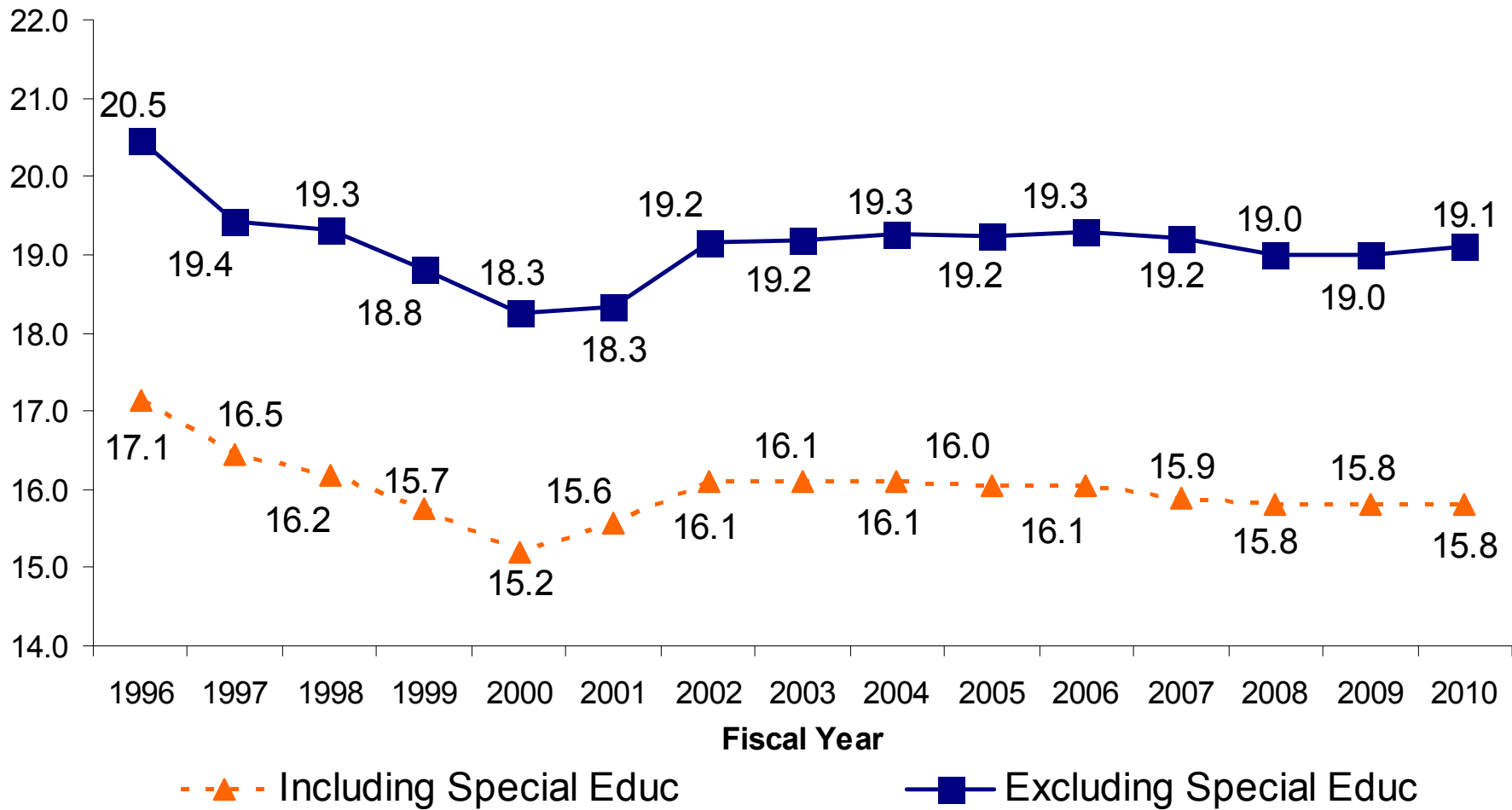
**Percent Change in Enrollment, FY 2003 – FY 2009
School Districts and Charter Schools**

	2003	2010	% Change
Total Enrollment:			
School districts	825,585	792,119	-4.05%
Charter Schools	12,144	35,375	191.30%
All Public Schools	837,729	827,494	-1.22%
Demographics – All Public Schools:			
Special Education	108,587	118,508	9.14%
Free & Reduced	229,503	293,065	27.70%
LEP	51,177	63,173	23.44%
Students of Color	157,840	205,649	30.29%

**Demographic Trends, FY 2003 – FY 2009
School Districts and Charter Schools**

	School Districts		Charter Schools		All Public Schools	
	2003	2010	2003	2010	2003	2010
Special Education	13.0%	14.4%	12.2%	12.5%	13.0%	14.3%
Free & Reduced	27.0%	34.5%	54.6%	55.2%	27.4%	35.4%
LEP	6.0%	7.1%	13.0%	20.2%	6.1%	7.6%
Students of Color	18.4%	23.7%	50.6%	50.0%	18.8%	25.0%

PUPIL - TEACHER RATIOS 1996 - 2009



General Fund Expenditures by Program

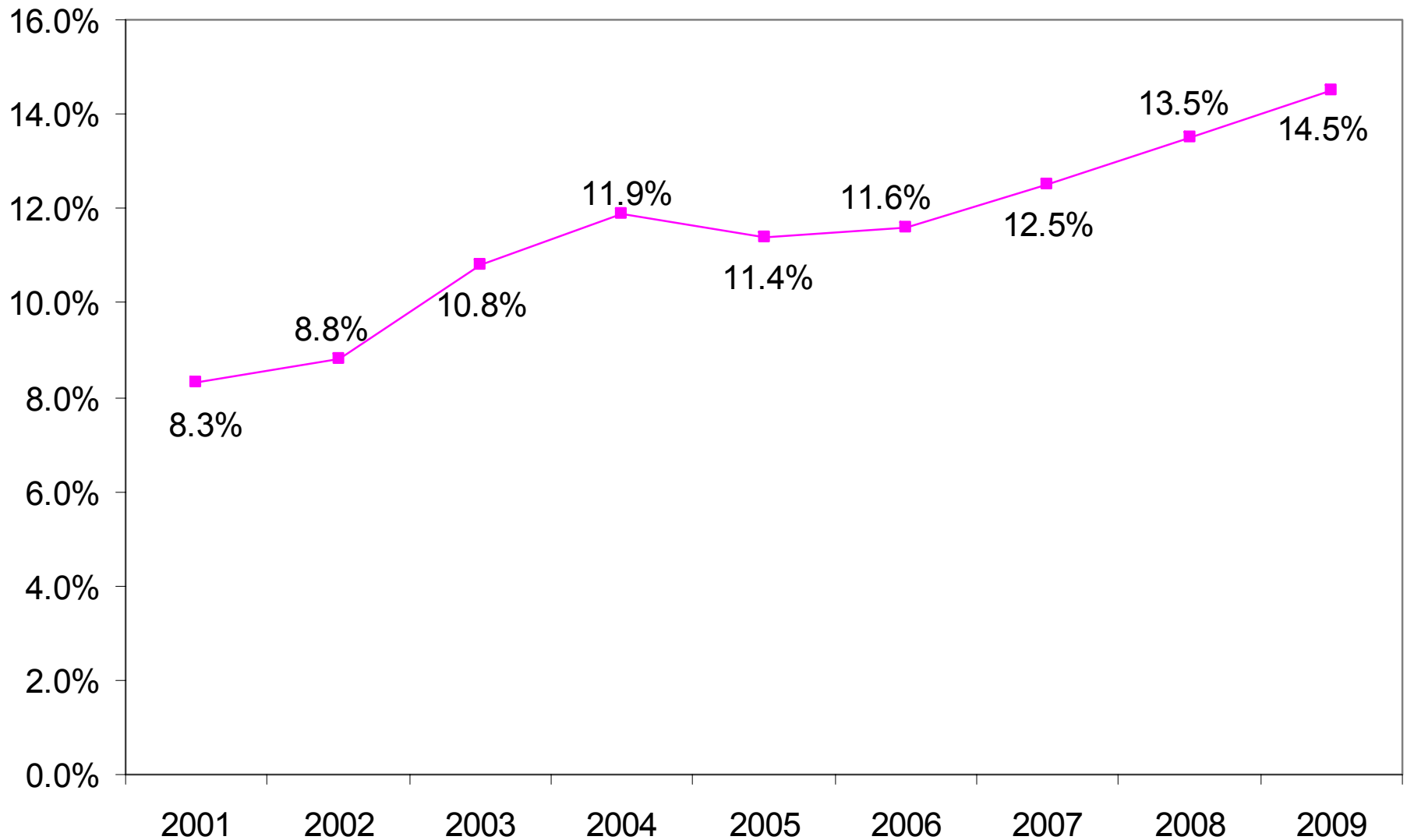
	FY 2005 ¹	FY 2009 ¹	Change	W/O OPEB FY 2009 ²	W/O OPEB Change
Regular Instruction	46.7%	47.8	1.1%	46.5%	-0.2%
Career & Tech Instruction	1.5%	1.4%	-0.1%	1.4%	-0.1%
Special Education	17.7%	16.9%	-0.8%	17.2%	-0.5%
Subtotal, Instruction	65.9%	66.1%	0.2%	65.1%	-0.8%
Administration	8.4%	8.3%	-0.1%	8.3%	-0.1%
Inst Support Services	4.4%	4.6%	0.2%	4.7%	0.3%
Pupil Support Services	2.7%	2.7%	0.0%	2.8%	0.0%
Operation, Maint & Other	8.2%	7.9%	-0.3%	8.1%	-0.1%
Student Transportation	5.5%	5.4%	-0.1%	5.7%	0.2%
Capital Expenditures	5.0%	4.9%	-0.1%	5.2%	0.2%

