



2017 Session Brief E-12 Education Spending

Background

Education funding is very complex and the debate at the Capitol has increased the level of confusion. For example, some legislators are stating that the House and Senate E-12 Education Bills would increase education spending by more than \$1 billion. That claim is accurate when comparing expenditures in the 2016-17 biennium to the proposed expenditures for the 2018-19 biennium. It is important to note that this comparison covers a four-year period --from FY 2016 through FY 2019. This would average out to about a 1.5% increase per year.

It is also important to note that this comparison includes \$845 million that is already included in the base level funding outlined in the February state budget forecast. There are three main factors that explain the projected base level funding increase: an increase in the number of special education students served and the cost of providing those services, growing student enrollment, and new spending approved during the last biennium that was not effective until the second year of the biennium. The chart below summarizes the financial impact of each of these factors.

Major Drivers of Base Funding Increase: Special Education, More Students, Second Year Funding Effect	18-19 Biennium (millions)
New special education formula and more students receiving special education services	\$330
Growth in pupils served since FY 2016	\$223
Biennial effect: spending approved in the 2015 or 2016 session that was not effective until the second year of the 2016-17 biennium	\$265
Total	\$818

Key Points

Special Education (\$330 million)

The projected increase in special education expenditures is the result of more students receiving special education services and the new special education funding formula that was adopted in the 2013 session. While state special education aid is projected to grow significantly, mandated special education expenditures are projected to grow even faster. In fact, the Minnesota Department of Education projects that the special education cross-subsidy - the amount by which school district special education expenditures exceed special education revenue – is projected to grow. The increased number of students receiving special education services and the new formula accounts for \$330 million of the biennial increase.

Pupil Growth Exceeded Projections (\$223 million)

Since general education spending is largely driven by the number of students served by our public schools, faster than projected pupil growth accounts for a large share of the projected increase in education spending. While pupil growth results in a significant cost increase for the State, it does not provide additional per pupil funding for school districts. The latest forecast shows that pupil growth in the 2018-19 biennium is projected to exceed previous forecasts by 26,000 pupils. The increased number of pupils accounts for almost \$223 million of the projected biennial increase in education spending.

Second Year Effect (\$265 million)

A third factor arises when the Legislature enacts a new program or increases funding for an existing program effective in the second year of the biennium. In this case, the program only requires one year of funding in the current biennium but must be funded for both years in the subsequent biennium. There are three significant examples of this from the 2016-17 biennium.

- Long-term Facilities and Maintenance Revenue Program. (\$131 million)
This important new program, recommended in 2014 by the School Facilities Financing Working Group, was adopted in 2015 effective for FY 2017. It only required funding in the second year of the 2016-17 biennium but will need to be funded for both years of the 2018-19 biennium. This accounts for \$131 million of the biennial increase from 2016-17 to 2018-19.
- Formula Increase (\$110 million) The 2015 Legislature approved an increase in the basic formula of 2% per year for the 2016-17 biennium. Here again, the increase that took effect in the second year of the 2016-17 biennium only had to be paid for once in that biennium but will have to be paid for in both years of the 2018-19 biennium.
- Voluntary Pre-K. (\$24 million) The voluntary Pre-K program was approved during the 2016 legislative session effective for FY 2017. Here again, it only had to be paid for once in the previous biennium meaning the cost will double to cover it for both years of the 2018-19 biennium.

Summary

It is important that legislators understand that the vast majority of increased state spending described above does not represent new operating revenue for school districts and does not negate the need for investments in the basic formula allowance, special education and other important education programs during the 2017 session. The three funding facts below underscore just how important it is that the Governor and Legislators invest in our public schools in the 2017 session:

- The basic funding formula for the current school year would be \$550 per pupil higher if it had simply kept pace with inflation since 2003.
- The state and federal government do not provide the funding to cover mandated special education services. Consequently, public school districts are forced to re-direct money meant for regular classroom instruction to make up the difference. The Minnesota Department of Education's FY 2015 cross-subsidy report shows that special education costs exceeded state and federal special education aid by \$643 million (State portion: \$266 million) in FY 2015. The cross-subsidy is projected to grow to \$680 million (State portion: \$274 million) by FY 2017 and \$719 million (State portion: \$288 million) by FY 2019.
- In FY 2016, Minnesota public school districts spent almost \$148 million on services for English learners but received just over \$52 million in English learner funding. This required school districts to redirect over \$95 million in general education revenue to provide important services to English learners.