



## Association of Metropolitan School Districts

1667 Snelling Ave. N., St. Paul, MN 55108 • 651-999-7325 • fax 651-999-7328 • www.amsd.org

# Minnesota Education Funding Facts

Minnesota's education funding formulas are very complex. This reality tends to create confusion and makes it difficult for people to get an accurate picture of the school funding environment. The results of the latest legislative session provide a prime example of the confusion that is often created around school funding.

During the 2011 legislative session, state policymakers faced a daunting state budget shortfall. Despite the state budget situation, the governor and legislators were able to avoid direct cuts to K-12 education and, in fact, approved a modest funding increase. Nonetheless, a near record number of school districts placed an operating referendum question on the ballot in November and most school districts were forced to enact budget cuts for the 2011-12 school year.

Many citizens were confused. Why was their local school district making budget cuts and laying off staff if the state provided a funding increase? The following education funding facts are offered to provide some context for understanding today's education funding environment. They also clarify the realities of the current environment by accounting for inflation, student enrollment, special education costs, and other funding changes made during the 2011 Special Session.

This document includes historical data dating back to 2003, the first year following major education funding and property tax reforms adopted by the 2001 legislature went into effect. One of the major changes in the 2001 reform legislation was the elimination of the general education property tax levy. The general education levy was replaced with state aid.

The data contained in the funding facts comes from the Minnesota Department of Education and Minnesota Management & Budget.

## Five Education Funding Facts

1. **Education funding has not kept pace with inflation over the past decade.** Between 2003 and 2011, Minnesota's basic per pupil funding formula increased from \$4,601 to \$5,124, an increase of 11.4 percent. During that same time period, inflation grew by 35.1 percent as measured by the Implicit Price Deflator (IPD) for State and Local Government Purchases. The \$50 per pupil formula increase approved during the recent special session represents an increase of two percent over the next two years. Inflation is projected to be 3.3 percent over that same time period meaning that the basic formula will continue to lose ground to inflation.

2. **What is the “shift”? Why are school districts being forced to borrow money to pay expenses?** A school payment “shift” refers to the percentage of school funding that school districts receive over two fiscal years. Due to the budget deficit during the last session, legislators and the governor increased the shift to a 60/40 payment schedule. This means that school districts will receive 60% of their funding in the first year and the remaining 40% in the second year of the budget. The “shift” is essentially an IOU to school districts. The problem is that school districts are generally not able to shift their expenses forward. School districts still need to open their doors, make payroll and buy textbooks, etc. so they are forced to drain reserves and/or engage in short-term borrowing in order to pay expenses. The school payment “shift” has been used several times over the years by state policymakers to balance the state budget, but the delayed payment percentage has never been as high as 40%.
  
3. **The State is not paying its share of mandated special education costs.** According to the Minnesota Department of Education, special education costs exceeded state and federal special education aid by \$563 million or \$687 per pupil in FY 2011. The expiration of the federal special education aid provided through the American Recovery and Reinvestment Act will increase the unfunded cost of special education to \$695 million, or \$834 per student, by FY 2013 -- an increase of \$147 per pupil! In other words, the \$50 per year increase in the basic formula provided in the 2011 Education Finance Bill will be more than offset by the \$147 increase in the unfunded cost of special education over the next two years.
  
4. **The State mandated increase in the employer contribution to the Teachers Retirement Association (TRA) further strains school district budgets.** The \$50 per pupil increase in the formula over the next two years will also be offset by the mandated increase in the employer contribution to TRA. AMSD member districts estimate that about half of the \$50 increase each year will go to cover the mandated increase to TRA. Legislation enacted in 2010 increases the employer contribution from 5.5 percent to 7.5 percent between 2011 and 2014. The increase is phased in over 4 years at .5 percent per year.
  
5. **Schools are faced with a more challenging student population than ever before.** Since 2003, the number of Minnesota students eligible for free or reduced price lunch has increased from 27 percent to 37 percent. The percent of students with limited English proficiency increased from 6.2 percent to 7.7 percent and the number of students eligible for special education services increased from 13.2 percent to 14.8 percent.