1 Includes expenditures for health insurance or other post-employment benefits (OPEB) paid to retired employees as they leave service.

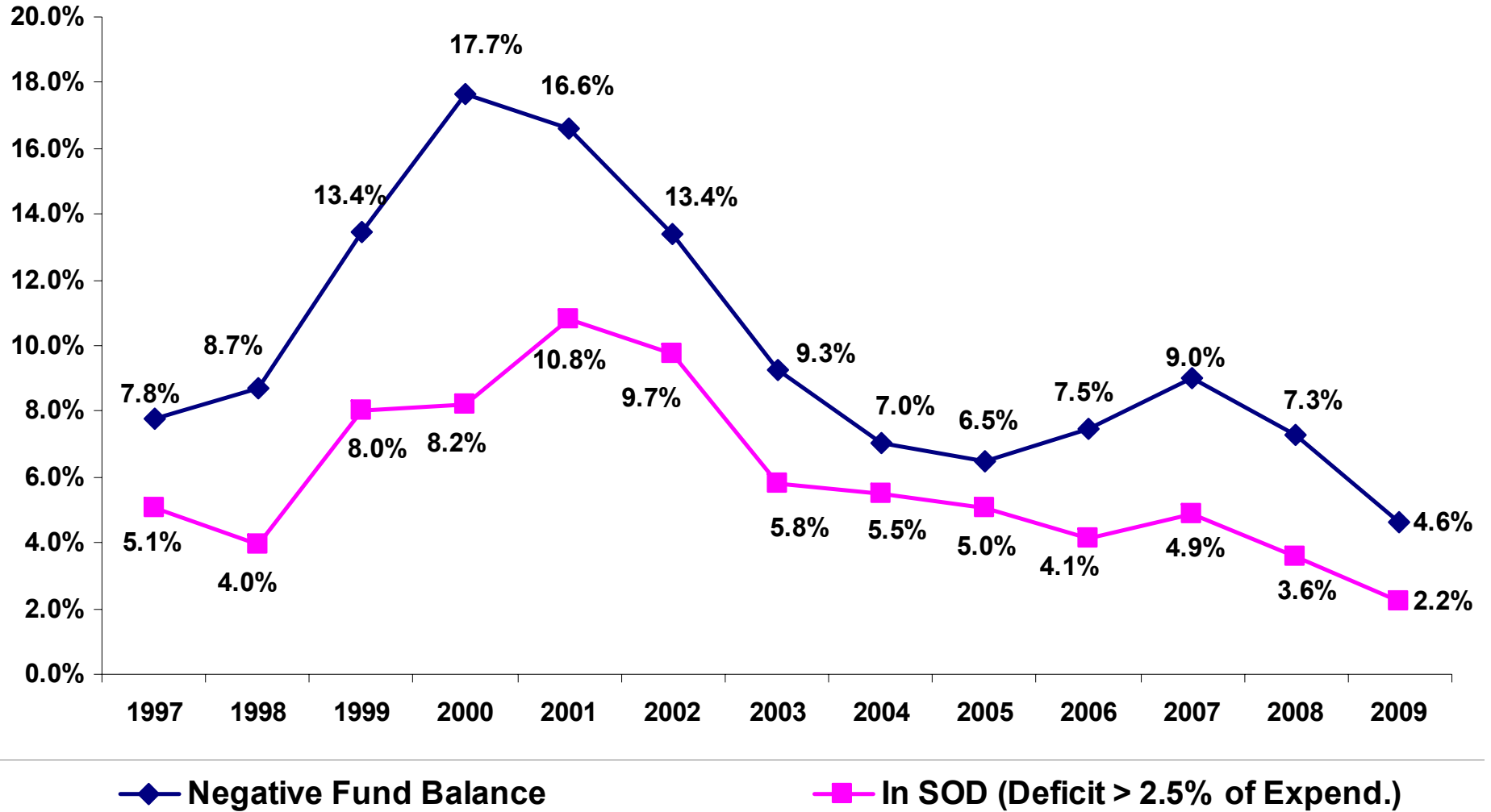
2 Excludes the expenditures for other post-employment benefit contributions

The Governmental Accounting Standards Board (GASB) developed the accounting standard GASB 45 requiring districts to recognize and report future financial obligations for other retiree benefits. Prior to GASB 45, districts only paid retiree benefits as they left service; however, now districts have the option to identify these future costs and set aside funds to meet these future obligations.

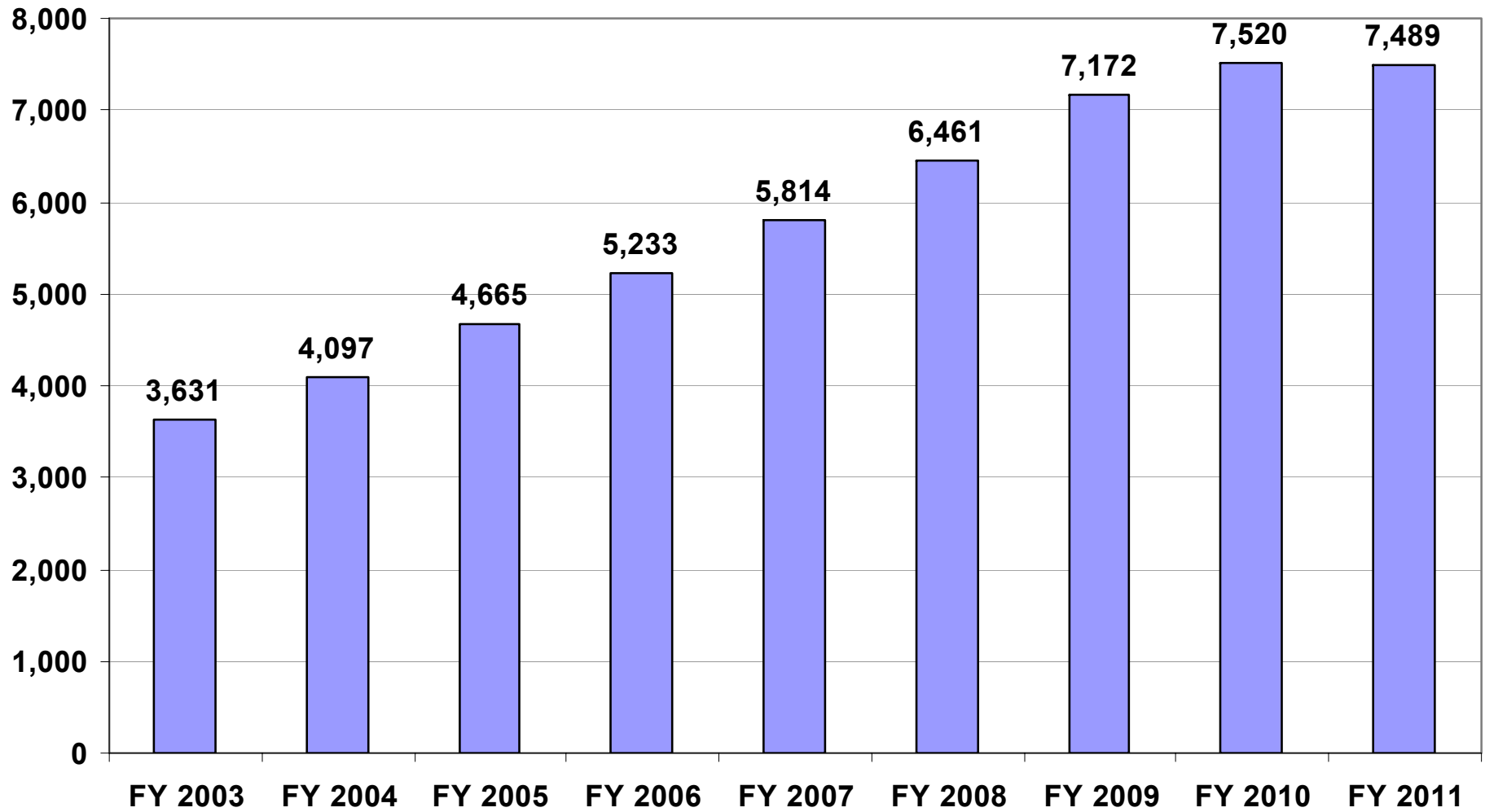
UNRESERVED GENERAL FUND BALANCE OF SCHOOL DISTRICTS & CHARTER SCHOOLS AS PERCENT OF EXPENDITURES



