PAGE

The 1930 lithograph of the Minnesota State Capitol used on the cover was originally created by Margaret Bradbury and reproduced with the permission of the Minnesota Historical Society

- CONTENTS (Continued)

State of Minnesota
Department of Education

1500 Highway 36 West
Roseville, Minnesota 55113-4266
Voice: (651) 582-8200
TTY: (651) 582-8201
http://cfl.state.mn.us

February 18, 2003

Please accept this letter as the formal submission of the agency and K-12 program budget for the Minnesota Department of Education for F.Y. 2004-05. The Department of Education's proposed general fund budget for school financing is approximately $12 billion in F.Y. 2004-05. The Department's proposed administrative budget is approximately $47 million and the Department oversees approximately $1.5 billion in federal funds biennially.

The State faces many challenges during the next two years. While the challenges are difficult, the Pawlenty administration will set a course for our K-12 school system that is positive, innovative, promotes student achievement and accountability, protects core services and also provides *better* services to parents, educators, students and taxpayers.

Currently, Minnesota has the fourth highest graduation rate in the nation. And, according to the U.S. Department of Education, Minnesota's 16:1 student to teacher ratio is better than the national average. Minnesota has also been a leader for school choice -- initiating post-secondary enrollment options and open enrollment in 1980s, charter schools in the early 1990s and the passage of landmark legislation with the expansion of education tax credits and deductions in 1997.

These positive attributes indicate the priority that our state has consistently placed on education. While our public schools are solid, we need to move forward and respond to the public's desire to implement new and positive changes.

The Pawlenty administration recommends retiring the state's controversial standards called the Profile of Learning and implementing new academic standards that are rigorous and grade-level specific in the areas of reading/writing, mathematics, science, geography and history. As these standards are implemented, the state will work with school districts, and also address the new federal requirements under the *No Child Left Behind* legislation. The Pawlenty administration supports President Bush's efforts to bring accountability and measurable results to our educational system.

The Pawlenty administration has made protecting the classroom a major priority of the budget presented to the Legislature and to Minnesotans. Under this budget, the revenue per student will increase from $7,633 in 2003 to $7,799 in 2004. But in protecting the classroom dollars, we also recognize that Minnesotans demand accountability. The Pawlenty administration has several recommendations that will provide taxpayers with the assurance that their tax dollars are being spent wisely. First, Governor Pawlenty recommends an overhaul of school finances that complements the Property Tax and School Finance Reform enacted in 2001 and builds on reform measures presented in this budget to legislators and the public.

Reform measures in the Governor's F.Y. 2004-05 budget include: imposing a five-year limit on additional funding for Limited English Proficiency (LEP), which will give school districts incentives to quickly move students to become proficient in English; eliminating Teaching & Learning revenue and encouraging school districts to move to an alternative compensation system of pay for teachers; and creating equity in tax burdens between districts that have passed a referendum and districts that are receiving an equivalent number of dollars per pupil unit from equity revenue.

However, in order for the Governor, Legislature, school districts and the public to engage in school finance reform, there needs to be accurate and clear reference points to begin the debate. The budget presented to the Legislature and the public will begin the debate by funding a school evaluation initiative that will provide clear and accurate information to the public.

In addition, Governor Pawlenty proposes that we create school performance report cards so that parents, teachers, students and taxpayers will have easy-to-read information about each school district, including student achievement; graduation rates and student attendance; levels of state and local spending; and safety and school environmental standards.

During 2003, the Pawlenty administration will seek public comment and input on a school finance reform plan. The final school finance reform plan will be presented to the Legislature in 2004.

Governor Pawlenty's education agenda and budget presented to the 2003 Legislature and Minnesotans is one that places priority on protecting the classroom; providing higher and more rigorous academic standards; setting the stage to begin school finance reform; and bringing a new level of accountability to our educational system.

Sincerely,

Cheri Pierson Yecke

Cheri Pierson Yecke, Ph.D
Commissioner

FY 2004-05 Expenditures ($000s)

	General Fund	Other Funds	Total
2003 Funding Level	11,393,228	1,462,906	12,856,134
Biennial Appropriations	2,000	0	2,000
February Forecast Adjustment	-80,287	0	-80,287
November Forecast Adjustment	105,868	0	105,868
One-Time Appropriations	-35,000	0	-35,000
Program/Agency Sunset	-12,060	-6,600	-18,660
Statutory Adjustment	1,382,181	0	1,382,181
Adjusted Base Funding	12,755,930	1,456,306	14,212,236
Change Items			
Agency Budget Reductions	-8,348	0	-8,348
General Education			
Changes To General Education	-59,584	0	-59,584
Percentages For Aid Payments	-183,173	0	-183,173
Property Tax Shift	-173,602	0	-173,602
Other General Programs			
Eliminate Richfield Airport Aid	-2,601	0	-2,601
Nonpublic Pupil Programs			
Eliminate Impact Of $415 Roll-In	-2,690	0	-2,690
Charter Schools			
Eliminate Charter School Integration	-92	0	-92
Reduce Charter School Lease Aid	-1,348	0	-1,348
Desegregation Programs			
Change Integration Revenue	-290	0	-290
Elim Teachers Of Color/Minority Fellow	-2,000	0	-2,000
Accountability & Reform			
School Evaluation Services Project	500	0	500
Prgs For Special Populations			
Eliminate Reading Competency Program	-200	0	-200
Reduce ADV Placement/International Bacc.	-1,100	0	-1,100
Special Programs			
Special Education & Excess Cost Changes	-47,587	0	-47,587
Facilities & Technology			
Reduce Alt Facilities/Health & Safety	-17,386	0	-17,386
Nutrition Programs			
School Breakfast Consolidation	-271	0	-271
Libraries			
Reduce Basic Library Support Aid	-183	0	-183
Child Care Programs			
Change Child Care Assistance Funding	-17,573	0	-17,573
Early Childhood & Family			
Early Childhood Family Ed/Sch Readiness	-11,828	0	-11,828
Eliminate Way To Grow	-950	0	-950
Prevention			
Community Education Changes	-1,680	0	-1,680
Eliminate After School Enrichment Aid	-11,020	0	-11,020
Eliminate Family Collaboratives Funding	-370	0	-370
Eliminate Parenting Time Centers Aid	-400	0	-400
Eliminate Violence Prevention Funding	-2,654	0	-2,654
Reduce Children'S Trust Fund	-1,750	0	-1,750
Self-Suff & Lifelong Learning			
Adult Basic Education/Adult Graduation	-10,143	0	-10,143
Eliminate Adult Basic Education Audits	-245	0	-245
Eliminate Lead Abatement Aid	-200	0	-200
Reduce Economic Opportunity Grants	-9,028	0	-9,028
Governor's Recommendations	12,188,134	1,456,306	13,644,440
Biennial Change, 2002-03 to 2004-05	1,950,142	76,707	2,026,849
Percent Change	19%	6%	17%

Recommended Levy Impacts

($000s)

	2004	2005	2006	2007
Changes to General Education	0	37,720	30,534	40,619
General Fund Levy Changes	0	(6,248)	(6,274)	(6,300)
Change Integration Revenue	0	(177)	5,514	5,320
Reduce Building Lease Levy	0	(4,329)	(4,542)	(4,765)
Alt. Facilities/Health & Safety Reduction	0	(18,550)	(23,073)	(36,519)
Community Education Changes	0	(7,960)	(3,208)	(3,587)
ECFE/School Readiness Funding Changes	0	(1,030)	0	0
Total Levy Impacts	**$0**	**($574)**	**($1,049)**	**($5,232)**

Recommended Fee Revenue

The Governor recommends fully recovering the costs of licensing teachers in Minnesota by increasing the licensure fee from $47 to $57 per license. The fee increase is estimate to generate an additional $310,000 in revenue per year ($10 * 31,000 licenses per year). The total revenue for teacher licensing is estimated to be $1.8 million per year. This change will allow the fee to fully cover the costs of teacher licensing and will avoid general fund subsidy of these services.

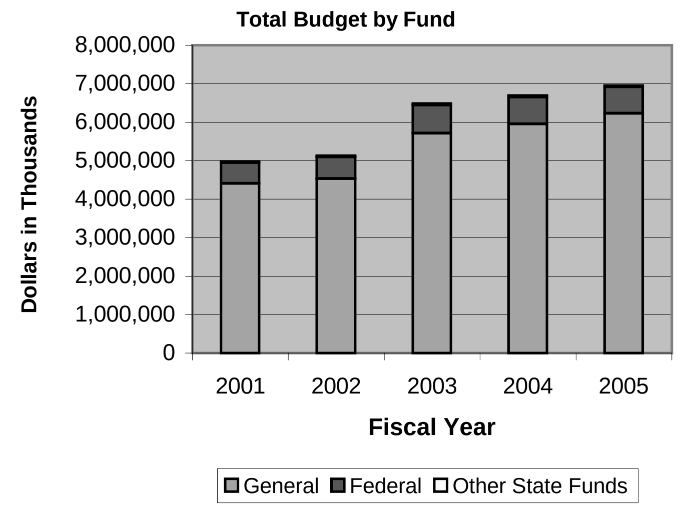
Changes from FY 2002-03

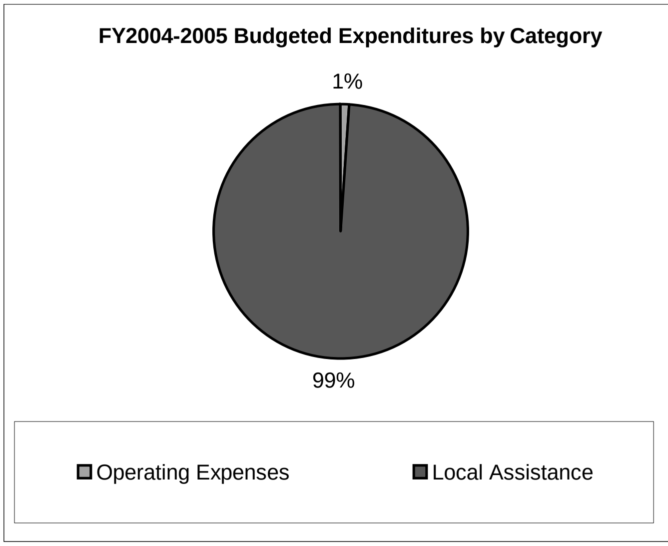
Much of the change in recommended appropriations for 2004-05 relative to the 2002-03 biennium is related to two funding changes for education finance.

⇒ The state takeover of the general education levy as part of the 2001 property tax reform results in almost $1 billion in biennial spending growth for education aids.

⇒ Additionally, a 2002 law change to school aid payment percentages resulted in a 7 percent reduction in 2003 spending. This payment is included in the 2004 and 2005 estimated level of spending, resulting in approximately $438 million in biennial spending growth.

Additionally, recommended expenditures have also been adjusted for the November 2002 and February 2003 budget forecasts. These changes are generally related to updated estimates of enrollment changes and other program experience.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	4,403,836	4,528,482	5,709,212	5,957,097	6,230,759	12,187,856
State Government Special Revenue	96	101	96	96	96	192
Trunk Highway	21	0	0	0	0	0
Federal Tanf	1,811	3,015	4,684	0	0	0
Open Appropriations						
Endowment School	24,053	21,368	19,282	19,634	19,986	39,620
Statutory Appropriations						
General	243	158	140	139	139	278
State Government Special Revenue	302	0	0	0	0	0
Special Revenue	6,333	13,312	14,262	13,861	11,437	25,298
Federal	544,697	566,284	733,891	698,626	690,868	1,389,494
Miscellaneous Agency	632	723	850	777	777	1,554
Gift	1,013	1,455	276	74	74	148
Total	**4,983,037**	**5,134,898**	**6,482,693**	**6,690,304**	**6,954,136**	**13,644,440**

Expenditures by Category						
Operating Expenses	70,358	66,615	89,665	76,337	71,236	147,573
Payments To Individuals	2,762	2,734	2,673	8,058	5,634	13,692
Local Assistance	4,909,324	5,064,903	6,389,655	6,605,209	6,876,566	13,481,775
Other Financial Transactions	593	646	700	700	700	1,400
Total	**4,983,037**	**5,134,898**	**6,482,693**	**6,690,304**	**6,954,136**	**13,644,440**

Dollars in Thousands Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
General Education	3,296,451	3,430,409	4,668,968	4,833,163	5,123,323	9,956,486
Other General Programs	7,173	6,819	3,802	3,508	3,929	7,437
Nonpublic Pupil Programs	31,909	31,864	36,252	37,205	37,607	74,812
Charter Schools	18,207	20,102	19,555	23,790	27,789	51,579
Desegregation Programs	55,259	64,240	53,011	68,159	68,585	136,744
American Indian Programs	3,588	5,363	5,783	6,524	6,657	13,181
Accountability & Reform	30,619	31,929	66,175	65,490	63,490	128,980
Prgs For Special Populations	117,888	115,711	179,172	174,342	174,288	348,630
Special Programs	662,773	707,882	692,681	770,916	777,921	1,548,837
Facilities & Technology	64,620	61,393	60,831	69,212	53,173	122,385
Nutrition Programs	155,366	166,058	168,405	168,533	169,181	337,714
Libraries	14,546	12,246	14,433	14,632	14,836	29,468
Discontinued Programs (K-12)	108,879	48,206	21,015	0	0	0
Child Care Programs	189,698	212,576	252,163	244,130	237,190	481,320
Early Childhood & Family	60,314	57,645	56,539	57,556	48,501	106,057
Prevention	37,585	39,309	32,090	21,422	18,697	40,119
Self-Suff & Lifelong Learning	65,582	63,288	73,075	64,354	63,702	128,056
Discontinued Programs (Ec)	1,399	200	401	0	0	0
Agency	61,181	59,658	78,342	67,368	65,267	132,635
Total	**4,983,037**	**5,134,898**	**6,482,693**	**6,690,304**	**6,954,136**	**13,644,440**

Revenue by Type and Fund						
Non Dedicated						
General	2	1,638	1,707	2,017	2,017	4,034
Cambridge Deposit Fund	1,630	0	0	0	0	0
Subtotal Non Dedicated	1,632	1,638	1,707	2,017	2,017	4,034
Dedicated						
General	256	143	139	139	139	278
State Government Special Revenue	0	5	0	0	0	0
Special Revenue	8,362	12,553	11,267	10,666	10,542	21,208
Federal	546,887	563,482	733,575	698,626	690,868	1,389,494
Maximum Effort School Loan	1,060	940	940	940	940	1,880
Miscellaneous Agency	643	730	777	777	777	1,554
Gift	1,399	518	42	74	74	148
Subtotal Dedicated	558,607	578,371	746,740	711,222	703,340	1,414,562
Total Revenue	**560,239**	**580,009**	**748,447**	**713,239**	**705,357**	**1,418,596**
Full-Time Equivalents (FTE)	**543.6**	**518.7**	**511.0**	**509.7**	**505.7**	

DEPARTMENT OF EDUCATION

Change Item: AGENCY BUDGET REDUCTIONS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(4,174)	(4,174)	(4,174)	(4,174)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(4,174)	(4,174)	(4,174)	(4,174)

Recommendation

The Governor recommends $47.3 million for the Department's administrative budget in FY 2004-05. This is a biennial reduction of $4.174 million per year. The Governor expects that the Department will focus on its mission of improving K-12 education in Minnesota as it implements these administrative reduction in non-core service areas. Additionally, the Governor intends to provide as much flexibility as possible to the agency for the implementation of these reductions.

