



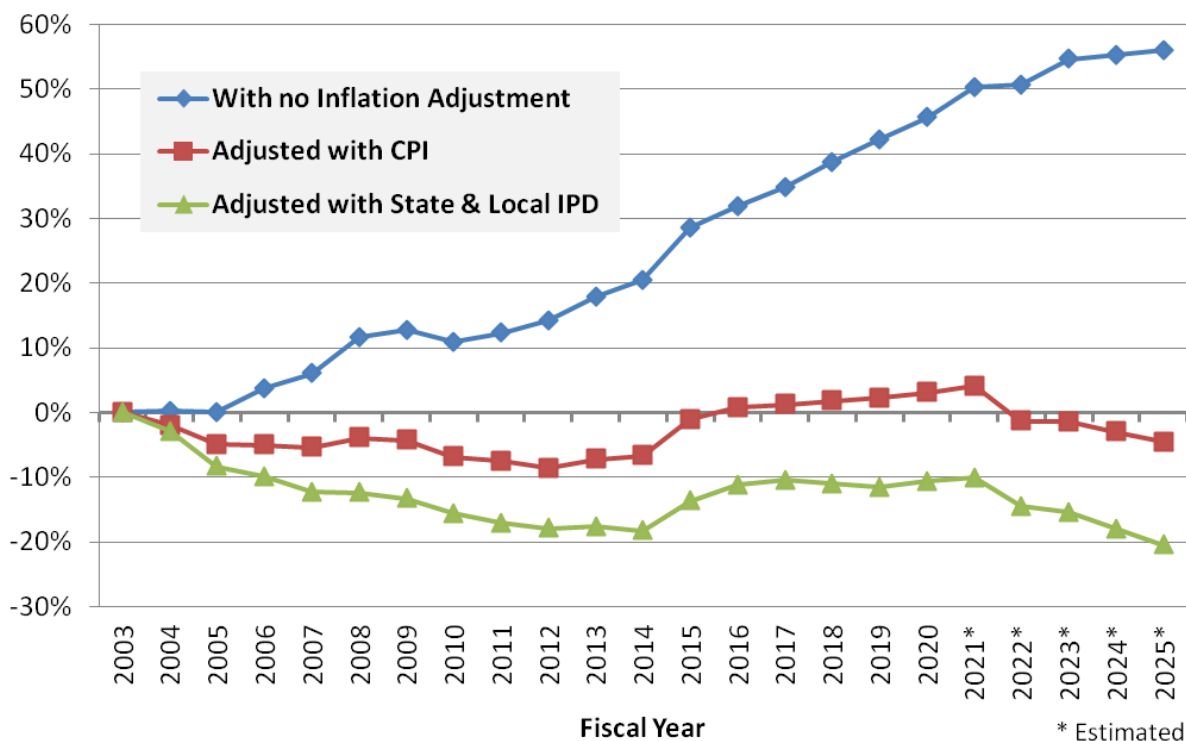
Association of Metropolitan School Districts

Why Are School Districts Facing Budget Challenges?

The complex nature of Minnesota's education funding system makes it difficult to analyze and evaluate funding trends and sufficiency. Different pictures can be painted depending on the funding stream being measured and the starting and ending point of the analysis. Two major state policy changes adopted in 2001 and 2002 — repealing the general education levy and removing projected inflation from the state budget forecast — make a compelling case for using 2003 as the baseline year for measuring Minnesota's commitment to funding education. The 2001 Legislature repealed the fully equalized general education levy as a primary source of funding for education and committed to funding education with state income and sales tax revenue. How has the state done since then?

The chart below shows the per pupil increase in total state aid to **school districts** — excluding aid to charter schools — since 2003. This is inclusive of all state aid including general operations, special education, transportation, deferred maintenance, etc. as well as aid for new programs approved since 2003 such as full-day Kindergarten and voluntary pre-Kindergarten. The chart shows the increase unadjusted for inflation, and adjusted for inflation using the Consumer Price Index (CPI) and the Implicit Price Deflator (IPD) for State and Local Governments. The IPD is the index that more accurately measures the inflationary costs impacting school districts. As the chart shows, while total state aid per pupil has increased by more than 50 percent since 2003, **it has decreased by almost 15 percent when adjusted for inflation as measured by the IPD.**