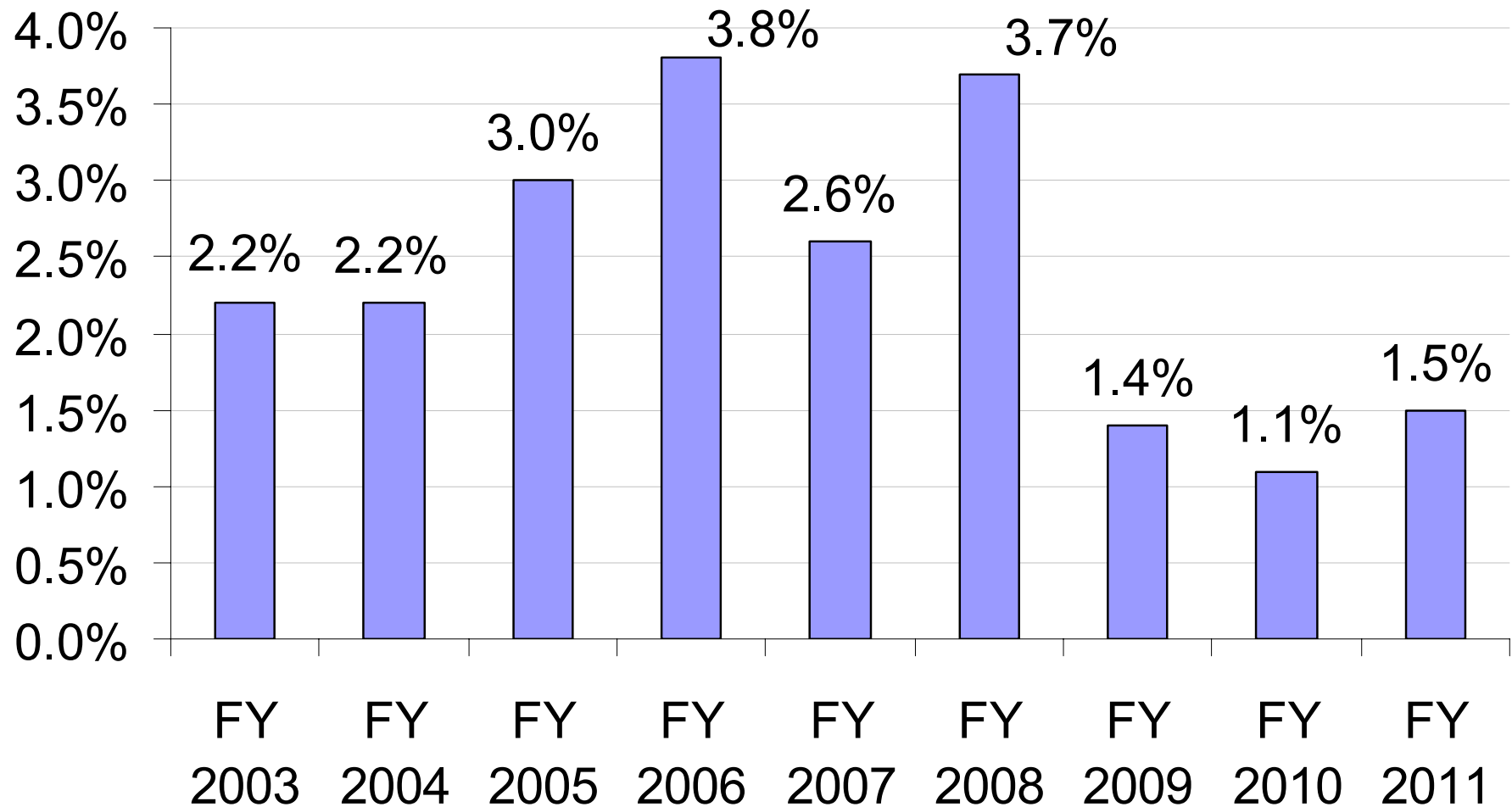
**PERCENT OF SCHOOL DISTRICTS AND CHARTER SCHOOLS WITH
NEGATIVE FUND BALANCES AND IN SOD
(calculations for FY 1997 - 1999 include all operating funds; calculations
for FY 2000 - 2009 reflect general fund only)**