Relationship to Base Budget

This change reflects a reduction of approximately 15% of the agency's FY 2004-05 base budget.

Change Item: INCREASE TEACHER LICENSURE FEE

Fiscal Impact* ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	($310)	($310)	($310)	($310)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($310)	($310)	($310)	($310)

*Net fiscal impact equals expenditure change minus revenue change. Positive numbers can be expenditure increases or revenue decreases. Negative numbers can be expenditure reductions or revenue increases.

Recommendation

The Governor recommends fully recovering the costs of licensing teachers in Minnesota by increasing the licensure fee from $47 to $57 per license.

Background

Per *Minn. Stat.* §122A.21, teachers pay a fee for licensure that is intended to recover the costs of administering teacher licensure in the State of Minnesota. The current fee of $47 does not cover the full costs of administering licensure provisions, including the operations of the Personnel Licensing Division and systems in the Department, the operations of the Minnesota Board of Teaching and legal fees.

The proposed $10 increase to the licensure fee will ensure that the full costs of licensing are offset by fee collections. The fee has been constant for at least the last eight years.

Relationship to Base Budget

This is a non-dedicated fee. The fee increase will ensure that revenue is sufficient to support estimated expenditures and the state general fund is not subsidizing these program costs.

Statutory Change: Not applicable.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
1 Eliminate Learning Year Pupil Units	($58,483)	($69,190)	($69,060)	($69,183)
2 Five Year Limit on LEP Funding	($3,855)	($7,480)	($8,460)	($8,896)
3a Delete $415 Impact Compensatory	($20,435)	($24,989)	($24,087)	($23,971)
3b Delete $415 Impact Sparsity	($1,179)	($1,448)	($1,490)	($1,538)
3c Delete $415 Impact Transp. Sparsity	($4,468)	($5,350)	($5,308)	($5,265)
3d Delete $415 Impact PSEO	($1,866)	($1,878)	($1,910)	($1,958)
4 Eliminate Training & Experience Revenue	($14,262)	($11,550)	($6,683)	($3,301)
5 Hold Harmless Gen. Ed. Revenue/PU	$89,407	$53,404	$37,282	$31,212
6 Change Equity Revenue from Aid to Levy	0	($14,597)	($18,811)	($20,401)
7 First Tier-Referendum Equalization	0	$38,635	$56,461	$56,018
Total Appropriation Basis	($15,141)	($44,443)	($42,066)	($47,283)
Aid Entitlement Basis				
1 Eliminate Learning Year Pupil Units	($70,461)	($68,930)	($69,087)	($69,203
2 Five Year Limit on LEP Funding	($4,644)	($8,061)	($8,542)	($8,968)
3a Delete $415 Impact Compensatory	($24,621)	($25,064)	($23,887)	($23,988)
3b Delete $415 Impact Sparsity	($1,420)	($1,454)	($1,497)	($1,546)
3c Delete $415 Impact Transp. Sparsity	($5,383)	($5,343)	($5,301)	($5,258)
3d Delete $415 Impact PSEO	($1,866)	($1,878)	($1,910)	($1,958)
4 Eliminate Training & Experience Revenue	($17,183)	($10,396)	($5,922)	($2,764)
5 Hold Harmless Gen. Ed. Revenue/PU	$107,719	$42,279	$36,258	$30,179
6 Change Equity Revenue from Aid to Levy	0	($17,587)	($19,062)	($20,675)
7 First Tier-Referendum Equalization	0	$46,548	$58,491	$55,511
Total Appropriation Basis	($17,859)	($49,886)	($40,459)	($48,670)
Levy Impact				
1 Eliminate Learning Year Pupil Units	0	$2,232	0	0
5 Hold Harmless Gen. Ed. Revenue/PU	0	$64,449	$69,963	$75,455
6 Change Equity Revenue from Aid to Levy	0	$17,587	$19,062	$20,675
7 First Tier-Referendum Equalization	0	($46,548)	($58,491)	($55,511)
Total Levy Impact	0	$37,720	$30,534	$40,619
Total District/Non-District Revenue	($17,859)	($12,166)	($9,925)	($8,051)

Recommendation

The Governor recommends changes to the general education program to ensure greater accountability and more equitable targeting of resources. The Governor's plan seeks increased accountability through changes to learning year and limited English proficiency revenue. To provide more fairness in district finances, the Governor recommends eliminating the distortions caused by rolling in $415 of referendum revenue in the tax reform of 2001, requiring a local contribution for districts accessing equity revenue, and significantly raising the fully equalized portion of referendum revenue. Funding for K-12 classrooms is protected by ensuring district general education revenues are held harmless on a per pupil basis with a new transition revenue. The proposed reductions are $15,141,000 in FY 2004 and $44,443,000 in FY 2005.

The Governor recommends the following changes in the general education program:

⇒ Beginning in FY 2004, eliminate learning year pupil units for students enrolled more than full-time. To neutralize the impact on referendum revenue, adjust each district's referendum allowance based on the ratio of the district's FY 2004 old formula resident marginal cost pupil units (RMCPU) to its new formula RMCPU, and adjust the standard referendum cap from 18.2% to 18.6% of the general education formula allowance.

⇒ Beginning in FY 2004, change the student count used to drive limited English proficiency (LEP) funding from the duplicated headcount of LEP students identified (but not necessarily served) to the average daily membership (ADM) of LEP students served in an LEP program. Limit LEP funding eligibility to students who have been enrolled in Minnesota public schools for fewer than five years (5 ADM). To partially offset the reduction in eligible LEP student counts, increase the basic LEP formula from $584 to $700, and increase the maximum concentration allowance from $190 to $250.

⇒ Beginning in FY 2004, compute Compensatory, Sparsity, Transportation Sparsity, and Post Secondary Enrollment Options Program (PSEO) revenue using the formula allowance less $415, instead of the full formula allowance.

⇒ Beginning in FY 2004, eliminate Training & Experience (T&E) revenue.

⇒ For FY 2004, provide transition aid to guarantee that a district's FY 2004 general education revenue per old law adjusted marginal cost pupil unit (AMCPU), excluding operating referendum levies and open enrollment adjustments, will at least equal the lesser of the district's FY 2003 general education revenue per AMCPU or the district's old law FY 2004 general education revenue per AMCPU. For FY 2005-08, a district's transition revenue will equal the district's FY 2004 transition revenue per AMCPU times the district's current year AMCPU, and will be funded through an equalized levy. The levy will be spread on referendum market value and equalized at the same rate as Tier 1 referendum revenue. Districts may convert their transition revenue to operating referendum revenue with voter approval. The referendum cap for each district will be increased by the amount converted from transition revenue. Transition revenue will expire in FY 2009.

⇒ Beginning in FY 2005, change the funding for equity revenue from all aid to an equalized levy. The levy will be spread on referendum market value and equalized at the same rate as Tier 1 referendum revenue.

⇒ Expand first tier referendum equalization from $126 per pupil unit to $405 per pupil unit in FY 2005 and to $500 per pupil unit in later years.

Background

1 - Eliminate Learning Year Pupil Units

Under current law, if students are enrolled in a learning year program, an area learning center, a contract alternative program, or an alternative program approved by the commissioner, for more than 1,020 hours per year (secondary), 935 hours per year (elementary) or 425 hours per year (K), the student is counted as more than one pupil in ADM. ADM is limited to 1.2 for a kindergarten student or 1.5 for a student in grades 1 – 12.

The learning year program began with a pilot project at the North Branch school district in the late 1980s, shortly after categorical funding for summer school was eliminated and rolled into the general education formula by the 1987 legislature. The original concept was to enable secondary students to accelerate their learning by attending school year-round. While students would generate more than one ADM per year, they would graduate early, with no net long-term cost to the state. Over time, the program expanded to include elementary as well as secondary students, and to include remedial programs as well as accelerated learning. The program has grown rapidly since the mid-1990s, spurred by the introduction of basic skills testing and by the availability of additional general education funding for additional student learning time. Between 1995 and 2002, the number of additional ADM generated by students attending more than full time has increased from 2,095 to 12,174.

The program has produced positive results for at-risk learners, but there are problems:

⇒ With the additional ADM for these students buried in each district's basic student accounting data and funded through the general education formula and all other formulas based on ADM data, there is a lack of accountability at the state and local levels for the costs of this program.
⇒ Cost per pupil information reported to the public and to policy makers is misleading if the reader does not know that some students are counted as more than one ADM. Most would assume that the cost of additional services would show up as a higher cost per student, but that doesn't happen when the student count is inflated for the extra time.
⇒ A significant number of hours are generated through independent study, which may have lower costs and/or limited accountability for time spent in the program. There have also been instances where districts have reported ADM for programs that resemble extended day programs operated through community education.
⇒ Compensatory revenue or basic general education revenue can be used to provide additional learning time for at-risk learners during the school year or during the summer. Most districts with a significant number of learning year pupil units receive substantial compensatory funding that could be used for this purpose.
⇒ Additional learning time is only one of many options for remedial education. When extra funding is provided for additional learning time but not for other strategies operating within the normal school day and year, there is an incentive to add time instead of choosing other options.

Statewide, about 14,000 pupil units are generated in this manner, or about 1.4% of all pupil units. The Minneapolis district is by far the heaviest user of this option: 8.1% of the district's total AMCPU are generated by hours exceeding one ADM per student.

2 - Five Year Time Limit on Limited English Proficiency (LEP) Funding
Under current law, school districts receive $584 for each pupil of limited English proficiency enrolled in the district at some time during the year, plus an additional amount up to $190 per enrolled LEP student, depending on the concentration of LEP students. Beginning in FY 2003, LEP students in grades 3-12 are required to score below a cut score set by the commissioner on the Test of Emerging Academic English (TEAE) to remain eligible for funding in the following school year. Test results from FY 2003 are summarized below:

LEP students tested	31,563
LEP students scoring above the cut score on both tests	441
Percent of tested LEP students passing both tests	1.4%
LEP students not tested / refused	1,493
Students not previously identified who were tested and scored below the cut score	5,454

While the TEAE was intended to be used as an exit criteria to ensure that students didn't remain eligible for funding after gaining English proficiency, the net effect has been to add significantly more students to LEP eligibility than have been excluded from eligibility.

The current funding formula provides no incentive for school districts to provide effective instruction for LEP students. The longer a student remains in LEP status, the more aid the district receives.

3 - Eliminate Impact of $415 Roll-in on Revenues Linked to Formula Allowance
The formulas for compensatory, transportation, transportation sparsity and PSEO are linked to the general education formula as a means of adjusting for inflation. Linking these formulas to the general education formula ensures that a consistent inflation rate will be used across programs.

For FY 2003, the general education formula was increased by 2.6% and an additional $415, or 9.9%, for the roll-in of referendum revenue into the basic formula. For most school districts, the $415 increase was offset by a reduction in referendum revenue, so the actual adjustment was 2.6%. For the programs linked to the formula allowance, there was no offsetting transfer into the general education formula, thereby increasing funding by an additional 9.9% on top of the general adjustment.

Eliminating the additional 9.9% increase for these programs will reduce funding below the FY 2003 level, but will maintain funding well above the FY 2002 levels. Total compensatory revenue for the FY 04-05 biennium will exceed total compensatory revenue for the FY 02-03 biennium by $18 million or 3.7%. Total compensatory revenue will be 12.8% higher in FY 2004 and 14.8% higher in FY 2005 than in FY 2002. This reflects the 2.6% adjustment provided to the formula in FY 2003 that will continue to be funded and growing poverty concentrations related to the downturn in the economy.

FY 2004 combined funding for sparsity and transportation sparsity funding will be lower than in FY 2003, but 2.4% higher than in FY 2002. This reflects the 2.6% adjustment provided to the formula in FY 2003 that will continue to be funded, offset by declining enrollments in rural districts.

FY 2004 PSEO-college funding will also be lower than in FY 2003, but 3.6% higher than in FY 2002. This reflects the 2.6% adjustment provided to the formula in FY 2003 that will continue to be funded, and slight growth in the number of PSEO students.

4 - Eliminate T&E Funding
Training & Experience (T&E) revenue is being phased out as state policy encourages districts to move away from the traditional step and lane approach to teacher compensation and to consider alternative teacher compensation tied to improved student performance. Current funding is based on teachers employed by a district in FY 1997, and phases out as these teachers leave the district.

The current phase-out process is slow and uneven; some districts no longer qualify for T&E funding, while others still receive significant T&E revenue. On average, the remaining T&E revenue per pupil is higher in rural districts than in the metro area.

5 - Transition Revenue (Hold-Harmless)
The recommendations outlined above are a first step toward reform of the general education program, increasing accountability and strengthening incentives for cost-effective operations. Because of the magnitude of the funding changes resulting from these recommendations, a hold-harmless provision is recommended to mitigate the short-term impact on school districts.

Transition revenue will guarantee each district that its FY 2004 general education revenue per old law AMCPU (excluding referendum revenue and open enrollment adjustments), will at least equal the lesser of: (i) the district's FY 2003 general education revenue per AMCPU, or (ii) the district's FY 2004 general education revenue per AMCPU under current law.

Because the property tax levy for FY 2004 has already been made, transition revenue will be funded with state aid in FY 2004. By continuing transition revenue for an additional four years as an equalized levy, school districts will be given ample opportunity to evaluate cost-effective program options and determine whether to seek voter approval for a longer term extension of these revenues.

6 & 7 - Change Equity Revenue from Aid to Equalized Levy and Expansion of First Tier Referendum Equalization
Under current law, districts with referendum revenue below the regional (metro or rural) 95th percentile, (except Minneapolis, St Paul & Duluth), receive state aid equal to $10 per pupil unit plus, for districts with a referendum, up to an additional $55 per pupil unit on a sliding scale. For FY 2004, metro districts with referendum allowances below $1,289 per pupil unit qualify for this revenue, while rural districts qualify with referendum allowances below $951 per pupil unit.

Equity revenue is designed to reduce the revenue gap between high and low referendum revenue districts by providing low revenue districts with additional unrestricted funds to compensate for their lack of referendum revenue.

Equity revenue is not an efficient or effective approach to reducing revenue disparities among districts, and focuses on the symptoms of revenue disparity instead of the underlying causes. The amounts of revenue per pupil unit provided through the formula -- $10 to $65 – have minimal impact in closing the revenue gaps between high and low revenue districts. Funding is not well targeted to low revenue districts. In the metro area, districts with referendum allowances as much as $452 over the standard referendum cap receive equity revenue; in the rural area, districts with referendums as much as $114 over the standard cap receive this revenue. While equity revenue seeks to address wealth-related disparities in referendum revenue – (districts with low tax base per pupil must levy at a higher rate to receive equivalent amounts of revenue per pupil) - the formula is not adjusted for tax base differences among districts. The formula generally assumes that all differences in referendum allowances are inequitable and should be mitigated by state aids to low revenue districts. In reality, a significant portion of referendum variations are related to differences in the cost of providing equivalent education among districts.

The formula does attempt to factor in cost differences by restricting access to the $55 sliding scale revenue to districts that have passed a referendum. Districts with no referendum may not need the extra funds due to low cost structures. An unforeseen consequence of this approach is that several districts have passed a $1 per pupil unit referendum to qualify for an additional $55 per pupil unit from the state.