Percent Change in State Aid per AADM Since FY 2003 Minnesota School Districts



Source: MDE General Fund State Aid and Levy Revenues, 2006 to 2025: 2022 February Forecast

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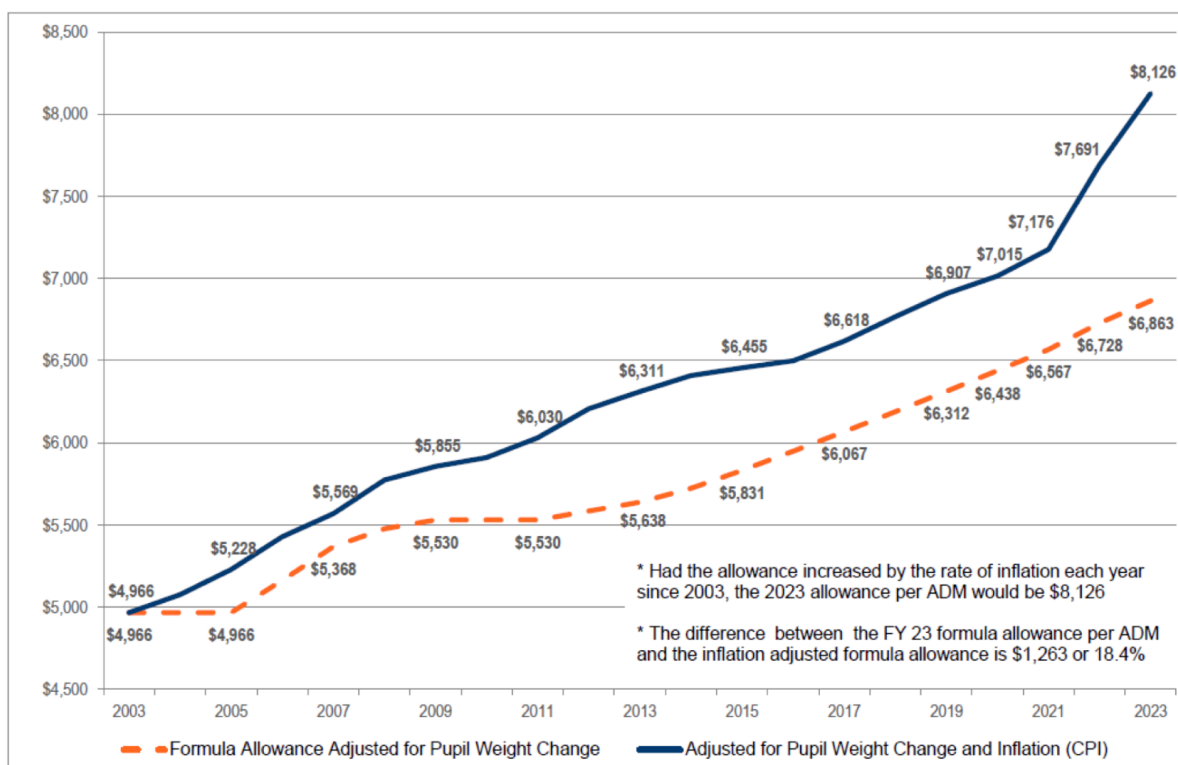
The decline in state support for the general education formula, the most important funding stream for school districts, is even more pronounced. The formula accounts for 55 to 60 percent of a school district's revenue. As the chart below shows, the formula would be \$1,263 per pupil higher today if it had kept pace with inflation since 2003 – and that is using the Consumer Price Index which understates the inflationary pressures school districts face.

Not only has the general education formula failed to keep up with inflation, school districts are having to redirect an increasing share of their general education revenue to cover growing shortfalls in the special education and English learner programs. Statewide, the special education funding shortfall has grown to more than \$800 million and the shortfall in the English learner program has risen to \$170 million.

So, why do Minnesota school districts continue to face budget challenges? The answer is clear. The general education formula has lost \$1,263 per pupil in purchasing power since 2003 and the state has consistently failed to sufficiently fund the special education and English learner programs.

General Education Formula Allowance, 2003-2023

Adjusted for Pupil Weight Change and Inflation (CPI)



Source: MDE June 2022 Inflation Estimates



Updated August 25, 2022