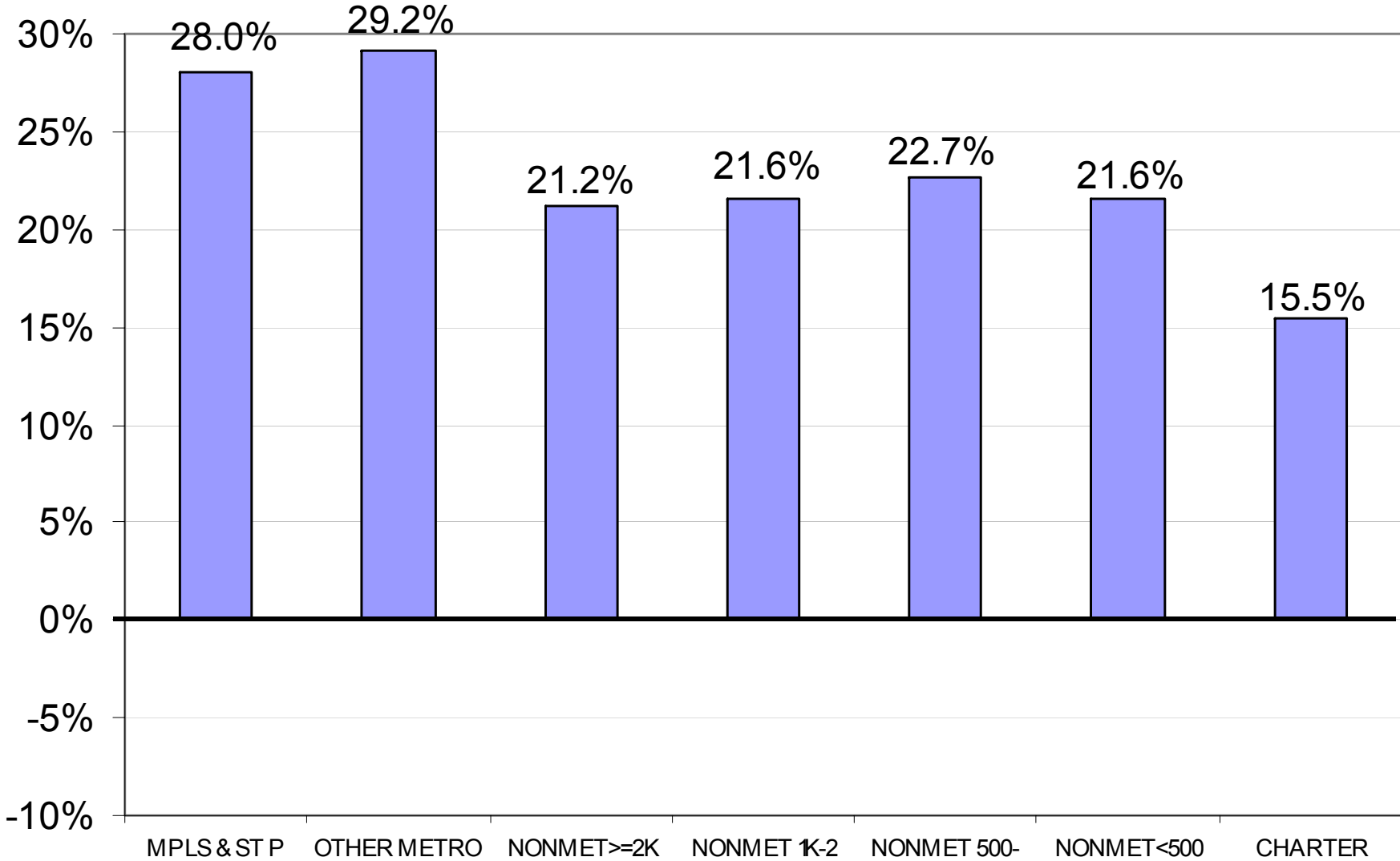
STATE AVERAGE ANTC/AMCPU



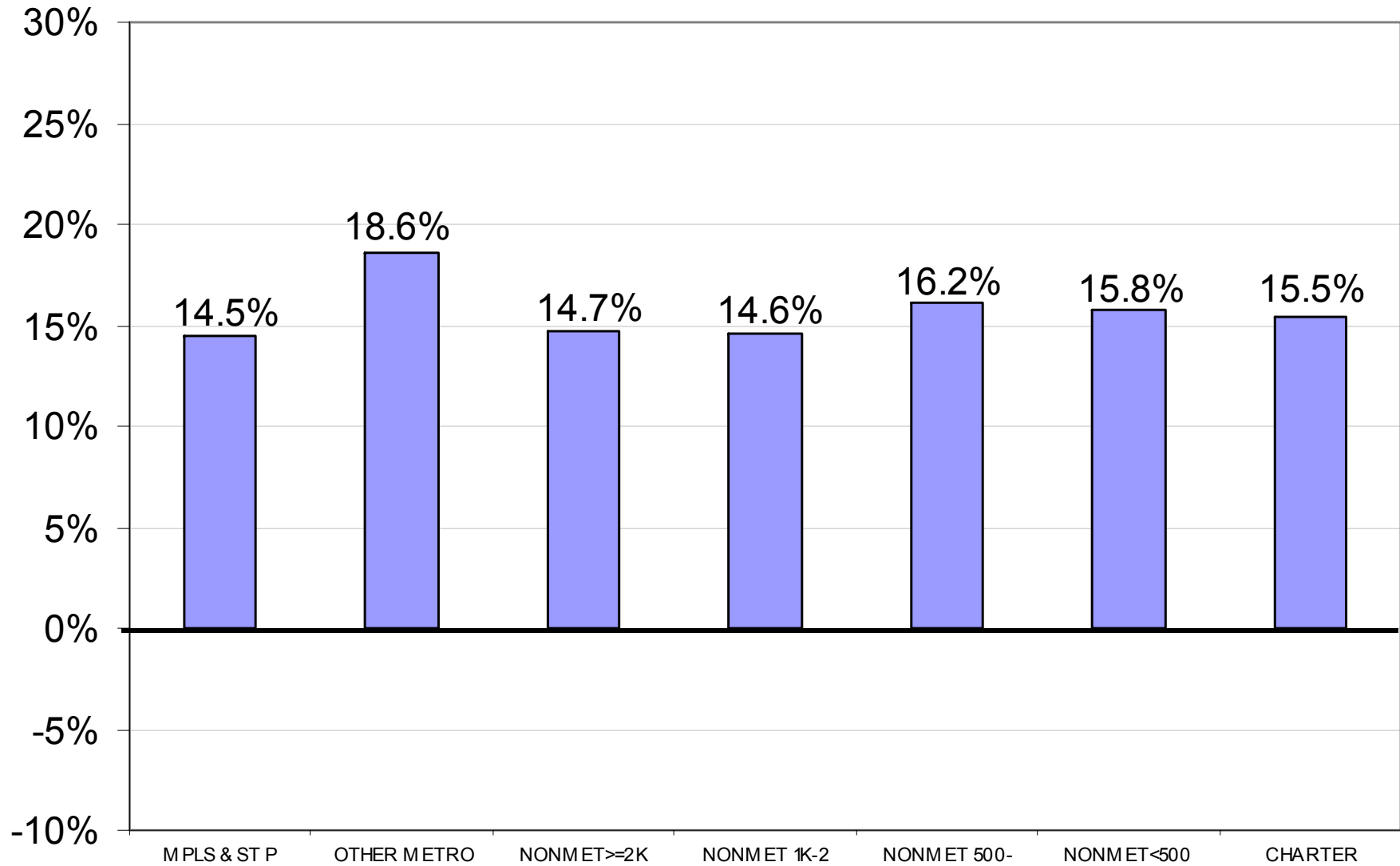
CONSUMER PRICE INDEX ANNUAL PERCENT CHANGE May 2010 Estimate



**Percent Change in General Revenue Per ADM FY 2003 - 2011
Including Referendums Not Adjusted for CPI**

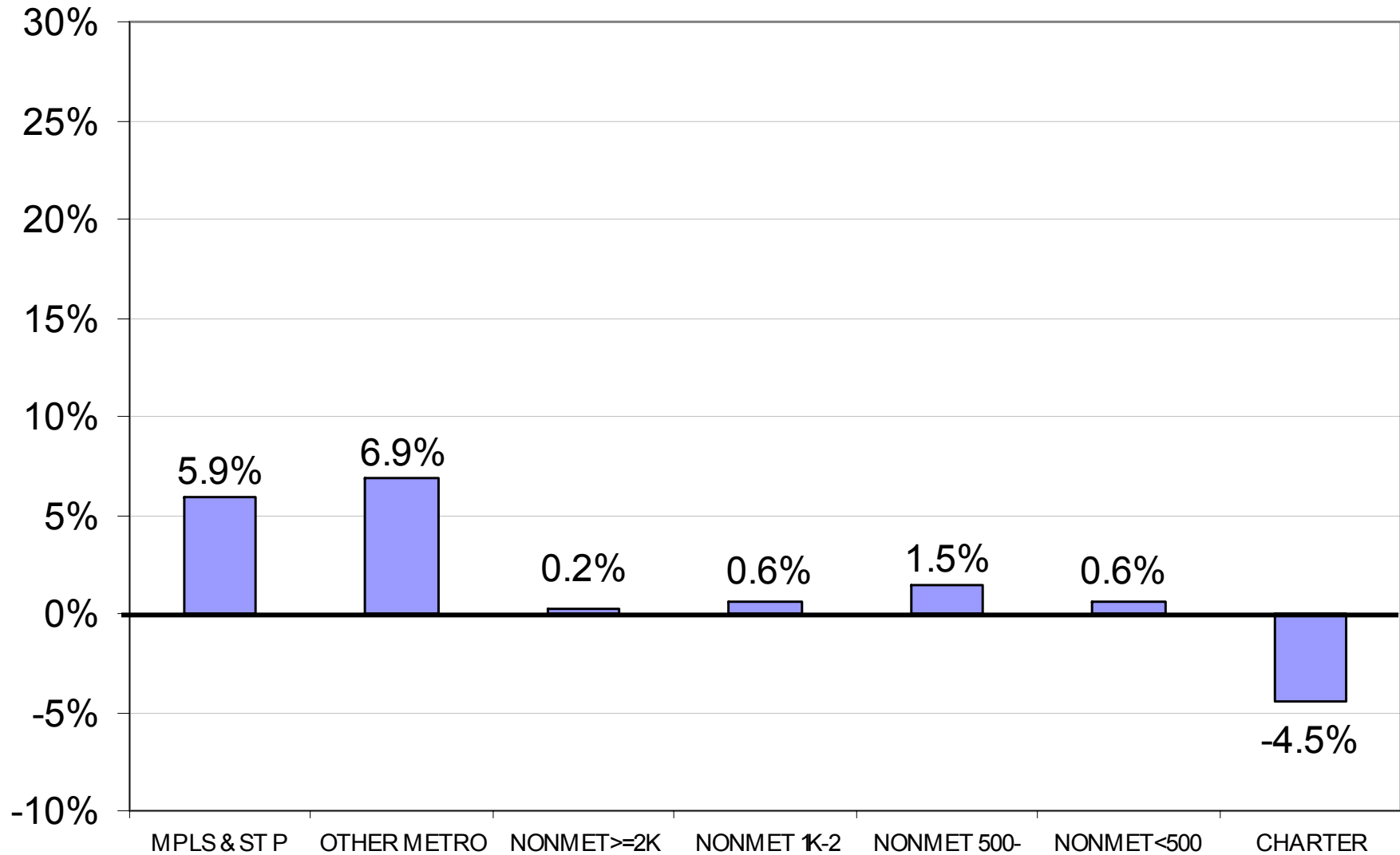


Percent Change in General Revenue Per ADM FY 2003 - 2011 Excluding Referendums Not Adjusted for CPI