Over the long term, the state should address the underlying causes of the equity problem instead of using an inefficient and ineffective means of treating the symptoms. The recommended changes help level the playing field in terms of tax burdens required to access a given level of referendum revenue per pupil, and then allow local communities to select their desired taxing and spending levels within reasonable limits through the referendum process. By requiring districts to levy for a portion of equity revenue, state resources would be freed up for enhanced referendum equalization. The referendum equalization formula allocates dollars more efficiently and effectively by targeting aid to low tax base communities, thereby allowing the state dollars to go farther in reducing revenue gaps.

The proposed equity levy would be spread on referendum market value, and would be equalized at the same rate as first tier referendum equalization. This would create equity in tax burdens between districts that have passed a referendum and districts that are receiving an equivalent number of dollars per pupil unit from equity revenue. Enhanced referendum equalization would also help mitigate the tax impact of the transition/hold harmless levy. Like the equity levy, that levy would also be spread on referendum market value and equalized at the same rate as first tier referendum equalization.

A variety of policy levers are available for increasing referendum equalization—first and second tier equalizing factors and the size of the first tier relative to the second tier. The option being proposed is to expand the size of the first tier. This will focus most of the tax relief on existing referendum levies, and not provide as much incentive for new referendums as increasing second tier equalization.

Under current law, the state share of referendum revenue declines from 22.8% in FY 03 to 9.9% in FY 07 due to growing market values, declining enrollments and a growing share of total referendum revenue in Tier 2. The Governor's proposal would help to stabilize the state and local shares of this revenue. Because only the aid portion of referendum revenue follows students to charter schools, stabilizing the state share of referendum revenue will also prevent a revenue loss to charter schools.

Relationship to Base Budget

The proposed reductions in state aid appropriations are 0.3% of the base budget for FY 2004 and 0.9% of the base budget for FY 2005. The proposed revenue reductions (aid entitlement plus levy) are 0.3% of current law revenue for FY 2004 and 0.2% of current law revenue for FY 2005.

Key Measures

The table below shows school district general operating resources for fiscal years 2002-2007 (operating resources includes other revenue sources like special education, but excludes non-general fund items like debt service and nutrition programs). This table takes into account the Governor's budget recommendations across all aid and levy programs that affect districts' general funds. Under the Governor's budget, district revenue per ADM will be $7,799 in FY 2004 and $7,900 in FY 2005.

Total District General Fund Revenue
From State Aids and Property Taxes
Governor's Budget Recommendations

	Revenue per ADM		
Fiscal Year	Operating Referendum Revenue	Other Revenue	Total Revenue Per ADM
2002	$ 644	$ 6,501	$ 7,144
2003	348	7,285	7,633
2004	508	7,291	7,799
2005	609	7,291	7,900
2006	667	7,265	7,932
2007	736	7,272	8,008

The table below is a subset of the district general fund table above. This shows district revenue from the General Education program only. The slight annual declines shown in General Education revenue per ADM from sources outside of Referendum Revenue reflect the current law trends such as the phase out of T&E revenue and other reductions projected in the February Forecast, as well as the impact of the Governor's budget recommendations.

General Education Revenue Only
From State Aids and Property Taxes
Governor's Budget Recommendations

	Revenue per ADM		
Fiscal Year	Operating Referendum Revenue	Other Revenue	Total Revenue Per ADM
2002	$ 644	$ 5,416	$ 6,060
2003	348	6,060	6,408
2004	508	6,041	6,549
2005	609	6,040	6,649
2006	667	6,021	6,688
2007	736	6,020	6,756

Statutory Changes: Amend MS 126C.05, subd. 15, to eliminate authority to count students as more than one ADM. Amend MS 124D.59, MS 124D.65 and MS 126C.10, subd. 4, to change LEP student accounting procedures and LEP funding formula. Amend MS 126C.10, subd. 3, to change the compensatory revenue formula. Repeal MS 126C.10, Subd. 5 (T&E revenue) and MS 126C.11 (T&E index). Amend MS 126C.10, subd. 7 & 8 to change the elementary and secondary sparsity formulas. Amend MS 126C.10, subd. 18, to change the transportation sparsity formula. Amend MS 124D.09, subd. 13, to change PSEO formula. Add new subdivisions to MS 126C.10 for equity levy and aid and transition revenue, levy and aid. Amend MS 126C.17, subdivisions 2 and 5, to change referendum equalization formulas and referendum cap.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($185,452)	$2,279	$2,072	($758)

District/Non-District Revenue Change	0	0	0	0

Recommendation

The Governor recommends that the payment schedule for state aids and property tax credits paid to school districts and charter schools on an 83% current, 17% final adjustment basis be changed to an 80% current, 20% final adjustment basis beginning in FY 2004.

Background

Beginning in FY 2003, school districts, including charter schools, receive state aid equal to 83% of the estimated annual entitlement during the current school year in a metered flow of semimonthly payments from July 15 through June 20 as provided in MS 127A.47. In the following school year, the remaining amount due (based on final data) is paid in three installments on August 30, September 30 and October 30.

Prior to this year, districts received 90% of the estimated annual entitlement during the current year with the remainder received in October. Reducing the percentage of estimated annual aid paid to school districts in the current year from 90% to 83% moved state expenses of approximately $437.5 million from FY 2003 into FY 2004. The current recommendation will move state expenses of $185,452,000 from FY 2004 to FY 2005.

Because school districts operate on an accrual basis rather than a cash basis, the reduction in cash paid during the school year allows the districts to recognize the same level of revenue while allowing the state (operating on a cash basis) to defer the cost to the next year.

School districts have authority to borrow for a period of up to 13 months against receivable state aid, federal flow-through aid and local tax receipts and participate in a state credit enhancement plan that allows districts to qualify for the best interest rates with state guarantee of payment in the event of district default under MS 126C.50-56. In FY 2003, approximately 155 districts have accessed additional cash by borrowing against state and federal aids. The number of districts choosing to access additional cash by borrowing against taxes receivable is unknown at this time as the process begins in January and February after final certification of school district tax levies. In addition, districts may establish a line of credit or borrow using warrants under MS 123B.12 at rates negotiated with a financial institution. As nonprofit corporations, charter schools have no specific statutory authority to borrow, as they have no levy authority to provide assurance that taxpayers will repay the debt in event of default.
Further reductions from 83% to 80% will increase district borrowing as available cash balances and reserves are depleted. Additional borrowing increases school district interest expense and costs of issuance of aid anticipation certificates.

Key Measures

Districts will not experience a revenue loss as a result of the payment shift.

Statutory Change: Amend MS 127A.47.

Fiscal Impact by Budget Activity ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Education	$(156,127)	$1,247	$410	$425
Referendum Tax Base Replacement	(241)	3	6	103
Abatement Aid	(82)	(8)	(4)	(5)
Nonpublic Pupil Aid	(447)	(26)	(22)	(32)
Nonpublic Pupil Transportation	(656)	(4)	(26)	(34)
Consolidated Transition	(6)	(15)	3	4
Charter School Lease Aid	(549)	(102)	(112)	(121)
Charter School Startup Aid	(54)	(17)	(4)	21
Integration Aid	(1,921)	184	(559)	(887)
Magnet School Startup	0	(17)	(4)	21
Success for the Future	(64)	0	214	214
American Indian Scholarships	0	0	188	188
Tribal Contract Schools	(69)	(1)	1	(1)
Special Education	(15,919)	44	(10)	8
Home Based Travel	(7)	(1)	(1)	(1)
Special Ed—Excess Cost	(1,907)	(34)	1,039	1,051
Secondary Voc-Students with Disabilities	(267)	1	0	0
Health & Safety Aid	(237)	68	14	12
Debt Service Equalization	(1,084)	(54)	166	88
Alternative Facilities Bonding Aid	(579)	579	0	0
Fast Break to Learning	(147)	(17)	(239)	(290)
Subtotal K-12 Aids	(180,363)	1,830	1,056	743
School Readiness	(297)	(15)	0	0
Early Childhood Family Education	(617)	355	(8)	(17)
Health & Developmental Screening	(80)	0	0	0
School Age Care Revenue	(1)	0	1	0
Community Education	(170)	84	23	18
Adults with Disabilities	(22)	0	0	0
Adult Basic Education	(1,020)	(1)	0	(2,501)
Adult Graduation Aid	(70)	0	0	0
Basic Support Library Grants	(294)	0	887	887
Multicounty, Multitype Library	(27)	0	90	90
Subtotal Family & Early Childhood	(2,598)	423	993	(1,523)
School Portion Property Tax Aids & Credits	(2,491)	26	23	22
Total Aid Payment Delay	**$(185,452)**	**$2,279**	**$2,072**	**$(758)**

Change Item: PROPERTY TAX SHIFT

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($157,541)	($16,061)	($23,897)	($18,333)
District/Non-District Revenue Change	0	0	0	0

Recommendation

The Governor recommends implementation of early recognition of property tax levies with a corresponding reduction to state aid payments beginning in FY 2004. Implementation of early recognition will result in decreased need for state appropriations of $157,541,000 in FY 2004 and $16,061,000 in FY 2005.

Background

This early recognition and corresponding aid reduction provides a savings in FY 2004 that will help to balance the state's budget and lessen appropriation reductions in education programs, while maintaining district revenues. Smaller savings in future years result from projected growth in district property tax levies.

There is currently an early recognition requirement in place for school districts. In each year, districts recognize specific levies identified in statute at 100% to match district revenue with district expenditure. In addition, districts recognize revenue equal to 31% of the referendum levy certified in 2000. For districts with early recognition amounts greater than cash receipts from property taxes, statute directs early recognition of the amount of general education aid that when added to tax receipts will equal the required early recognition amount. These provisions will remain in place and there will be no aid adjustments associated with the early levy recognition currently in place.

Under this recommendation, districts would recognize revenues equal to 36.6% of local property tax levies, including operating referendum levies, in the same year the levies are certified. State savings in FY 2004 are realized through reduction of state aid payments to school districts in an amount equal to the sum of 1) the difference between 36.8% of the Pay 2004 operating referendum levies and 31% of the Pay 2001 referendum levy and 2) 36.8% of other general and community service levies adjusted for levies currently recognized early. To lessen the negative effect on district cash flow, aid reduction would begin as late in the fiscal year as possible to coincide with district receipt of cash for spring tax collections.

This recommendation will create cash flow issues for schools as total cash receipts for the final year are reduced. While districts are authorized by M.S. 126C.52 to resolve cash shortfalls through short-term borrowing based on property taxes or state aids receivable, they will incur costs for issuance and interest. Districts may also earn less interest on investments as cash reserves are drawn down.

Relationship to Base Budget

Aid savings resulting from this change equal approximately $161 per adjusted marginal cost pupil unit for FY 2004.

Statutory Changes: Amend M.S. 123B.75; required new language similar to 127A.44, repealed in First Special Session 2001.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($1,180)	($1,421)	($1,126)	($772)
District/Non-District Revenue Change	($1,421)	($1,421)	($1,066)	($711)

Recommendation

The Governor recommends elimination of this program. The proposed reductions are $1,180,000 in FY 2004 and $1,421,000 in FY 2005.

Background

This change will eliminate the state aid for the Richfield School District in FY 2004-08 provided in the Laws of 2000, Chapter 486, Article 2, Section 36 as amended by Laws 2001, 1st Special Session, Chapter 6, Article 1, Section 36.

This program provides financial assistance to the Richfield Public School District for the loss of students due to the Minneapolis-St. Paul International Airport expansion and the resulting demolition of residential housing. The airport expansion project required the demolition of residential housing within the airport expansion zone which was defined in Laws 1999, Chapter 243, Article 16, Section 35. Provision was also made for acquisition of other land in Richfield for relocation and reconstruction of a portion of the residential housing lost.

This aid program, authorized for FY 2004-08, would replace a portion of the revenues attributable to students residing in the airport expansion zone in the 1998-99 school year. For FY 2004-05, the statutory formula provides aid of 70% of the general education formula allowance multiplied by the 1998-99 pupil units attributed to the airport impact zone defined in Laws 1999, Ch. 243, Article 16, Section 35. That percentage declines to 52.5% in FY 2006, 35% in FY 2007, and 17.5% in FY 2008, as the district adapts to the student losses. The program is eliminated in FY 2009.

Richfield's Average Daily Membership (ADM) in FY 1999 impacted by the airport expansion project was 392.21. The district began losing housing due to the airport expansion project in calendar year 1998 and the loss of housing was impacted by various delays in the project. This housing change was expected to have a sudden and significant impact on the total enrollment of the school district. The data provided below shows the total resident ADM and the total adjusted ADM of the Richfield School District for the periods FY 1997 through FY 2005. This data includes the impact of the loss of pupil units for the school district due to the loss of housing associated with the airport expansion project.

Fiscal Year	Resident ADM	ADM Change	Percentage Change	Adjusted ADM	ADM Change	Percentage Change	Status
FY 1997	4,445.50	-	-	4,446.20	-	-	Actual
FY 1998	4,371.10	(74.4)	-1.67%	4,419.60	(26.6)	-0.60%	Actual
FY 1999	4,297.00	(74.1)	-1.70%	4,389.00	(30.6)	-0.69%	Actual
FY 2000	4,254.70	(42.3)	-0.98%	4,335.40	(53.6)	-1.22%	Actual
FY 2001	4,359.00	104.4	2.45%	4,387.40	52.0	1.20%	Actual
FY 2002	4,323.50	(35.5)	-0.81%	4,383.80	(3.6)	-0.08%	Actual
FY 2003	4,281.00	(42.5)	-0.98%	4,155.00	(228.8)	-5.22%	Est.
FY 2004	4,345.00	64.0	1.49%	4,199.00	44.0	1.06%	Est.
FY 2005	4,290.00	(55.0)	-1.27%	4,172.00	(27.0)	-0.64%	Est.

The change in total resident ADM was not as significant and was not as sudden as expected. The district has had sufficient time to make budget adjustments to accommodate the anticipated changes in pupil units due to the project. The district has made adjustments to their operating and financial plans for the impact in the change of pupil units associated with this project prior to FY 2004.

This change item will eliminate the additional aid payment to the Richfield School District thereby reducing the district's projected general fund revenue by the following estimated aid amounts in the following fiscal years:

- FY 2004 $1,420,651
- FY 2005 $1,420,651
- FY 2006 $1,065,488
- FY 2007 $ 710,325
- FY 2008 $ 355,163

Relationship to Base Budget

The proposed reductions would eliminate this program.

In FY 2004, the reduction is projected to be 4.9% of the district's estimated General Education Revenue of $28,751,690, under current law.

Statutory Change: Repeal Laws of 2000, Chapter 486, Article 2, Section 36 amended by Laws 2001, 1st Special Session, Chapter 6, Article 1, Section 36.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
Levy Impact				
Tree Growth Levy	0	($695)	($695)	($695)
Swimming Pool Levy	0	($400)	($420)	($440)
Staff Development Levy	0	($36)	($36)	($36)
Ice Arena Levy from 100% to 90% of cost	0	($90)	($96)	($102)
Reemployment Insurance from 100% to 90% of cost over $10/PU	0	($4,854)	($4,854)	($4,854)
Judgment Levy from 100% to 90% of cost over $10/PU	0	($173)	($173)	($173)
Total Levy Impact	0	($6,248)	($6,274)	($6,300)
Total District/Non-District Revenue	0	($6,248)	($6,274)	($6,300)

Recommendation

The Governor recommends the elimination of the following levies. The following levies provide additional revenue to a few districts that is not generally available to all school districts in the state:

⇒ The tree growth levy replaces payments school districts previously received from counties from the proceeds of the tree growth tax repealed in 2001. Forty-nine districts levy a total of $695,000 under this provision.