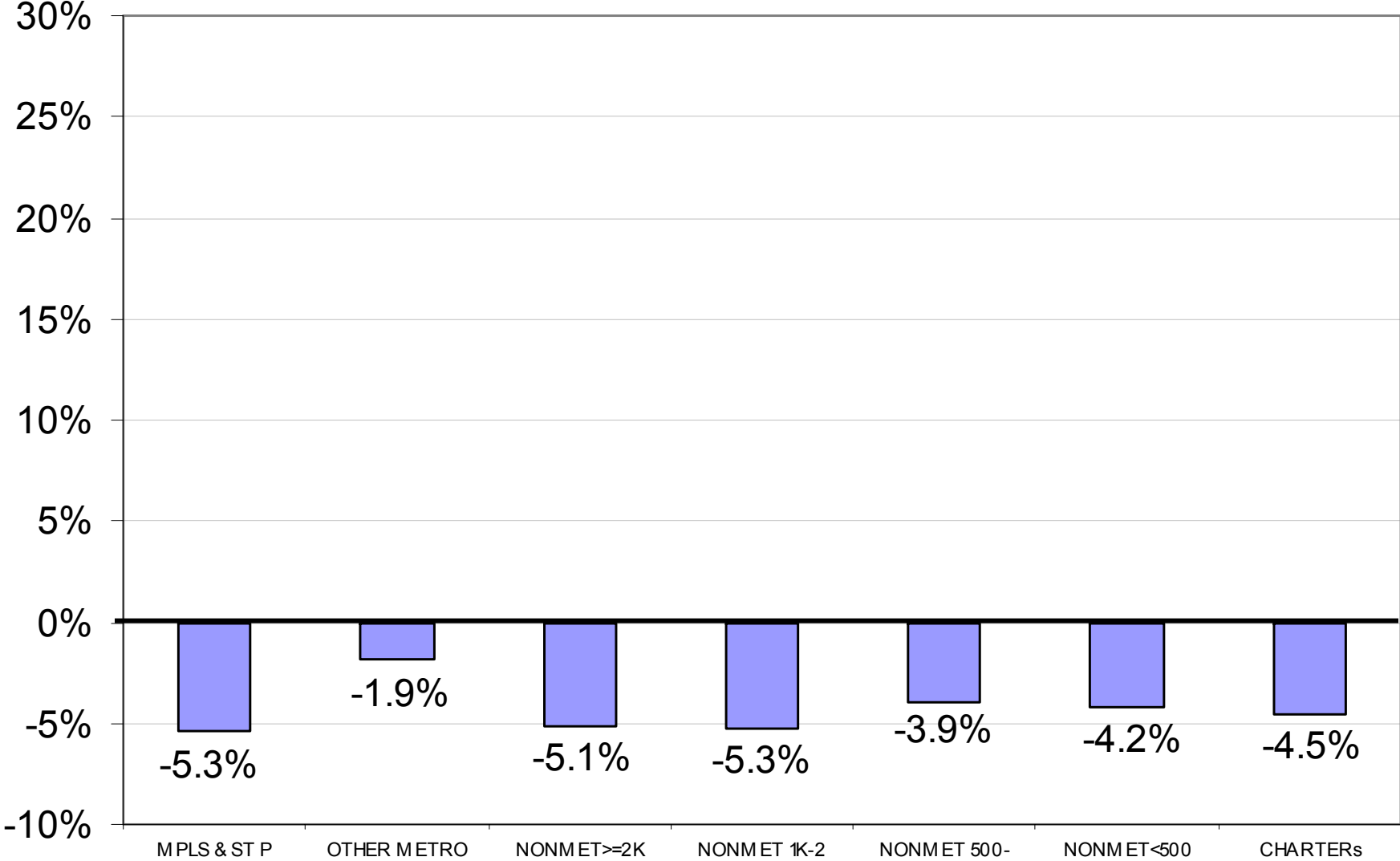
Percent Change in General Revenue Per ADM FY 2003 - 2011 Including Referendums Adjusted for CPI

(Projected aggregate CPI growth between 2003 and 2001 of 20.91%)



Percent Change in General Revenue Per ADM FY 2003 - 2011 Excluding Referendums Adjusted for CPI

(Projected aggregate CPI growth between 2003 and 2001 of 20.91%)



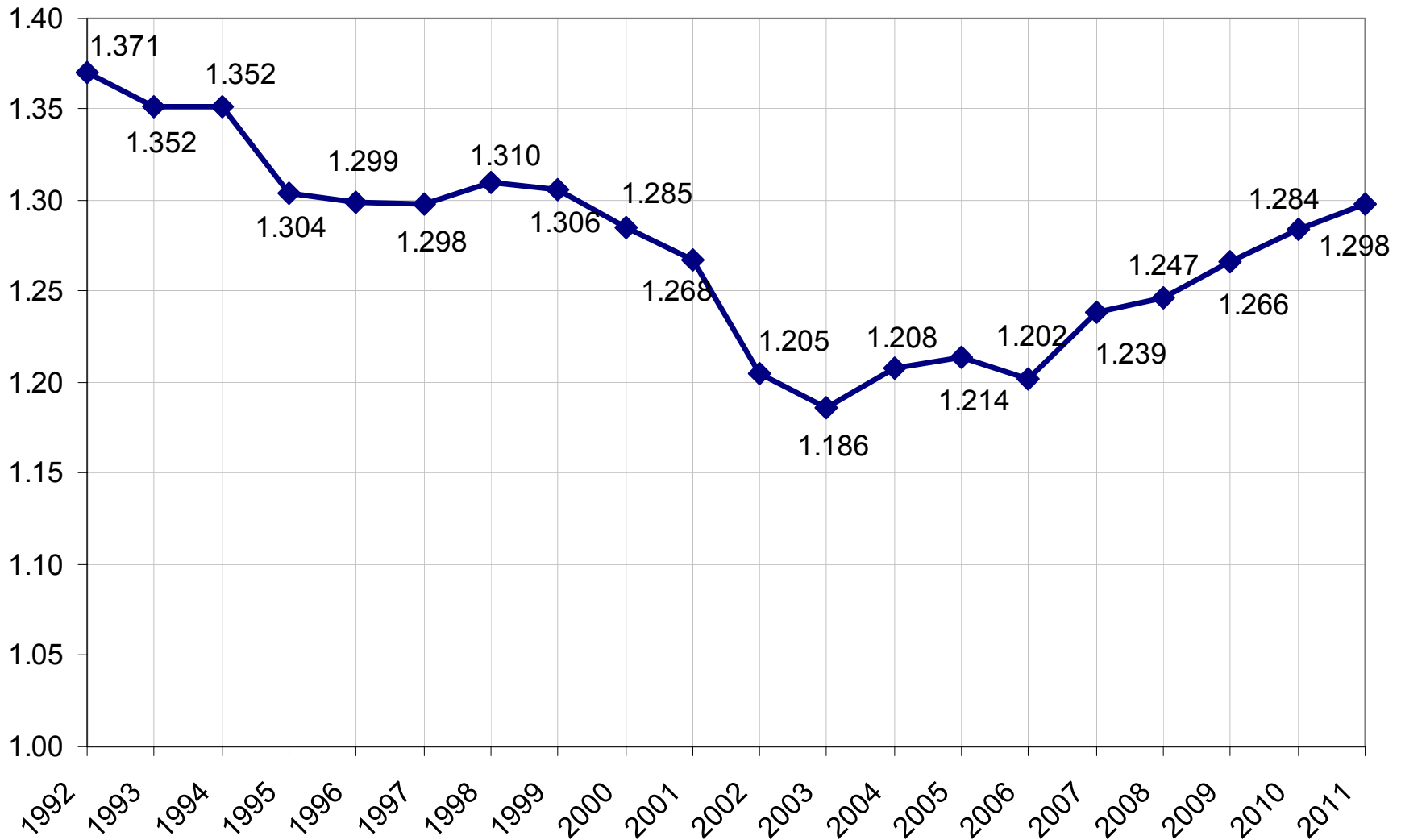
**CHANGE IN GENERAL EDUCATION & SPECIAL EDUCATION REVENUE BY
COMPONENT, FY 2003 - 2011 \$ in millions**

<u>(Current \$)</u>	<u>FY 2003</u>	<u>FY 2011</u>	<u>CHANGE (\$ MILLIONS)</u>	<u>PERCENT CHANGE</u>
REFERENDUM	292	804	512	275%
BASIC (plus extended time)	4,490	4,922	432	110%
SPEC EDUCATION	631	897	266	142%
COMPENSATORY	263	413	150	157%
Q COMP	-	91	91	NEW
EQUITY	35	93	58	266%
TRANSITION (NEW)	-	29	29	NEW
PERMANENT SCHOOL FUND	-	23	23	NEW
PENSION ADJUSTMENT	(47)	(31)	16	66%
GIFTED & TALENTED	-	11	11	NEW
SPARSITY	16	24	8	150%
TRANSPORTATION SPARSITY	56	60	4	107%
OPTIONS ADJUSTMENT	-	1	1	NEW
OPERATING CAPITAL	198	194	(4)	98%
LEP TOTAL	47	40	(7)	85%
TRAINING & EXPERIENCE	25	-	(25)	0%
SUBTOTAL	6,006	7,571	1,565	126%

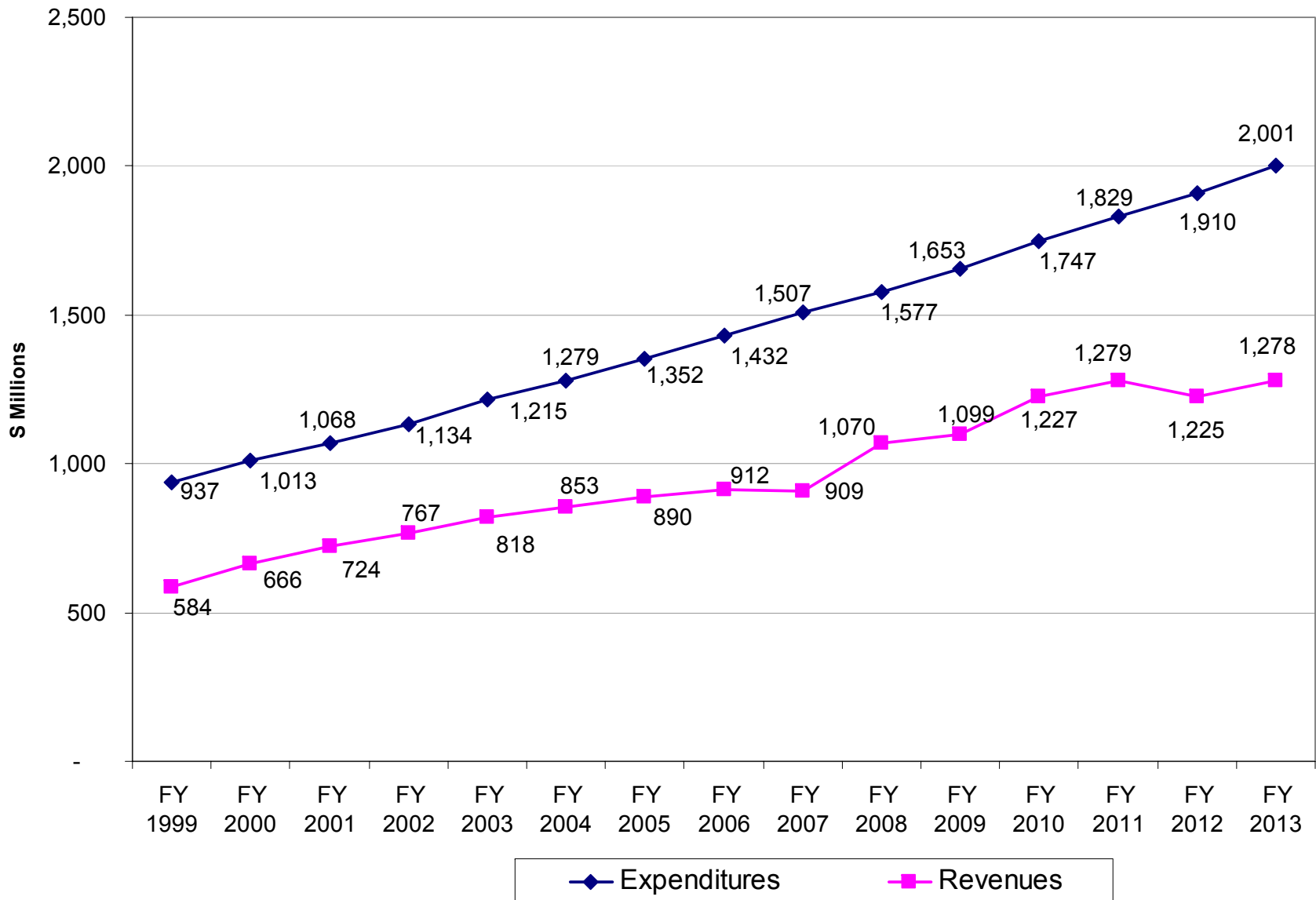
Referendum Election Trends

Year	# Questions	\$ Request	\$ Approved	\$ %
2000	71	107M	68M	63%
2001	207	279	110	39%
2002	111	185	134	72%
2003	117	115	76	66%
2004	89	54	20	38%
2005	106	84	67	80%
2006	86	136	64	47%
2007	132	250	167	67%
2008	68	129	78	60%
2009	78	63	35	50%

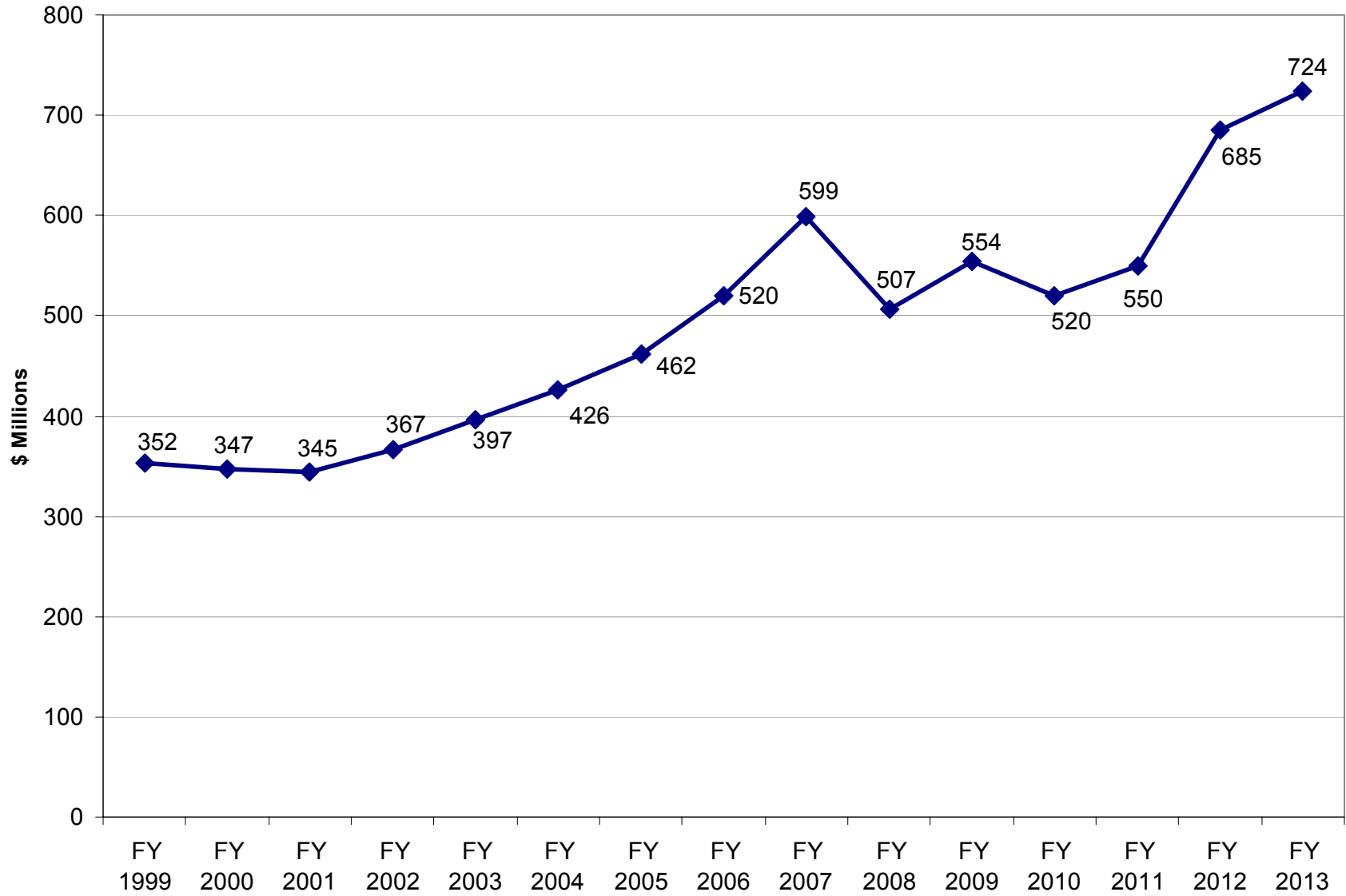
Ratio of 95th to 5th Percentiles Basic + Referendum + Equity Revenue Per Pupil Unit