⇒ The swimming pool levy, which is used to cover the net operating costs for swimming pools, is available only to certain districts located in counties along the Canadian border. Four districts are projected to levy a total of $400,000 in Pay 2004 taxes.

⇒ The staff development levy allows districts with an ongoing outplacement program for teachers to levy up to $8.15 per teacher for site-level staff development activities. Five districts are projected to levy a total of $36,000 in Pay 2004 taxes.

In addition to eliminating the levies listed above, the Governor recommends reducing the levy authorities for the following programs:

⇒ Ice arena: districts that operate and maintain an ice arena are allowed to levy for the net operating costs – this somewhat parallels the inclusion of leases for ice time in the building lease levy for other districts. A change from 100% to 90% is consistent with the building lease levy change.

⇒ Unemployment insurance: reducing the levy from 100% of cost to 90% of the cost of unemployment claims exceeding $10 per pupil unit will require districts to pay a portion of these claims from the general fund, thereby improving incentives to minimize the number and duration of layoffs.

⇒ Judgments: reducing the levy from 100% of cost to 90% of the cost of judgments exceeding $10 per pupil unit will require districts to pay a portion of any judgments from the general fund, thereby improving incentives to avoid judgments.

Key Measures

The elimination of these levies will increase the equity of the availability of levy programs to districts in Minnesota.

Statutory Change: The following Minnesota Statutes would be impacted: Ice Arena Levy - 126C.45; Reemployment Levy - 126C.43, Subd. 2; Judgment Levy - 126C.43, Subd. 3 and 126C.47, Tree Growth Levy – 126C.445; Swimming Pool Levy - 126C.445; Staff Development Levy - 122A.62.

Program: NONPUBLIC PUPIL PROGRAMS

Change Item: ELIMINATE IMPACT OF $415 ROLL-IN

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Nonpublic Pupil Aid	($434)	($89)	0	0
Nonpublic Transportation Aid	($1,799)	($368)	0	0
Total Appropriation Basis	($2,233)	($457)	0	0
Aid Entitlement Basis				
Nonpublic Pupil Aid	($523)	0	0	0
Nonpublic Transportation Aid	($2,167)	0	0	0
Total Aid Entitlement	($2,690)	0	0	0
Total District/Non-District Revenue	($2,690)	0	0	0

Recommendation

The Governor recommends a reduction in the nonpublic pupil aid and nonpublic pupil transportation programs to eliminate the impact of the $415 transfer of referendum revenue into the general education formula on the FY 2004 statutory inflation adjustment for these programs. The proposed reduction is $2,233,000 for FY 2004 and $457,000 for FY 2005.

Background

Nonpublic pupil transportation aid and the textbooks and instructional materials portion of nonpublic pupil aid are determined using expenditure data from the second prior year, adjusted for inflation using the ratio of the general education formula allowance for the current year to the general education formula allowance for the second prior year. Because of the $415 transfer of referendum revenue into the general education formula for FY 2003 and later, the ratio of the FY 2004 formula allowance to the FY 2002 formula allowance substantially overstates the actual inflationary adjustment provided in the general education formula. Under current law, a 13.1% inflation adjustment is provided ($4,601/$4,068). The proposed two-year inflation adjustment would be 2.9% ($4,186/$4,068).

While the funding for nonpublic pupil transportation and nonpublic textbooks and instructional materials would be reduced by 5.7% from the base level, funding would still be adequate to provide an inflationary increase over FY 2002 expenditure levels. For many school districts, nonpublic pupil transportation revenue does not fully cover the cost of transporting nonpublic school pupils. This is because the funding is based on the average cost for all pupils transported and transportation for nonpublic pupils is frequently more expensive than for public school pupils because of larger attendance areas and greater dispersion of pupils. Because school districts are required to provide equal transportation to nonpublic school pupils, a reduction in nonpublic pupil transportation aid will result in greater cross-subsidies from the districts' general funds. A reduction in nonpublic pupil aid will reduce the quantity or quality of textbooks and instructional materials purchased on behalf of nonpublic school pupils.

Relationship to Base Budget

The proposed reductions are 5.7% of the base budget for FY 2004.

Key Measures

The proposed reduction in nonpublic pupil aid is not expected to change the percentage of nonpublic school pupils participating in the program.

Statutory Change: Uncodified change included in Governor's budget bill.

Program: CHARTER SCHOOLS

Change Item: ELIMINATE CHARTER SCHOOL INTEGRATION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($42)	($50)	($50)	($50)
District/Non-District Revenue Change	($50)	($50)	($50)	($50)

Recommendation

The Governor recommends elimination of this program. The proposed reductions are $42,000 in FY 2004 and $50,000 in FY 2005.

Background

The funding for Charter School Integration is insufficient to have significant impact on desegregation/integration efforts in the state of Minnesota. Due to budget cuts in the 2002 legislative session, the Department of Education does not have the staff capacity to administer and manage a grant with such limited impact.

Key Measures

The Department will not track desegregation efforts of charter schools if the program is eliminated.

Statutory Change: Repeal Minn. Stat. §124D.11 subd. 6(e): Integration Revenue for Charter Schools.

Change Item: REDUCE CHARTER SCHOOL LEASE AID

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($388)	($960)	($1,576)	($2,221)
District/Non-District Revenue Change	($468)	($1,061)	($1,682)	($2,331)

Recommendation

The Governor recommends reducing the maximum Charter School Lease Aid to the greater of $1,200 per pupil unit or the school's FY 2003 lease aid per pupil unit, beginning in FY 2004. The proposed reductions are $388,000 in FY 2004 and $960,000 in FY 2005.

Background

The Charter School Lease Aid program began in FY 1998 to pay building lease costs for charter schools. The appropriation in 1998 was $1,198,000 with 27 charter schools receiving aid. In FY 2003, the appropriation is $15,846,000 with a projected 78 charter schools participating.

The lease aid program was created because charter schools do not have levy authority or access to other sources of capital funds that school districts do. For better equity between school districts and charter schools, a reduction in the lease cap is recommended. Under the proposed formula, the estimated maximum lease aid per pupil unit for new charter schools would be $1,200 beginning in FY 2004. For existing charter schools, the maximum lease aid per pupil unit would be the greater of $1,200 or the school's FY 2003 lease aid per pupil unit.

Relationship to Base Budget

The proposed reductions are 2.1% of the base budget for FY 2004 and 4.2% of the base budget for FY 2005.

Key Measures

The average lease cost per pupil for FY 2003 is $1,289 for all participating charter schools. The grandfather provision for existing school will help ensure that all charter schools will receive sufficient funding to meet existing agreements.

Statutory Change: Minn. Stat. §124D.11, subd.4 (b).

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Integration Revenue	0	0	($4,825)	($5,772)
Adjustment for Learning Year Pupil Unit	($27)	($263)	($582)	($911)
Total Appropriation Basis	($27)	($263)	($5,407)	($6,683)
Aid Entitlement Basis				
Integration Revenue	0	0	($5,813)	($5,764)
Adjustment for Learning Year Pupil Unit	($32)	($310)	($638)	($967)
Total Aid Entitlement	($32)	($310)	($6,451)	($6,731)
Levy Impact				
Integration Revenue	0	0	$5,813	$5,764
Adjustment for Learning Year Pupil Unit	0	($177)	($299)	($444)
Total Levy Impact	0	($177)	$5,514	$5,320
Total District/Non-District Revenue	($32)	($487)	($937)	($1,411)

Recommendation
The Governor recommends the following changes in the integration revenue program:

⇒ Maintain the levy share of integration revenue at 29% for FY 2006 and later, instead of reducing the levy share to 22%.

⇒ To mitigate the impact of eliminating learning year pupil units (see General Education Changes) on integration revenue, increase the revenue allowances for integration revenue for FY 2004 and later as follows:

- Minneapolis -- from $446 with $35 added levy to $488 with $38 added levy
- St Paul – from $446 to $468
- Duluth – from $207 to $210
- Districts @ $130 – from $130 to $132
- Districts @ $93 – from $93 to $94

The Governor recommends reductions of $27,000 in FY 2004 and $263,000 in FY 2005.

Background
In recent years the levy share of integration revenue has varied from a high of 37% for FY 2003 to a low of 22% for FY 2004. Under current law, the levy increases to 29% for FY 2005 and then goes back to 22% for later years. The change to 29% in FY 2005 helped the 2002 legislature limit the out year costs that were projected for the FY 2004-05 biennium; the change back to 22% in FY 2006 was not tracked as a cost during the 2002 legislative session because FY 2006 and FY 2007 fiscal impact was were not being tracked at that time. A significant local share helps encourage efficiency in these programs.

The proposed changes in integration revenue allowances neutralize the FY 2004 impact on integration revenue of eliminating learning year pupil units for students enrolled more than full time. However, because learning year pupil units are projected to increase as a percentage of all pupil units for the group of districts receiving this revenue, eliminating learning year pupil units creates a gradually increasing net reduction from current law integration revenue in later years.

Relationship to Base Budget
The proposed reductions in state aid appropriations are negligible for FY 2004 and 0.5% of the base budget for FY 2005. Total integration revenue reductions from aid and levy are negligible in FY 2004 and 0.6% in FY 2005.

Statutory Change: MS 124D.86.

Change Item: ELIM TEACHERS OF COLOR/MINORITY FELLOW

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($1,000)	($1,000)	($1,000)	($1,000)
District/Non-District Revenue Change	($1,000)	($1,000)	($1,000)	($1,000)

Recommendation
The Governor recommends elimination of this program. The proposed reductions are $1 million each fiscal year.

Background
These programs have been targeted for elimination due to lack of measurable results. The programs have not produced data demonstrating any significant increase in minority teachers employed in Minnesota due to this funding. Due to previous cuts in Department of Education staff, the agency lacks the capacity to provide the assistance and oversight needed to ensure future measurable results in these programs.

Program funding was initiated prior to the adoption of the 1999 Desegregation Rule and Integration Revenue. Districts eligible for Integration Revenue can now use this revenue source to increase the number of minority teachers in their districts.

Eighteen school districts have received this funding in the past. One hundred sixty-five post-secondary students and the several post-secondary institutions that receive the funding on behalf of the enrolled students will be affected by the elimination of this program. Six previously funded districts that do not qualify for Integration Revenue will be affected more than districts that do qualify.

Key Measures
Eliminating this funding will lead to the possibility that the fourteen candidates participating in the Minority Fellowship Program and the 165 candidates in the Teacher of Color Program may not attain licensure and employment.

Statutory Change: Eliminating these programs requires the repeal of MN Laws 1994, Chapter 647, Art. 8, Sec. 29: Minority Fellowship Program, M.S. 122A.64: Teacher of Color Program, M.S. 124D.89: Cultural Exchange Program and 122A.65 Minority Teacher Incentives. The elimination of the program would also decrease significantly the need for the State Multicultural Education Advisory Committee: M.S. 124D.894 and the Desegregation Advisory Board: M.S. 124D.892.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	$500	0	0	0
District/Non-District Revenue Change	0	0	0	0

Recommendation
The Governor recommends increased funding for school evaluation and accountability. This would support compliance with requirements under the No Child Left Behind Act, school finance reform efforts, and the distribution of information about student achievement and school district spending. The recommendation is for an increase of $500,000 to the FY 2004 appropriation of $1.5 million. This would bring the total appropriation in FY 2004 to $2 million. The Governor also requests carry forward authority for these funds to the second year of the biennium.

Background
The legislature appropriated $2.5 million for this project during the 2001 special session. During the 2002 session funding was decreased to $1.5 million.

To engage in school finance reform, the Governor, Legislature, school districts and the public need accurate and clear reference points. This request for additional school evaluation funding will help provide these reference points. In addition, the project will help support the Department's efforts to comply with the federal requirement under No Child Left Behind. Additional federal funds will also be sought by the Department to accomplish this goal.

In addition to supporting school finance reform and compliance with federal requirements, the initiative will provide parents, teachers, students and taxpayers with easy-to-read information about each school district, including student achievement; graduation rates and student attendance; levels of state and local spending; and safety and school environmental standards.

A final school finance report will be presented to the Legislature in 2004.

Relationship to Base Budget
This proposal would increase the base level of this program from $1,500,000 to $2,000,000 for the 2004-05 biennium.

Key Measures
A contract with an independent third party was executed on 06-28-02 and the project will be completed on or before 06-30-03 as required by legislation. The recommended additional funding would allow further accountability initiatives in the FY 2004-05 biennium.

Statutory Change: Not Applicable

Change Item: ELIMINATE READING COMPETENCY PROGRAM

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($100)	($100)	($100)	($100)
District/Non-District Revenue Change	($100)	($100)	($100)	($100)

Recommendation
The Governor recommends elimination of this program. The proposed reductions are $100,000 each fiscal year.

Background
While reading education is a very high priority for the Department, this program has a very narrow scope within reading and only impacts a very limited number of students. The federal reading grants that Minnesota has received have a broader focus than the program funded through current legislation and will impact most low performing schools statewide.

Key Measures
It was anticipated that 90% of continuously enrolled children in participating sites would pass a phonemic segmentation accuracy test, read lowercase letter sounds and read third grade material at 90 words correct per minute at the end of grade three. This data will not be available.

Statutory Change: Repeal Laws 2001, Chapter 6, Art. 2. Section 70, 77, Subd. 27.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($550)	($550)	($550)	($550)
District/Non-District Revenue Change	($550)	($550)	($550)	($550)

Recommendation

The Governor recommends a reduction from base level spending for this program beginning in FY 2004, while continuing support for students from low-income families. The proposed reductions are $550,000 in FY 2004 and $550,000 in FY 2005.

Background

Advanced Placement (AP) and International Baccalaureate (IB) courses offer students rigorous, challenging courses of study as part of regular offerings in secondary schools. Students have the opportunity to participate in national or international examinations at the conclusion of each course. Success on these exams provides students college credit for courses taken in high school. The appropriation provides scholarships to train teachers to initiate or improve AP and/or IB courses and subsidies for student exam fees. While more students will have to pay the examination fee themselves, the reduced appropriation will continue to support participation of the most needy students in these examinations.

The result of this reduction is that examination fees will be provided only for students of low-income families.

Relationship to Base Budget

The proposed reductions are 55% of the base budget for FY 2004 and each year thereafter.

Key Measures

The number of exams taken has increased steadily since 1996. With no subsidy for exam fees, the number of students testing will level off or decrease.

The number of students awarded an IB diploma will stay level or decrease.

Statutory Change: M.S. 120B.13 will be revised to eliminate examination fee subsidies for all students except students from low-income families.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Special Education Regular-Eliminate Growth Factor	($20,259)	($45,486)	($71,943)	($99,564)
Special Education Excess Cost-Eliminate Growth Factor	0	($1,842)	($4,780)	($6,708)
Adjust for Elimination of Learning Year Pupil Units	0	0	($23)	($65)
One-Time Cross-Subsidy Aid	$5,000	$15,000	0	0
Total Appropriation Basis	($15,259)	($32,328)	($76,746)	($106,337)
Aid Entitlement Basis				
Special Education Regular-Eliminate Growth Factor	($24,409)	($49,803)	($76,478)	($104,293)
Special Education Excess Cost-Eliminate Growth Factor	($1,842)	($3,710)	($5,623)	($7,569)
Adjust for Elimination of Learning Year Pupil Units	0	0	($33)	($78)
One-Time Cross-Subsidy Aid	$5,000	$15,000	0	0
Total Aid Entitlement	($21,251)	($38,513)	($82,134)	($111,940)
Total District/Non-District Revenue	($21,251)	($38,513)	($82,133)	($111,940)

Recommendation

The Governor recommends removing the automatic increases in special education and providing one-time special education cross-subsidy aid. The proposed reductions total $15,259,000 in FY 2004 and $32,328,000 in FY 2005.