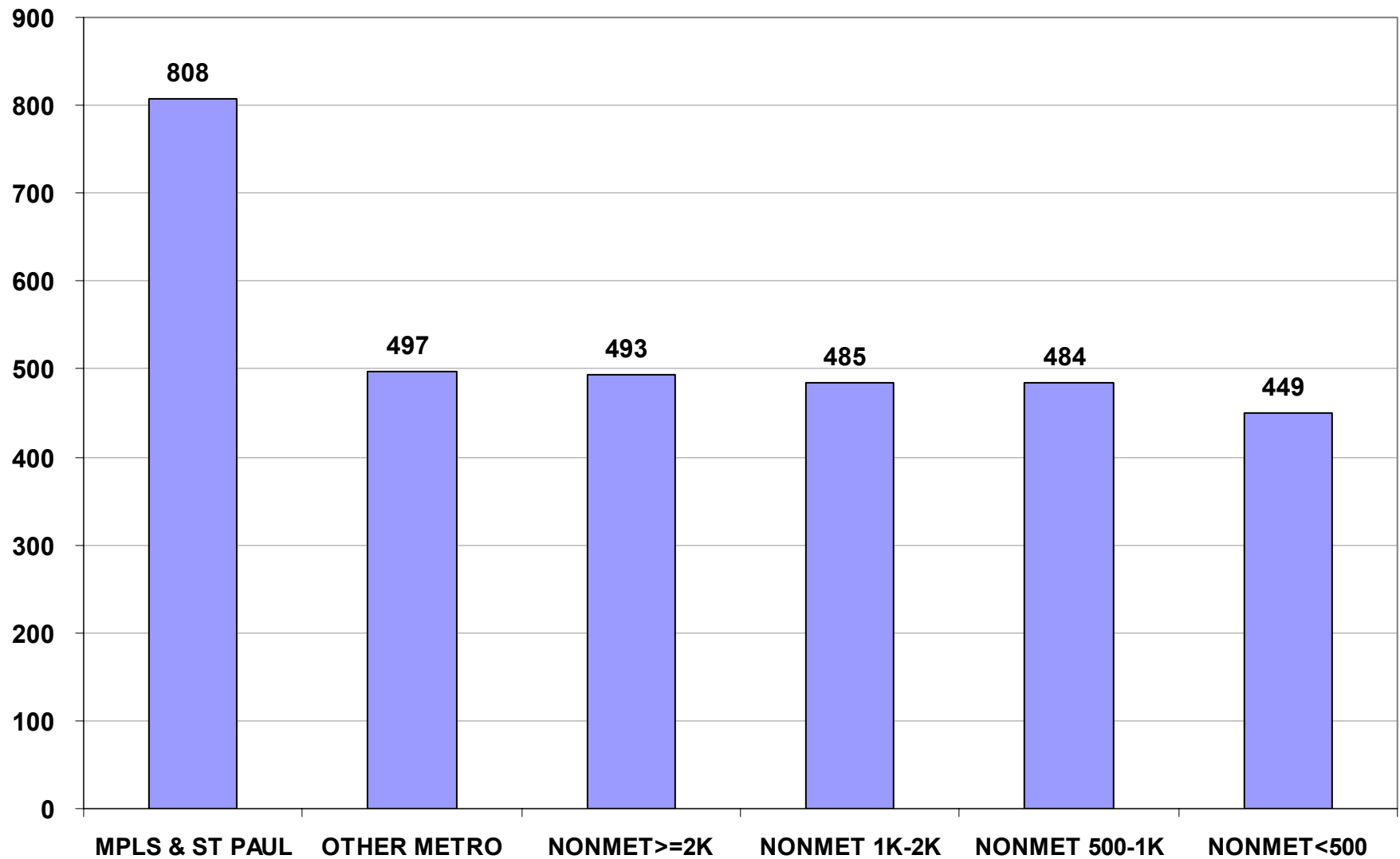
SPECIAL EDUCATION EXPENDITURES AND REVENUES INCLUDING GEN EDUC REVENUE ATTRIBUTABLE TO SPECIAL EDUCATION