The Governor recommends the following changes in the special education and special education excess cost programs:

⇒ Eliminate the statutory program growth factors of 4.6% per year for special education-regular aid and 2.0% per year for special education-excess cost aid. Annual increases for these programs should be determined as part of the biennial budget process. Consistent with the recommendation for general education, no increase is recommended for these programs in FY 2004 and FY 2005.

⇒ To neutralize the impact of eliminating learning year pupil units, (see General Education Changes), fix the state total special education-regular aid at $530,642,000 in FY 2004 and $529,164,000 in FY 2005, and fix the state total special education-excess cost aid at $92,067,000 in FY 2004 and at $91,811,000 in FY 2005. Beginning in FY 2006, set the state total aid for each program equal to the state total aid for the previous fiscal year times the ratio of the state total average daily membership (ADM) for the current fiscal year to the state total ADM for the previous fiscal year.

⇒ Provide one-time special education cross subsidy aid of $5 million in FY 2004 and $15 million in FY 2005 to reduce the cross subsidy of special education expenditures from general education revenue. The cross subsidy aid would be allocated among school districts in proportion to each district's share of the state total special education excess cost aid for the previous fiscal year, and would be paid 100% during the current fiscal year.

Background

Under current law, state total funding for the following programs is automatically increased each year as follows:

⇒ Special education: funding per pupil in ADM is increased by 4.6% annually.

⇒ Special education excess cost: funding per ADM is increased by 2.0% annually.

Other programs, including the basic general education formula, do not receive automatic annual increases. Funding increases for all programs should be set at the same time during biennial budget deliberations, instead of making an advance commitment in statute to provide increases for some programs but not others. With no increase being recommended for the general education formula or other K-12 education programs, it is consistent to provide no increase for special education aid programs.

Federal law, (Maintenance of Effort), requires that local expenditures for special education not be reduced below previous levels. When state total special education revenue is frozen at the FY 2003 level, special education revenue per pupil will increase somewhat in FY 2004 and FY 2005 for some districts and decrease for other districts. To meet maintenance of effort requirements, the contribution of local funds must go up to offset any decrease in state aid in order to hold the level of expenditure per special education student constant. This will increase cross-subsidization of special education costs from general education funds. More generally, cross-subsidization will increase for all districts if special education cost per ADM increases over the FY 2003 level. This will tend to reduce program growth, most notably in districts with increasing enrollment and birth rates. One area where this is likely to occur is interagency coordination of services, where recent gains stimulated by the Legislature could be reversed.

The proposed cross subsidy aid would mitigate the impact of eliminating the statutory growth factors on cross-subsidies from general education revenue during the FY 2004-2005 biennium, without making a long-term commitment to ongoing increases in future biennia. To target the aid to school districts with the largest cross-subsidies, the aid would be allocated in proportion to each district's excess cost aid for the previous fiscal year.

Relationship to Base Budget

The proposed reductions are 3.3% of the base budget for FY 2004 and 5.8% of the base budget for FY 2005. The proposed state total special education revenue per ADM would increase over the FY 2003 base by 0.8% in FY 2004 and an additional 1.6% in FY 2005.

Key Measures

There is insufficient information at this time to project the impact of this change item on key measures for special education programs. The primary effect is expected to be an increase in cross-subsidization of special education expenditures from general education resources. A slowdown in special education program growth and increased student-to-staff ratios may slow long-term gains in student performance.

Statutory Change: Amend M.S. 125A.76, Subd. 1, and 125A.79, Subd.1.

DEPARTMENT OF EDUCATION

Program: FACILITIES & TECHNOLOGY

Change Item: REDUCE BUILDING LEASE LEVY

Fiscal Impact ($000s)	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Levy Impact Building Lease from 100% to 90% of cost	0	($4,329)	($4,542)	($4,765)
Total Levy Impact	0	($4,329)	($4,542)	($4,765)
Total District/Non-District Revenue	0	($4,329)	($4,542)	($4,765)

Recommendation

The Governor recommends the modification of the Building and Land Lease levy beginning in FY 2005. The levy would be reduced from 100% of the approved costs to 90%. The proposed levy reduction is $4,329,000 in FY 2005.

Background

School districts currently levy for 100% of the cost of leasing instructional space up to a maximum of $100 per resident weighted average daily membership (WADM) and/or up to $25 per adjusted marginal cost pupil unit for leased space for an intermediate school district of which they are a member. Reducing the levy from 100% to 90% of approved cost for building leases will improve incentives for cost containment and is consistent with the 90% maximum for charter school building lease aid.

Relationship to Base Budget

This is a 10% change in district revenue supporting leased building and land costs.

Key Measures

This increases the level of equity between public school leasing authority and charter schools.

Statutory Change: Amend Building and Land Lease Levy, 126C.40, Subd. 1

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Replace Alt. Fac. Bonding Aid with Levy	0	($16,007)	($19,287)	($19,287)
Alternative Bonding-Reverse Referendum	0	0	0	0
H&S Project Limit $500,000 Balance to Alt. Fac.	0	($1,164)	($1,309)	($1,205)
H&S Offsetting Increase in Alt. Bonding	0	$84	$93	$86
H&S Narrow Scope of Projects	0	($299)	($336)	($309)
Total Appropriation Basis	0	($17,386)	($20,839)	($20,715)
Aid Entitlement Basis				
Replace Alt. Fac. Bonding Aid with Levy	0	($19,286)	($19,286)	($19,286)
Alternative Bonding-Reverse Referendum	0	0	0	0
H&S Project Limit $500,000 Balance to Alt. Fac.	0	($1,402)	($1,290)	($1,187)
H&S Offsetting Increase in Alt. Bonding	0	$101	$91	$85
H&S Narrow Scope of Projects	0	($360)	($331)	($305)
Total Aid Entitlement	0	($20,947)	($20,816)	($20,693)
Levy Impact				
Replace Alt. Fac. Bonding Aid with Levy	0	$19,286	$19,286	$19,286
Alternative Bonding-Reverse Referendum	0	($3,771)	($4,154)	($4,521)
H&S Project Limit $500,000 Balance to Alt. Fac.	0	($33,653)	($39,024)	($45,174)
H&S Offsetting Increase in Alt. Bonding	0	$8,228	$9,486	$2,585
H&S Narrow Scope of Projects	0	($8,640)	($8,667)	($8,695)
Total Levy Impact	0	($18,550)	($23,073)	($36,519)
Total District/Non-District Revenue	0	($39,497)	($43,889)	($57,212)

Recommendation

The Governor recommends increasing public notification and voter approval requirements for alternative facilities bonding, eliminating alternative facilities bonding aid, limiting the scope of projects that can be funded through health and safety aid, and clarifying statutory language regarding qualification for health and safety aid. The Governor recommends reductions of $17,386,000 in FY 2005.

Specifically, the Governor recommends the following changes in the alternative facilities and health and safety programs:

Alternative Facilities

⇒ Require alternative bonding districts to provide public notice and a public hearing before issuing bonds or making an annual levy, and require a referendum if a petition is signed by 15% of the registered voters in the district.

⇒ Eliminate alternative facilities aid and require districts to levy if they choose to maintain the current spending levels.

Health and Safety

⇒ Limit health and safety funding to projects under $500,000 per building. Approved projects over $500,000 will qualify for revenue with a pay-as-you-go levy or as bonded debt under alternative facilities bonding.

⇒ Provide first tier debt service equalization for health and safety projects over $500,000 funded through alternative bonding and levy, but exclude these projects from the calculation of second tier debt equalization.

⇒ Clarify health and safety funding to exclude projects lacking a clear health and safety basis under current law.

Background

Alternative Facilities

This program was initiated in the early 1990s in response to large and growing deferred maintenance issues in urban districts; since then it has been expanded gradually to include more districts. As the program continues, many of the "deferred" maintenance problems have been addressed, and funding goes more and more toward ongoing capital maintenance.

Under current law, 17 school districts with more than 1.85 million square feet of building space and average facility age exceeding 15 years, or more than 1.5 million square feet of building space and average facility age exceeding 35 years, are permitted to issue bonds or make annual levies for deferred capital maintenance projects and health & safety projects without voter approval.

Alternative facilities bonding aid of $19.3 million funds a portion of facilities improvement projects for seven school districts (Minneapolis, Anoka, Bloomington, Robbinsdale, Rochester, St Paul, and Duluth) based on historical data from 1997 and 1998, without regard to the local tax effort requirements and tax capacity factors used in the state's general-purpose debt service equalization program. The aid equals 100% of the district's alternative bonding debt service levy for taxes payable in 1997, not to exceed the district's current alternative bonding debt service levy, plus 1/6 of the district's alternative bonding annual pay-as-you-go levy for taxes payable in 1998, not to exceed the district's current year annual pay-as-you-go levy.

1. The program lacks accountability to local voters/taxpayers and creates an unfair dual standard where some districts are required to get voter approval for capital maintenance projects and others are not required to get this approval. Requiring a referendum if petitioned by 15% of registered voters in the district will increase accountability and narrow the gap among districts in requirements for accessing revenue for capital maintenance.

2. The state pays a significant share of the costs for many of the alternative bonding districts based on a grandfathered allocation not based on need, while districts that must go to the voters do not receive this special aid. Elimination of alternative facilities bonding aid would subject all school districts to the same local tax effort requirements and tax capacity factors under the state's general-purpose debt service equalization program. When these criteria are applied to the combined debt service and alternative facilities bonding levies of the seven districts receiving alternative bonding aid, none of the districts are projected to qualify for state debt service equalization aid in FY 2005.

Health and Safety

Under current law, school districts are allowed to make annual levies for approved health and safety projects. The state currently uses $500,000 per site as the threshold for a higher level of accountability for capital projects generally, through the review and comment process. The health and safety program was designed for smaller projects that could be paid for in one or two years, but the recent trend is toward more large projects, especially in the area of indoor air quality. Individual projects of $500,000 or greater totaled over $22 million for FY 2002 and are expected to grow to $35 million in FY 2005 and $46 million in FY 2006 as districts face increasing indoor air quality issues including mold abatement. Use of health and safety levies to pay off bonds or other long-term debt for health & safety projects is not permitted, but some districts skirt this issue by rolling over short term borrowing from year to year.

The current health and safety statute is general in nature and provides the Department with considerable discretion in approving costs. Over the years, the range of approved projects has gradually expanded to include projects that:

- Correct Department of Health violations in kitchen and pool areas;
- Implement violence prevention and facility security measures including hazard identification, plan development and maintenance and training;
- Implement ergonomic projects such as workstation modification, kitchen modifications, and installation of lifting assists for special needs students;
- Replace petroleum storage tanks;
- Demolish entire buildings or interior structures as a part of renovation;
- Replace ceilings or other structures after asbestos removal or maintenance issues leading to unsafe conditions (e.g., cracked sidewalks, warped wooden floors, failing athletic tracks);
- Replace failing exterior walls exterior landscaping to move water away from buildings; and
- Purchase HVAC filters, carpet cleaners, HVAC cleaning, and testing, calibration, and commissioning of systems.

While bearing some relationship to health and safety, many of these issues are maintenance or facility issues more appropriately funded by other district revenue sources. Once a precedent is set by funding these costs for some districts, it is difficult for the Department to refuse similar requests from other districts without direction from the Legislature.

1. Making health and safety projects of greater than $500,000 eligible for alternative facilities bonding will permit the cost of large projects to be funded over a greater number of years. Districts not currently able to complete and pay for large projects in a short period will have a stable funding source. Accountability to local taxpayers will be increased by requiring public notice, public hearing and a reverse referendum if 15% of registered district voters sign a petition.

2. Legislative clarification of appropriate uses for health and safety funding will clarify administration of the health and safety program at both the school district and agency level.

Relationship to Base Budget

The proposed reduction to state aid is 100% of the base budget for alternative facilities and 19.8% of the base budget for health and safety with a small offset for debt equalization aid for projects funded through alternative facilities bonding.

The impact on district levies for FY 2005 is a decrease of approximately 7% of all capital-related levies. Much of this results from a move from annual health and safety levies to bonded debt levies under the alternative facilities program.

Key Measures

The proposed elimination of alternative facility bonding aid would result in higher property taxes in the seven affected school districts. The change authorizing large health and safety projects to be funded through the alternative facilities program provides districts greater flexibility in financing these projects.

Statutory Changes: Amend M.S. 123B.57 and M.S. 123B.59.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
School Breakfast	$ 53	$776	$798	$830
Kindergarten Milk (School Lunch)	($800)	($800)	($800)	($800)
Fast Break to Learning	$656	($156)	($234)	($327)
Total Appropriation Basis	($91)	($180)	($236)	($297)
Aid Entitlement Basis				
School Breakfast	$53	$776	$798	$985
Kindergarten Milk (School Lunch)	($800)	($800)	($800)	($800)
Fast Break to Learning	($174)	($249)	($338)	($441)
Total Aid Entitlement	($921)	($273)	($340)	($256)
Total District/Nondistrict Revenue	($921)	($273)	($340)	($256)

Recommendation

The Governor recommends the following changes:

⇒ Consolidation of the school breakfast program under statutes 124D.115 and 124D.1156,

⇒ Redirection of the appropriation for the Minnesota Kindergarten Milk Program (124D.118) to the school breakfast program, and

⇒ Alignment of the Fast Break to Learning appropriation with other Nutrition Program appropriations.

The Governor recommends reductions of $91,000 in FY 2004 and $180,000 in FY 2005.

Background

This proposal replaces Minn. Stats. 124D.115 and 124D.1156 with a single consolidated statute to:

⇒ Simplify school breakfast aid so that each school that participates in the school breakfast program is eligible for only one type of state breakfast payment. Eligible elementary schools would receive “Fast Break to Learning” breakfast aid; all other schools that participate in school breakfast would receive “Traditional School Breakfast” aid.

⇒ Align the appropriation of the Fast Break to Learning program with all other Nutrition Program appropriations.

⇒ Eliminate the breakfast payments authorized in 124D.115, Subd.3(b). These funds would roll into the new Traditional School Breakfast aid.

⇒ Revise the rate of payment for state breakfasts to 30 cents for reduced price meals and 40 cents for regular meals to support the benefits of a school breakfast program for all students at an affordable cost.

⇒ Direct a portion of state breakfast funding to eliminate the “reduced-price” breakfast category so that students from “working poor” households receive breakfasts at no charge, saving these families $1.50 per week per child in school breakfast costs.

Current law provides for three types of state breakfast reimbursements. The first two types are for school breakfast programs as authorized in Minn. Stat. 124D.115. The third type of payment is for the state Fast Break to Learning breakfast program, which is authorized separately in Minn. Stat. 124D.1156. Eligibility for these three reimbursements may overlap, i.e., under current law each school participating in the School Breakfast Program is eligible to receive one, two, or all three of these breakfast payments. Under the proposed change, each school will receive one school breakfast aid – either Traditional School Breakfast aid or Fast Break to Learning breakfast aid.

The consolidated statute will streamline and simplify the School Breakfast Program for participating schools:

⇒ Eligibility options for school breakfast aids will be less complex for schools.

⇒ Determination of a school's eligibility for state breakfast aid will be easier for schools to understand.
⇒ The school breakfast application process will be simplified, with a clear choice for schools between two options.
⇒ Budgeting for state aids for school breakfast will be streamlined for schools.
⇒ Reconciliation of payments for school breakfast aids will be simplified for schools.

Although the number of state aid payments is reduced, the amount of school breakfast aid received per school will increase for some schools and for other schools will not decrease below the amount needed to cover costs.
⇒ Schools that are eligible for and choose to participate in the Fast Break to Learning breakfast program will no longer receive the current "5.1 cent" or "10.5 cent" state payments, but will continue to receive state Fast Break to Learning payments, which are set at a rate expected to cover the average cost for providing school breakfast when combined with federal reimbursements. Meals eligible for the federal free rate and the federal severe need rates are adequately funded to cover costs and will not receive state breakfast aid.
⇒ Schools that offer school breakfast but do not qualify for the Fast Break to Learning breakfast program will receive an increased state aid of 30 cents for reduced price meals and 40 cents for regular meals with the Traditional School Breakfast aid, compared to the current "5.1 cent" and "10.5 cent" payments. Meals eligible for the federal free rate and the federal severe need rates are adequately funded to cover costs and will not receive state breakfast aid.

Relationship to Base Budget
The recommendation moves the Fast Break program from the current 83% appropriation to align it with the 100% appropriation for all other Nutrition Programs in FY2004. Part of the funding for this change comes from the proposed elimination of the 7 cents reimbursement provided for each reduced price meal at severe need sites. The Federal Breakfast program already provides 23 cents additional funding per meal for reduced price meals at severe need sites compared with non-severe need sites. The balance of the funding required to move from 83% to 100% in FY2004 comes from a one-year reduction in the reimbursement rate proposed for all regular meals in the traditional breakfast program. The budget proposal for Traditional School Breakfast specifies a reimbursement rate of 40 cents per regular meal. In FY2004 only, the rate would be reduced to 20 cents per regular meal. The one time 20 cents reduction provides the balance of the savings to offset the FY 2004 cost of aligning the Fast Break program with all other Nutrition Program aids.

Key Measures
Consolidation and simplification of state school breakfast will support progress on the following key measure:
⇒ Increase overall student performance on the reading, writing, and math portions of the MCA.
⇒ Increased access for students in need of a nutritious school breakfast.

Options Considered
If the current school breakfast statutes are not consolidated and funding is not redirected as proposed, school breakfast aid will remain status quo, resulting in: 1) continued inequities in the amount of school breakfast aid received by schools; 2) continued deficiencies in the amount of school breakfast aid for some schools; and 3) foregone benefits associated with simplification of state school breakfast aid.

Statutory Change: This proposal will require: 1) a new statute to consolidate and simplify school breakfast aid, 2) repeal of current School Breakfast statutes, M.S. 124D.115 and 124D.1156, and 3) repeal of Minnesota Kindergarten Milk Program statute, M.S. 124D.118.

Program: LIBRARIES

Change Item: REDUCE BASIC LIBRARY SUPPORT AID

Fiscal Impact ($000s)	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
State General Fund Fiscal Impact (Appropriation)	($83)	($100)	($100)	($100)
District/Non-District Revenue Change	($100)	($100)	($100)	($100)

Recommendation
The Governor recommends a reduction from the base level funding for this program beginning in FY 2004. The proposed reductions are $83,000 in FY 2004 and $100,000 in FY 2005.

Background
Library Basic Support provides state aid to public libraries for operations, interlibrary programs, and services throughout the state of Minnesota. This funding is a combination of basic support for libraries and Regional Library Telecommunications aid. The Regional Library Telecommunications was $1.2 million in FY 2002 and $1.4 million in FY 2003. This change item eliminates funding that was added in the 2002 session and reduces the base to FY 2002 levels.

Relationship to Base Budget
The proposed reduction is 1% of the base budget for FY 2004.

Key Measures
This proposal would remove an increase in funding received in the 2002 session. Basic core services will remain intact.

Statutory Change: Not Applicable

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
MFIP/TY: Chg Pay to Legal Nonlicensed Providers	($3,583)	($4,069)	($4,056)	($4,056)
MFIP/TY: Chg Family Copayment Amounts	($541)	($684)	($681)	($681)
BSF: Chg Pay to Legal Nonlicensed Providers	($2,277)	($2,585)	($2,585)	($2,585)
BSF: Chg Family Copayment Amounts	($1,694)	($2,140)	($2,140)	($2,140)
Total Appropriation Basis	($8,095)	($9,478)	($9,462)	($9,462)

Recommendation

The Governor recommends limitations on payments to Legal Non-Licensed (LNL) providers of child care and an increase in copayaments charged to families. This proposal would reduce the base level spending for the Minnesota Family Investment Plan (MFIP)/Transition Year (TY) and Basic Sliding Fee (BSF) programs beginning in FY 2004. The total reductions for the programs are $8,095,000 in FY 2004 and $9,478,000 in FY 2005.

There are two parts to this proposal. The first concerns LNL providers of child care services. Under this proposal, the Child Care Assistance Program (CCAP) would no longer reimburse LNL providers for registration fees. In addition, LNL providers would be paid at an hourly rate, rather than in blocks of time. In counties where the hourly rate for licensed family child care reflects the higher cost of part-time care (i.e. the hourly rate is higher than the weekly rate divided by 50), the hourly rate for LNL providers will be calculated by dividing the weekly rate by 50 then multiplying by 90%.

The second part of the proposal is an increase in copayments charged to families. The minimum copayment for families with incomes between 75% and 100% of poverty level will be increased from $5.00 to $10.00 per month. The sliding scale will continue to start at 100% of the federal poverty level. Copayments for families with income above the federal poverty guideline will start at 2.4% of income (as in current rule, based on families at the top end of each range) and reach 22% of gross income for families at the top end of the scale. These families are currently paying copayments ranging from 2.2% to 20% of gross family income.

Background

LNL providers are not subject to the rules and requirements governing licensed family child care providers. Currently all providers (licensed and LNL) may be paid in blocks of time, reflecting an acknowledgement of fixed costs associated with operating a private business. Regardless of how many slots (children) a provider serves, there are operational expenses that are predetermined. LNL providers, however, are allowed to care only for the children from one unrelated family. Many are relatives. Registration fees are intended to cover the costs associated with application and enrollment in licensed settings. LNL providers generally do not have an equivalent application process.

The copayment increase would maintain a gradual increase in fees that would allow the copayment and the actual cost of care to be similar at the time a family leaves the program. The proposed structure maintains an increase in copayments commensurate with an increase in income. Increasing the copayments of all families in the system will shift an increased cost of service to the parent.

Statutory Change:

1. Amend Minnesota Statutes, section 119B.12, subdivision 2.
2. Add new subdivision 1a to Minnesota Statutes, section 119B.13.
3. Include a section that would be a session law only that describes the changes that the commissioner must make to the sliding fee schedule in Minnesota Rules, chapter 3400.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
ECFE Formula Reduction with Sliding Fee	0	($10,825)	($13,628)	($14,077)
ECFE Fund Balance Cap	($323)	($35)	0	0
School Readiness	($562)	($83)	0	0
Total Appropriation Basis	($885)	($10,943)	($13,628)	($14,077)
Aid Entitlement Basis				
ECFE Formula Reduction with Sliding Fee	0	($13,042)	($13,748)	($14,144)
ECFE Fund Balance Cap	($200)	($1)	0	0
School Readiness	($482)	($1)	0	0
Total Aid Entitlement	($682)	($13,044)	($13,748)	($14,144)
Levy Impact				
ECFE Fund Balance Cap	0	($1,030)	0	0
Total Levy Impact	0	($1,030)	0	0
Estimated Total Fee Revenue	0	$6,558	$6,963	$7,072
Total District/Non-District Revenue	($682)	($7,515)	($6,785)	($7,072)

Recommendation

The Governor recommends:

⇒ Reducing the Early Childhood Family Education (ECFE) aid/levy revenue from the current level of $120 times the population of a district under five years of age to $120 times the population under five times the percent of first graders eligible for free or reduced price lunch plus $65 times the population under five times the percent of first graders not eligible for free or reduced price lunch.

⇒ Eliminating the reallocation of the proceeds from the current 25% caps on ECFE and school readiness fund balances.

The proposed reductions are $885,000 in FY 2004 and $10,943,000 in FY 2005.

Background

ECFE is not a mandated program, but an optional aid-equalized levy program. Because the program benefits individual participants as well as communities and the state as a whole, participating families who are not economically disadvantaged should be expected to pay a portion of program costs. The proposed reductions would increase the percentage of this state aid targeted to districts with higher populations of children from economically disadvantaged families and encourage districts to recover more program costs from participants.

Three hundred forty-one districts participate in ECFE. While statutes require that districts establish a sliding fee scale, not every district charges fees for its ECFE program. Districts must waive fees for any participant who is not able to pay. Of the 316 districts that responded to the 2000-01 ECFE Annual Report survey, 266 (84%) indicated that fees supported their program budget. Statewide, fees comprised $3.3 million (8%) of the $41.7 million in program revenue for ECFE from all sources that districts reported to the state in FY 2001.

The current ECFE formula generates revenue of $120 for each district resident under age five, as reported by the district on October 1 of the previous school year. The proposed changes would provide the full $120 entitlement for the estimated number of low-income zero to four year olds, and a reduced entitlement of $65 for the balance of the population. The percentage of enrolled first graders eligible for free and reduced lunch would be used to estimate the percentage of low-income residents under age five.

Estimated reductions in aid and levy revenue to individual districts range from 2% to 46%. Districts would have the option of charging fees or increasing participant fees to offset these reductions. Sixty-eight districts would no longer receive aid, as their levy revenue would equal or exceed their entitlement; of these districts, 10 have 150 or fewer residents under age five.

Additional information on this program is available from the Department of Education web site at http://cfl.state.mn.us/ecfi.

Current law imposes caps of 25 percent of annual revenue on ECFE and school readiness reserve accounts and authorizes the Department to reallocate excess reserve amounts to other school districts. This proposal recommends eliminating the reallocation.

Relationship to Base Budget

The proposed reductions in state appropriations are 4.3% of the base budget for FY 2004, 50.6% of the base budget for FY 2005, 60.3% of the base budget for FY 2006, and 59.8% of the base budget for FY 2007. When local levy and estimated fee increases are included, the proposed reductions are 1.6% of current law funding for FY 2004, 17% of current law funding for FY 2005, 15% of current law funding for FY 2006, and 15% of current law funding for FY 2007. It is expected that a portion of the decrease in state aid to districts would be offset with additional user fees.

Key Measures

This reduction would reduce the total amount of revenue that districts can raise from general taxpayer support – state aid and local levy – to support programs for infants, toddlers and their families. While districts would be able to replace a portion of the lost revenue through increased fees, they would not be able to shift the entire balance to program participants who are able and willing to pay. Thus, in addition to higher costs for participating families, districts are likely to reduce the number of classes offered and the range and availability of parent education and support services.

Alternatives Considered

Consideration was also given to maintaining total ECFE revenue at the current level, but reducing the state aid share and increasing the local property tax share of funding. This alternative would spread the cost among all taxpayers in each district, instead of requiring that the program participants who receive the direct benefit make a contribution to or pay a greater share of program costs. This alternative was not recommended because it was believed that charging program participants according to their ability to pay would be more effective in heightening program accountability and in aligning program benefits with costs.

Statutory Change: Amend 124D.135 ECFE revenue and reserve account limit. Amend 124D.16 School Readiness reserve account limit.

Change Item: ELIMINATE WAY TO GROW

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($475)	($475)	($475)	($475)
District/Non-District Revenue Change	($475)	($475)	($475)	($475)

Recommendation
The Governor recommends elimination of this program. The proposed reductions are $475,000 each year.

Background
Way to Grow began in 1989 with a grant to the city of Minneapolis Youth Coordinating Board. The program was expanded in subsequent years to the Early Childhood and Family Education (ECFE) programs of four school districts: Columbia Heights, St. Paul, St. Cloud, and Winona. These five sites were intended to be models for a program of coordinated, intensive services to children and their families that would be expanded statewide. Although the program was never expanded, numerous ECFE programs in school districts throughout the state have created partnerships with other community agencies and organizations to provide the same kind of collaborative services. Continuation of special grants to five districts is no longer warranted.

The five grantees would have to cut programs or increase funds from non-state sources to make up reductions in state grant aid. The grant awards for FY 2003 are as follows: St. Cloud, Winona, and Columbia Heights, $58,333 each; Minneapolis, $175,000; and St. Paul, $125,000. Way to Grow requires a 50% match of non-state money. The loss of this grant aid is most significant to the school districts of Columbia Heights and Winona, where Way to Grow grants add 37% and 26%, respectively, to their FY 2003 ECFE aid and levy entitlements.

Key Measures
Programs may be able to replace some of the lost state grant money with funds from non-state sources. State grant reductions may result in reduced availability of these support services.

Statutory Change: Repeal M.S. 124D.17.

Change Item: COMMUNITY EDUCATION CHANGES

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Community Ed. $5.95 to $4.95 @.00985	0	($1,164)	($1,137)	($817)
Community Ed. Fund Balance Cap.	($484)	($32)	($2)	0
Community Ed. Grandfather Levy	0	0	0	0
Total Appropriation Basis	($484)	($1,196)	($1,139)	($817)
Aid Entitlement Basis				
Community Ed. $5.95 to $4.95 @.00985	0	($1,403)	($1,083)	($763)
Community Ed. Fund Balance Cap.	($137)	($11)	0	0
Community Ed. Grandfather Levy	0	0	0	0
Total Aid Entitlement	($137)	($1,414)	($1,083)	($763)
Levy Impact				
Community Ed. $5.95 to $4.95 @.00985	0	($2,300)	($2,679)	($3,058)
Community Ed. Fund Balance Cap.	0	(5,131)	0	0
Community Ed. Grandfather Levy	0	($529)	($529)	($529)
Total Levy Impact	0	($7,960)	($3,208)	($3,587)
Estimated Local Fee Increase	0	$2,000	$2,000	$2,000
Total District/Non-District Revenue	($137)	($7,374)	($2,291)	($2,350)

Recommendation

The Governor recommends:

⇒ Reducing the basic community education funding from $5.95 per capita to the sum of $5.95 per capita times the percent of the district's K-12 students eligible for free or reduced price lunch plus $4.95 per capita times the percent of the district's K-12 students not eligible for free or reduced price lunch.

⇒ Capping general community education fund reserve balances at 25% of annual revenue.

⇒ Eliminating the community education grandfather levy beginning in FY 2005.

The Governor recommends a reduction in these programs of $484,000 in FY 2004 and $1,196,000 in FY 2005.

Background

Participants in optional community education programs who have the means to pay should be charged fees that cover a substantial portion of the cost. Students who are unable to pay a fee should not be precluded from participating in programs due to inability to pay. While community education adult enrichment classes are largely fee driven, fees are lower for other community education programs and for ECFE programs, and state law prohibits fees for Adult Basic Education (ABE) classes. Currently, fees account for approximately 8% of ECFE revenues. The proposed change would provide the full $5.95 per capita for the estimated number of low-income K-12 students in a district, and a reduced amount of $4.95 per capita for the balance of the population.