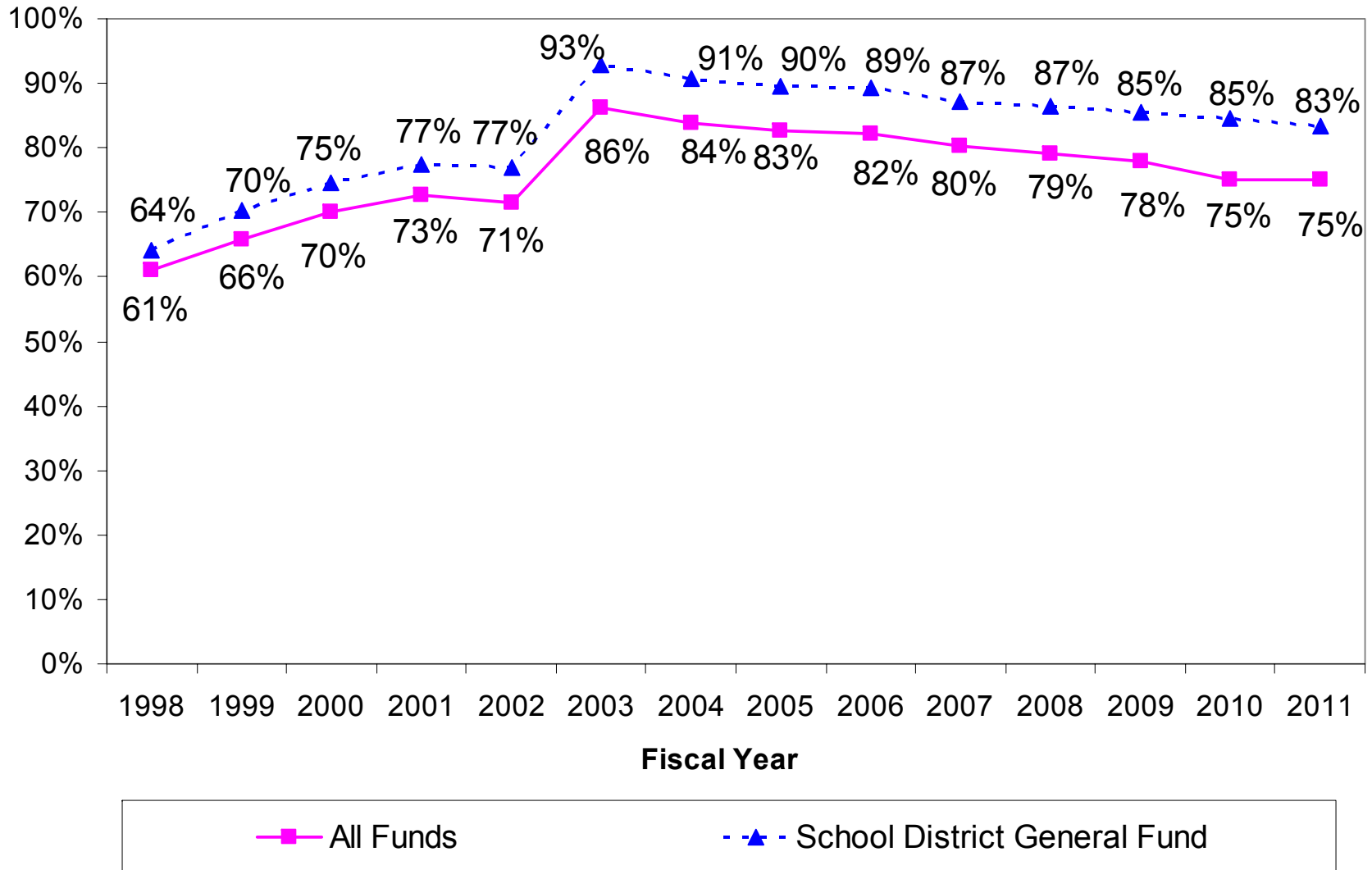
SPECIAL EDUCATION CROSS SUBSIDIES



SPECIAL EDUCATION CROSS SUBSIDY PER WADM BY STRATA, FY 2008

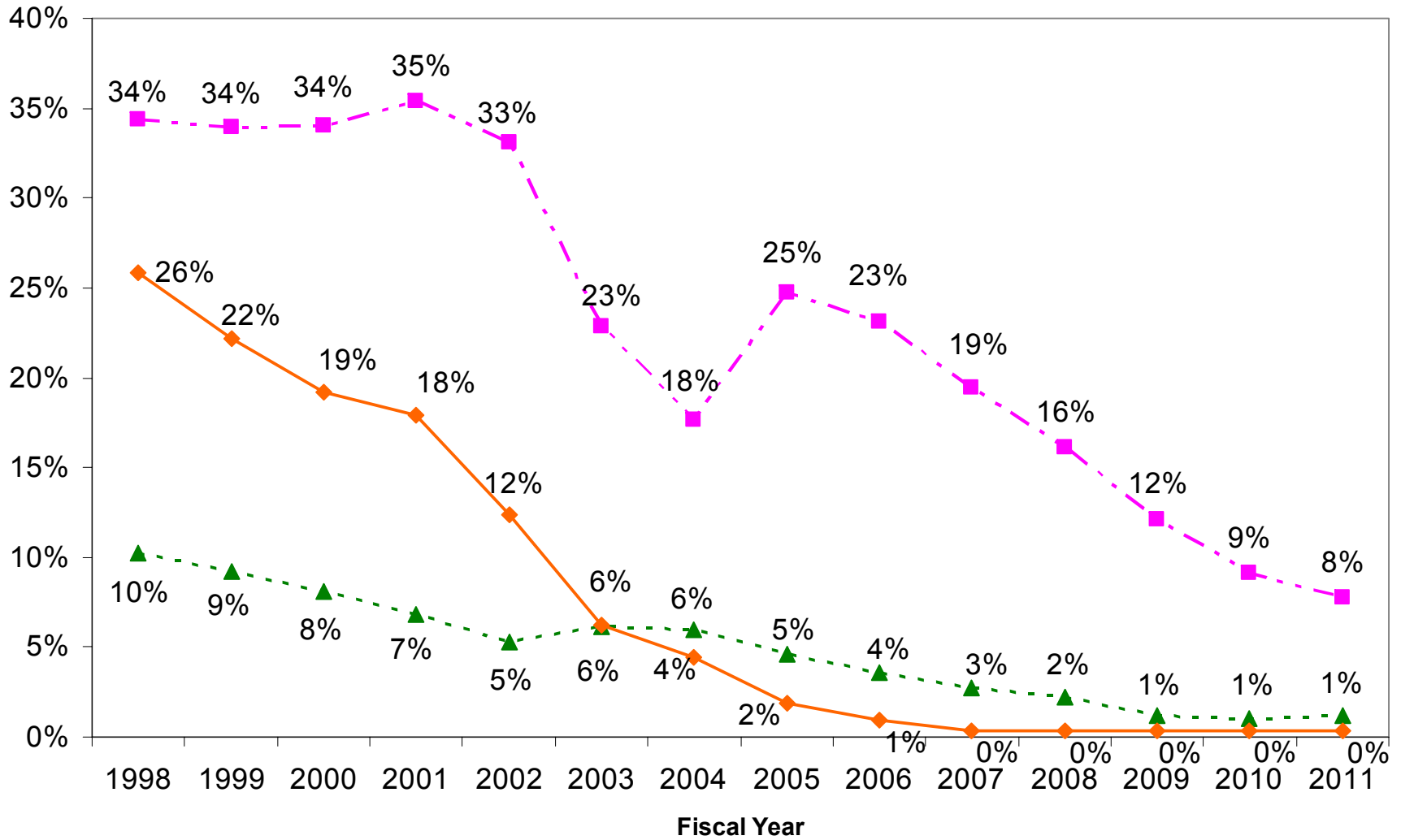


STATE SHARE OF STATE-LOCAL TAX REVENUE FOR K-12 EDUCATION



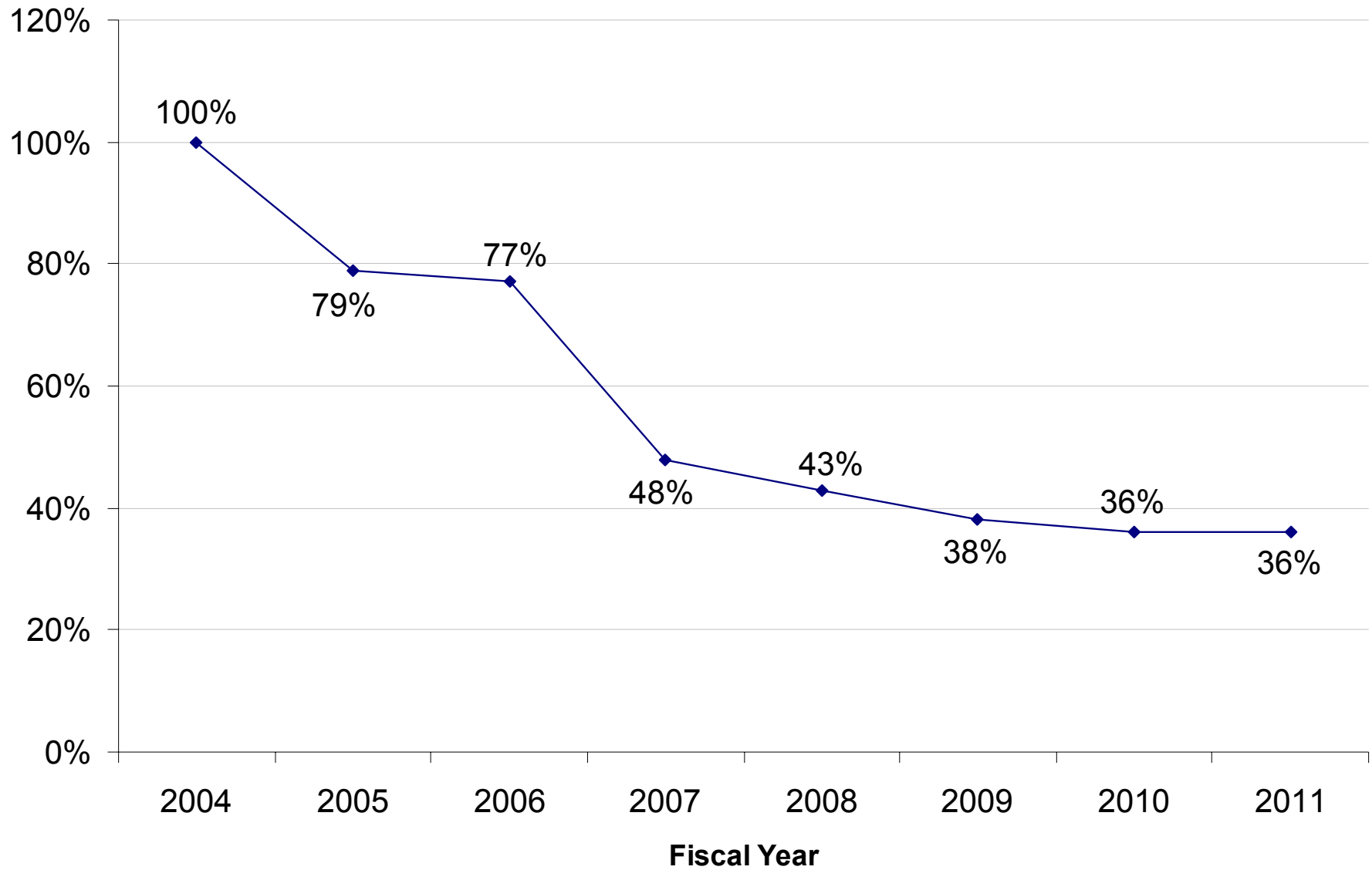
STATE SHARE OF STATE-LOCAL TAX REVENUE

Selected Equalized Levy Programs



—■— Referendum
 -▲- Debt Service
 —◆— Health & Safety

STATE SHARE OF OPERATING CAPITAL REVENUE



Questions?

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