This proposal would impose a cap of 25 percent of annual revenue on general community education fund reserve accounts. This proposal is consistent with reserve caps already in place for ECFE and School Readiness reserve accounts.

The community education grandfather levy is a hold harmless provision, enabling school districts that received more funding under the community education formula in effect for FY 1983 than in subsequent years to levy to offset the reduction. For Pay 2004, 108 districts are projected to levy a total of $529,000 for this program. This levy provides additional revenue to a few districts that is not generally available to all school districts in the state and is counter to other levies that equalize revenue across districts.

Relationship to Base Budget

The proposed reductions in state appropriations are 7.9% of the base budget for FY 2004 and 26.5% of the base budget for FY 2005. The proposed reduction in state aid to school districts is expected to be partially off-set with increased fees for services at the district level. Local levies for this program would decrease.

When local levy and estimated increases in local fees are included, the proposed reductions are 0.3% of total revenue for FY 2004, 18% of total revenue for FY 2005.

Key Measures

It is expected that increased fees for services in community education programs will affect the number of participants in programs.

Statutory Change: M.S. 124D.21 Community Education Grandfather Levy would be repealed and M.S. 124D.20 would be amended.

Change Item: ELIMINATE AFTER SCHOOL ENRICHMENT AID

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($5,510)	($5,510)	($5,510)	($5,510)
District/Non-District Revenue Change	($5,510)	($5,510)	($5,510)	($5,510)

Recommendation

The Governor recommends elimination of this program. The proposed reductions are $5,510,000 in FY 2004 and $5,510,000 in FY 2005.

Background

After School Enrichment grants were provided statewide to local community youth serving agencies or partnerships serving low income, hard to reach children. State funding for this grant program had remained fairly static since it began in 1996. In the 2001 competitive grant cycle, 180 sites applied for funding and 44 were selected for programming. This reduction removes funding for this program from the agency's base. However, federal 21st Century Community Learning Center funds are available to school and community partnerships targeting youth attending schools in high poverty areas that have been classified as "in need of assistance" through the state's implementation of the federal "No Child Left Behind Act." In 2002, $3 million was available for competitive grants through 21st Century and the Department anticipates that approximately $5 million will be available in future years. The Department will seek to increase the federal funds allocated to Minnesota through the 21st Century Community Learning Center program.

Key Measures

This proposal will eliminate grants to approximately 44 sites statewide.

Statutory Change: Repeal 124D.221.

Change Item: ELIMINATE FAMILY COLLABORATIVES FUNDING

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($370)	0	0	0
District/Non-District Revenue Change	($370)	0	0	0

Recommendation
The Governor recommends elimination of the final year of state general fund support for this program. The proposed reduction is $370,000 in FY 2004.

Background
The change would eliminate state funding for family collaboratives one year earlier than planned. The funding was to be phased out by February 2004. In 1999, the Minnesota legislature mandated that no new collaboratives be funded after June 30, 1999. This change accelerates the phase out process. Collaborative grants are funded for five years. Family colloboratives would continue to be eligible for federal funds through participation in the Local Collaborative Time Study.

Statutory Change: Not Applicable

Change Item: ELIMINATE PARENTING TIME CENTERS AID

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($200)	($200)	($200)	($200)
District/Non-District Revenue Change	($200)	($200)	($200)	($200)

Recommendation

The Governor recommends eliminating state general fund support of this program. The proposed reductions are $200,000 in FY 2004 and $200,000 in FY 2005.

Background

Parenting Time Centers provide a safe place for non-custodial parents or parents of children in foster care to visit and/or pick-up children for visitation. The Governor recommends reducing general fund support for the program. The program will continue to receive approximately $96,000 per year from a fee on each marriage license. Increased local efforts to raise funds may also offset the reduction of state aid. Currently eight centers statewide received state funding to support their efforts. More information on center locations and services is available on the Department's web site located at: http://cfl.state.mn.us/prevention.

Key Measures

Currently, centers are working to increase the number of children provided safe visitation transfers and supervised visits. If state funding is not replaced by federal grant dollars, there may be service reductions with centers closing or being open for fewer hours weekly and providing less staff support when they are open.

Statutory Change: Not Applicable

Change Item: ELIMINATE VIOLENCE PREVENTION FUNDING

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($1,204)	($1,450)	($1,450)	($1,450)
District/Non-District Revenue Change	($1,450)	($1,450)	($1,450)	($1,450)

Recommendation
The Governor recommends elimination of this program. The proposed reductions are $1,204,000 in FY 2004 and $1,450,000 in FY 2005.

Background
This program provides funding to integrate violence prevention education funding into existing K-12 curricula. The funding is distributed to school districts based on resident student counts from the previous school year. In addition to Violence Prevention funding, all school districts receive an enrollment-based allocation of federal Safe and Drug-Free Schools funding equal to approximately $4 per student. The federal program, which would remain in place, is focused on violence and drug abuse prevention, early intervention, rehabilitation referral, and education. School districts can also use the safe schools levy to fund these activities. The safe school levy was increased from $11 to $30 per pupil unit beginning in FY 2004.

The elimination of the Violence Prevention program would result in an annual reduction of approximately $1.50 per pupil to participating school districts.

Key Measures
Due to increased funding enacted in 2002 through the safe schools levy, this reduction should not significantly change measurable outcomes.

Statutory Change: Repeal M.S. 120B.23.

Change Item: REDUCE CHILDREN'S TRUST FUND

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($875)	($875)	($875)	($875)
District/Non-District Revenue Change	($875)	($875)	($875)	($875)

Recommendation
The Governor recommends eliminating state general fund support of this program. The proposed reductions are $875,000 each year.

Background
The Children's Trust Fund is supported by a combination of state general fund appropriation, state trust fund monies, and federal Community-Based Family Resources and Support Program grants. The state Trust Fund monies are sufficient to match the federal dollars. Funds are made available statewide for local child-abuse prevention funding through competitive application. In 2002, 45 grants were awarded through competitive application averaging $50,000 annually. In addition, approximately 60 Child Abuse Prevention Councils received up to $2,000 annually to support their activities. For a listing of current program sites see http://cfl.state.mn.us/ctf/index.htm.

Relationship to the Base Budget
This proposal would eliminate annual funding for Children's Trust Fund programs from nearly $3.1 million to approximately $2.2 million. The proposed reduction in state appropriations is approximately 29 percent of the base budget from all revenue sources.

Key Measures
The reductions will not result in any change in the statewide key measures.

Statutory Changes: Not Applicable

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact				
Eliminate ABE Growth Factor	($2,336)	($5,336)	($8,578)	($12,078)
Additional Aid Reduction Offsetting Potential Fee Revenue	($830)	($1,000)	($1,000)	($1,000)
Roll Adult Graduation into ABE at FY 2003 Base Level	($194)	($447)	($725)	($1,031)
Total Appropriation Basis	($3,360)	($6,783)	($10,303)	($14,109)
Aid Entitlement Basis				
Eliminate ABE Growth Factor	($2,814)	($5,853)	($9,136)	($12,680)
Additional Aid Reduction Offsetting Potential Fee Revenue	($1,000)	($1,000)	($1,000)	($1,000)
Roll Adult Graduation into ABE at FY 2003 Base Level	($234)	($491)	($773)	($1,084)
Total Aid Entitlement	($4,048)	($7,344)	($10,909)	($14,764)
Estimated Local Fee Revenue	$500	$500	$500	$500
Total District/Non-District Revenue	($3,548)	($6,844)	($10,409)	($14,264)

Recommendation

The Governor recommends consolidation of the Adult Basic Education (ABE) and Adult Graduation Aid programs, statutory changes to allow fees for students over 21 years of age, and elimination of the statutory growth factor. These changes would generated program efficiencies, would allow fees to be charged to students with the ability to pay, and would require growth in program funding to be determined through the biennial budget process.

The recommendation includes the following changes in ABE and Adult Graduation Aid funding:

⇒ Eliminating the prohibition on fees for ABE students over 21 years of age.

⇒ Beginning in FY 2004, consolidate the Adult Basic Education (ABE) and Adult Graduation Aid programs and roll adult graduation funding into ABE at the FY 2003 funding levels.

⇒ Beginning in FY 2004, eliminate the statutory ABE growth factor.

⇒ For FY 2004 and later, set the statutory ABE funding level at $36,510,000. This is the sum of the FY 2003 statutory funding level for ABE and the FY 2003 estimated aid entitlement for adult graduation aid, minus a $1,000,000 reduction for potential fee revenue.

⇒ For FY 2004 only, include 60% of the FY 2003 contact hours for students participating in the adult graduation program in the FY 2003 contact hours used to determine FY 2004 ABE funding. For FY 2004 only, include the adult graduation aid for FY 2003 in the base used to calculate the individual consortium growth limit for ABE contact hour aid.

⇒ Beginning in FY 2004, reduce the individual consortium growth limit for ABE contact hour aid from the greater of 17% or $20,000 to the greater of 8% or $10,000.

⇒ Beginning in FY 2004, reduce the basic population aid from the greater of $1.80 per capita or $4,000 to the greater of $1.70 per capita or $3,800.

The Governor recommends reductions of $3,360,000 in FY 2004 and $6,783,000 in FY 2005.

Background

Adult Basic Education (ABE) 124D.52; 124D.531 programming has been growing at a rapid rate in recent years due in large part to increased demand for English as a Second Language services for immigrants. A task force was established by the 2000 legislature to review ABE funding and recommend an equitable formula that recognized growth while minimizing the negative impact on communities with stable populations of adults requiring ABE services. That formula placed a statewide growth cap on ABE funding of 8% as long as prior year contact hours increased at the same or greater levels.

Adult High School Graduation Aid 124D.54 has provided per pupil general education revenue to school districts for eligible individuals over the age of 21 who are working to obtain their high school diplomas. Eligibility is tied to unemployment or Workforce Investment Act eligibility, and services are limited to a maximum of 14 years of public or nonpublic education beginning at age five.

Fees for ABE are currently prohibited under state law but not under federal law. While direct measures of poverty incidence among for ABE participants are not available, it is estimated that roughly 85% of program participants have family incomes below the level needed to qualify for reduced price lunches (185% of federal poverty guideline). If program participants over 21 years of age with family incomes above 185% of the federal poverty guideline were charged fees to cover roughly 20% to 25% of program costs, program providers would raise roughly $1 million in fee revenues. Because there is no readily available proxy for the percent of program participants with family incomes below this level, a direct formula adjustment for poverty concentration would require cumbersome new data collection from program participants. Therefore, a specific formula adjusting aid for poverty concentration is not recommended for this program. Instead, fees would be permissive a flat formula reduction of $1 million is proposed that would roughly equate to the potential fee revenue available for these programs.

Rolling the Adult Graduation Aid into Adult Basic Education at the FY 2003 funding level would provide additional efficiencies in the programs. Responding to similarities in the populations served by this program and adult basic education, this proposal eliminates separate funding for adult graduation and rolls the FY 2003 base level of funding into the ABE appropriation for FY 2004 and later.

Relationship to Base Budget

The proposed reductions in state aid appropriations are 8.4% of the base budget for FY 2004, 15.7 % of the base budget for FY 2005. When estimated fee revenue is included, total program funding will remain constant at the FY 2003 level.

Key Measures

Eliminating the 8% statewide growth factor, reducing the individual consortium growth limit from 17% to 8%, and reducing the basic population aid will necessitate the imposition of fees for program participants with ability to pay to maintain overall funding at FY 2003 levels. Continued expansion to meet demand for the program will be difficult if not impossible, leading to longer waiting lists. Financial pressures may cause some smaller programs to close entirely. While many recipients of Adult High School Graduation Aid are expected to shift to Adult Basic Education programs for services, particularly in large urban districts, the transition will be more difficult in sparsely populated rural areas.

Statutory Change: Repeal MS 124D.54 (Adult High School Graduation Aid program). Amend MS 124D.52 to authorize fees for ABE programs. Amend MS 124D.531 to modify ABE funding formula. Add uncodified language for FY 2004 transition of adult graduation aid into the ABE funding formula.

Change Item: ELIMINATE ADULT BASIC EDUCATION AUDITS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($175)	($70)	($70)	($70)
District/Non-District Revenue Change	($175)	($70)	($70)	($70)

Recommendation

The Governor recommends elimination of this program. The proposed reductions are $175,000 in FY 2004 and $70,000 in FY 2005.

Background

The Laws of 2000, Chapter 489 created a requirement for the Department to audit providers of Adult Basic Education (ABE) services who receive state funding. The audits were established to determine if ABE funds were properly accounted for and whether the hours reported by providers were correct. Programs found to be out of compliance are required to return any excess funding to the state and make programmatic changes to correct the underlying problems that created the audit findings. Initial reviews of all 58 programs were to be completed in 2004 and then a cycle of ongoing audits would be established to ensure that every program is audited once every four years.

Although ABE is an important program, the monitoring of ABE through audits is of limited value, given current fiscal constraints on the state budget. Initial ABE test audits contained procedural findings, but did not involve the recovery or payment of significant amounts of money. As such, the audits are of lower priority than other auditing responsibilities carried out by the agency, including compliance audits of attendance and transportation.

Key Measures

Most of the initial round of audits scheduled for the 58 programs will not be conducted. Further, there will be no cycle of audit reviews for ABE programs, although some ABE programs may be reviewed within the audits performed on school districts and other public entities.

Statutory Change: Minn. Stat. 124D.531, subd. 7, would be amended to eliminate the ABE audit requirement.

Change Item: ELIMINATE LEAD ABATEMENT AID

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($100)	($100)	($100)	($100)
District/Non-District Revenue Change	($100)	($100)	($100)	($100)

Recommendation
The Governor recommends elimination of the program beginning in FY 2004. The proposed reductions would be $100,000 in FY 2004 and $100,000 in FY 2005.

Background
This program was targeted for elimination because it is considered too small to maintain. The Lead Hazard Reduction program reduces the potential for lead poisoning in the homes of children from low-income families. For more information about the Lead Hazard Reduction program, see http://cfl.state.mn.us/oeo, http://www.epa.gov/opptintr/lead/index.html, or email or call the National Lead Information Clearinghouse at http://www.epa.gov/lead/nlic.htm or 1-800-424-LEAD.

Key Measures
As a result of this proposed program elimination, the non-profit operating this program may lose additional revenue sources.

Statutory Change: Repeal M.S. 119A.46.

Change Item: REDUCE MN ECONOMIC OPPORTUNITY GRANTS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
State General Fund Fiscal Impact (Appropriation)	($4,514)	($4,514)	($4,514)	($4,514)
District/Non-District Revenue Change	($4,514)	($4,514)	($4,514)	($4,514)

Recommendation
The Governor recommends funding of $4.0 million dollars in each year for Minnesota Economic Opportunity Grants. This is a reduction of $4,514,000 in FY 2004 and $4,514,000 in FY 2005.

Background
The Minnesota Economic Opportunity Grants (MEOG) provide funding to help low-income citizens attain the information and skills necessary to become more self-reliant and to alleviate the effects of poverty. In Minnesota, a statewide network of 40 Community Action Agencies (CAAs) including 11 tribal governments deliver the locally designed services. Approximately 200,000 economically disadvantaged households are served annually through the network. Many of these households are working and still meet income eligibility guidelines for program services. The proposed reduction would result in a decreased ability to provide services to low-income Minnesotans. For more information about MEOG, see http://cfl.state.mn.us/oeo or www.mncaa.org.

Relationship to Base Budget
The proposed reductions are 53% of the base budget in FY 2004 and FY 2005.

Key Measures
The proposed reduction means that fewer funds will be available to CAA and tribal governments to help low-income individuals become more self-sufficient.

Statutory Change: Not Applicable

State of Minnesota
Department of Finance

400 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155
Voice: (651) 296-5900
Fax: (651) 296-8685
TTY: 1-800-627-3529

February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the FY 2004-05 Governor's budget proposals for the Minnesota State Academies for the Deaf and the Blind and the Perpich Center for Arts Education. These agencies collectively spend $41.3 million for the FY 2004-05 biennium. The Governor encourages the agencies to work diligently to be effective stewards of taxpayer resources and focus operations and spending on their highest service priorities.

The funding recommended for these agencies for FY 2004-05 represents a $1.067 million (2.5 percent) decrease from the FY 2002-03 biennium, with a five percent reduction recommended for the Academies and a 15 percent reduction recommended for the Perpich Center. The funding provided for these agencies will be used to allow them to protect and focus on their primary classroom functions.

Recommended reductions for both agencies primarily affect their non-classroom operations. The reductions to the Academies' budgets were small, compared to most agencies, reflecting the special needs of the students these schools serve. The Perpich Center reductions mainly affect those activities beyond the scope of the Arts High School.

The pages that follow provide more detailed information on individual agency spending history and budget plans for the next biennium.

My staff, the agencies, and the Governor's Office all stand ready to provide you with additional information and assistance as necessary as you go about the difficult task of crafting a sound budget for the upcoming biennium.

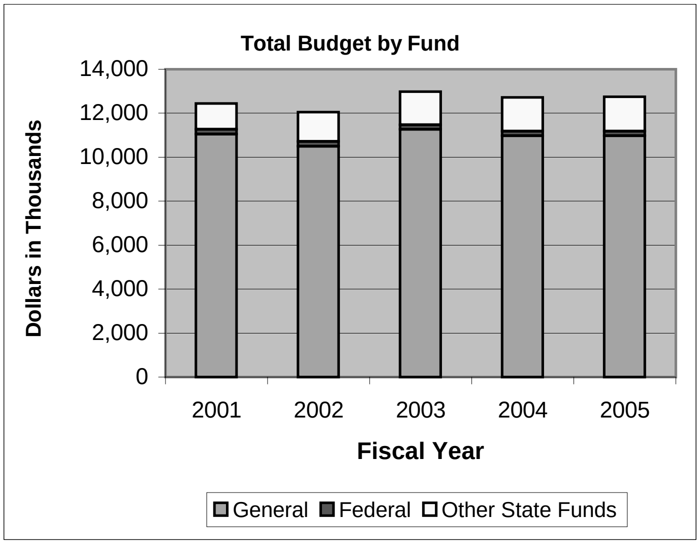
Sincerely,

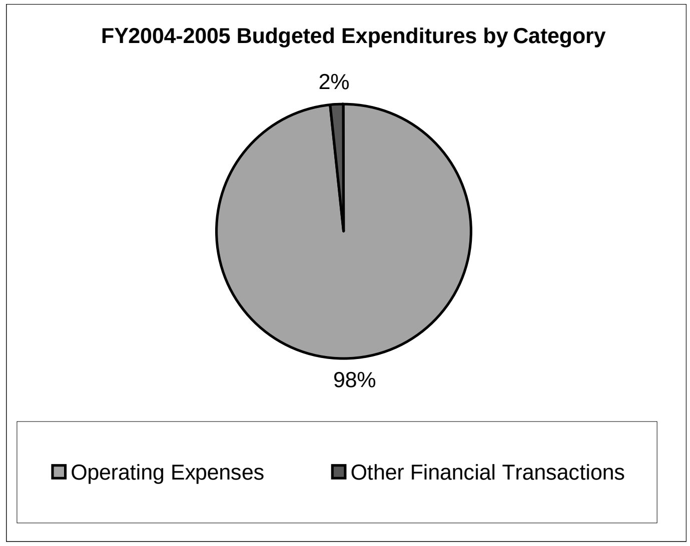
Dan McElroy
Commissioner

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level	23,042	3,520	26,562
Adjusted Base Funding	23,042	3,520	26,562
Change Items			
Agency Operations	-525	0	-525
Short Term Services	-572	0	-572
Governor's Recommendations	21,945	3,520	25,465
Biennial Change, 2002-03 to 2004-05	182	251	433
Percent Change	1%	8%	2%

Brief Explanation of Budget Decisions:

Budget decisions were in line with our legal obligation to ensure the two most important conditions for our students: 1) to provide for their overall health and safety and 2) to meet the individualized special education plans as mandated by federal law. With these two principles as priorities, the budget decisions were made to limit the impact on direct educational services provided to students.





Dollars in Thousands **Expenditures by Fund**	**Actual FY2001**	**Actual FY2002**	**Preliminary FY2003**	**Governor's Rec FY2004**	**Governor's Rec FY2005**	**Biennium 2004-05**
Direct Appropriations						
General	10,897	10,216	10,710	10,417	10,418	20,835
Statutory Appropriations						
General	142	282	555	555	555	1,110
Special Revenue	933	1,083	1,242	1,266	1,296	2,562
Federal	228	207	208	208	208	416
Miscellaneous Agency	228	244	259	259	259	518
Gift	10	13	12	12	12	24
Endowment	0	0	1	0	0	0
Total	**12,438**	**12,045**	**12,987**	**12,717**	**12,748**	**25,465**

Expenditures by Category						
Operating Expenses	12,025	11,701	12,672	12,388	12,419	24,807
Capital Outlay & Real Property	154	72	25	39	39	78
Payments To Individuals	65	63	65	65	65	130
Other Financial Transactions	194	209	225	225	225	450
Total	**12,438**	**12,045**	**12,987**	**12,717**	**12,748**	**25,465**

Expenditures by Program						
Residntl Academies/Deaf&Blind	8,787	8,505	9,225	9,031	9,061	18,092
Academy Operations	3,651	3,540	3,762	3,686	3,687	7,373
Total	**12,438**	**12,045**	**12,987**	**12,717**	**12,748**	**25,465**

Dollars in Thousands Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
General	0	676	701	701	701	1,402
Special Revenue	662	0	0	0	0	0
Subtotal Non Dedicated	662	676	701	701	701	1,402
Dedicated						
General	372	423	395	395	395	790
Special Revenue	1,340	687	1,213	1,243	1,273	2,516
Federal	220	204	207	207	207	414
Miscellaneous Agency	226	243	259	259	259	518
Gift	17	11	12	12	12	24
Endowment	0	0	1	0	0	0
Subtotal Dedicated	2,175	1,568	2,087	2,116	2,146	4,262
Total Revenue	**2,837**	**2,244**	**2,788**	**2,817**	**2,847**	**5,664**
Full-Time Equivalents (FTE)	**204.3**	**206.9**	**202.9**	**195.6**	**195.6**	

Change Item: AGENCY OPERATIONS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($263)	($262)	($263)	($262)
Revenues	0	0	0	0
Net Fiscal Impact	($263)	($262)	($263)	($262)

Recommendation

The Governor recommends a general fund appropriation of $6,281,000 for the agency operations budget of the Minnesota State Academies in the 2004-05 biennium, a reduction of $35,000 from the current biennium. To reach this level of spending, the Governor recommends a reduction of $525,000 from base level funding. This would include reductions in equipment, repairs and replacements, fixed costs, and administrative staff.

Background

The Academies consist of two campuses, 16 buildings, and approximately 480,000 square feet of buildings to maintain.

⇒ This strategy is the least harmful budget reduction for the Academies because it does not reduce direct services to children.

⇒ This strategy works for the current time but defers the purchase of equipment or maintenance to the future when emergency repairs may require attention.

⇒ We are delaying costs that may be more expensive in the future and more difficult to repair.

⇒ This strategy depends on our costs for heating, electricity, water and sewage, telephones, T-1 lines, workers comp, and other fixed costs being similar to FY 2001. Any increase in utilities or an unusually cold winter or hot summer would put added pressure on our budget in this area.

⇒ This strategy would involve the restructuring of the administrative staffing pattern at the Minnesota State Academy for the Deaf. One supervisor would be expected to serve in the place of two supervisors combining the roles of an assistant principal and dormitory director. Supervisory responsibilities will be handled, by a senior staff member, with over 30 years of experience in working at the Minnesota State Academies. With the experience and knowledge level of this unique individual it is expected that the new administrative structure will be successful. The person is near retirement, and at that time, the structure will be reviewed to ensure that basic supervisory functions are covered.

Relationship to Base Budget

This budget reduction reflects close to a 2.5% decrease in the general fund base funding of the Academies, and is a 0.4% reduction from the 2002-03 biennium.

Alternatives Considered

Other staff reductions were considered, and 5.5 FTE positions have been eliminated in the FY 2003 budget allocations in order to balance the budget.

Statutory Change: Not Applicable.

Change Item: SHORT TERM SERVICES

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($286)	($286)	($286)	($286)
Revenues	0	0	0	0
Net Fiscal Impact	($286)	($286)	($286)	($286)

Recommendation

The Governor recommends a general fund appropriation of $14,554,000 for the Minnesota State Academy for the Blind and the Minnesota State Academy for the Deaf for the 2004-05 biennium, a reduction of $56,000 from the current biennium. To reach this level of spending, the Governor recommends a reduction from base level funding of $572,000 for the biennium in the short term services program.

Background

The Academies provide services to both enrolled and non-enrolled students, and short term services affect both groups of students. By reducing expected expenditures on short term services, the Academies will be able to protect the core mission of health and safety for all students, as well as continue to focus on serving the needs of the enrolled students during the school year.

The current annual sum of $286,000 to provide short term services programming at the two Academies would be eliminated from the budget. The Academies also reduced short term services by $277,000 in FY 2003 due to the statewide allocation of budget reductions from the 2002 legislative session. Programming includes Parent-Child Institute at both Academies, and a wide range of opportunities for deaf and blind students from across the state of Minnesota to maintain skills and prevent regression, remediate and/or have instruction in areas critical to the goal of becoming self-sufficient, independent adults. Programs include preparing students to pass the Basic Skills Tests required to receive a high school diploma, specific extended year services as mandated by the federal Individuals with Disabilities Education Act (IDEA), and skills maintenance to prevent regression or disability specific skills as identified in Individual Education Plans.

⇒ Short Term Services programs would continue to be provided in FY 2004 and in FY 2005 through compensatory education funds, but then these funds would not be available to hire teachers and reduce the student/staff ratios which are increasing with our growing enrollment.

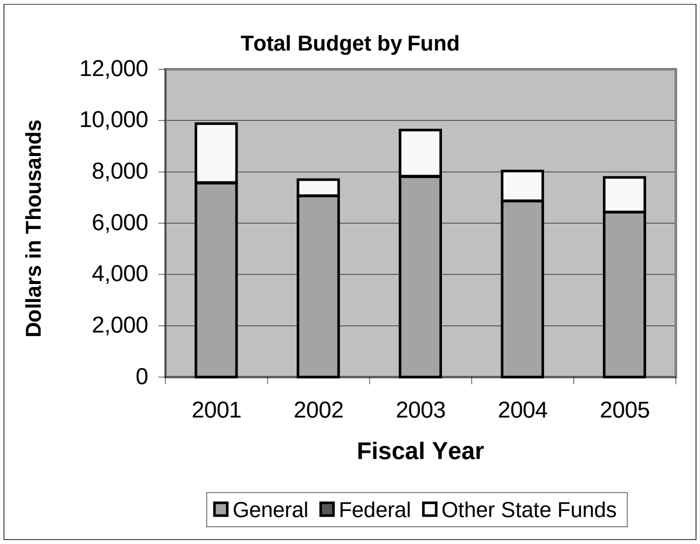
⇒ This strategy works as a one-time solution to continue short term services/programs for both enrolled and non-enrolled students and will translate in future years as a significant change in the provision of services.

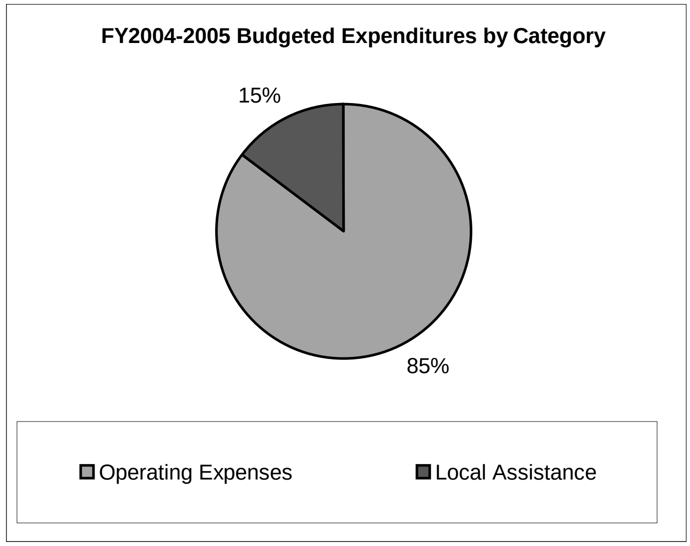
Relationship to Base Budget

This budget reduction reflects a 2.6% decrease in the overall funding of the Academies and services to more than 200 deaf and blind students. This reduction would eliminate a core function of Academy services.

Statutory Change Not Applicable

FY 2004-05 Expenditures ($000s)	General Fund	Other Funds	Total
2003 Funding Level	15,632	2,529	18,161
Adjusted Base Funding	15,632	2,529	18,161
Change Items			
Budget Reduction	-2,345	0	-2,345
Governor's Recommendations	13,287	2,529	15,816
Biennial Change, 2002-03 to 2004-05	-1,586	86	-1,500
Percent Change	-11%	4%	-9%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	7,561	7,026	7,812	6,864	6,423	13,287
Statutory Appropriations						
General	0	34	1	0	0	0
Special Revenue	677	413	477	477	462	939
Federal	8	1	2	2	2	4
Miscellaneous Agency	79	68	80	110	108	218
Gift	1,555	149	1,253	577	791	1,368
Total	**9,880**	**7,691**	**9,625**	**8,030**	**7,786**	**15,816**

Expenditures by Category						
Operating Expenses	7,380	7,132	8,002	6,896	6,454	13,350
Capital Outlay & Real Property	397	0	0	0	0	0
Payments To Individuals	30	47	30	33	36	69
Local Assistance	2,037	470	1,550	1,058	1,253	2,311
Other Financial Transactions	36	42	43	43	43	86
Total	**9,880**	**7,691**	**9,625**	**8,030**	**7,786**	**15,816**

Expenditures by Program						
Center For Arts Educ	9,880	7,691	9,625	8,030	7,786	15,816
Total	**9,880**	**7,691**	**9,625**	**8,030**	**7,786**	**15,816**

Revenue by Type and Fund						
Dedicated						
General	0	35	0	0	0	0
Special Revenue	384	445	412	410	410	820
Federal	5	1	2	2	2	4
Miscellaneous Agency	82	83	85	85	85	170
Gift	1,521	2,597	0	0	0	0
Subtotal Dedicated	1,992	3,161	499	497	497	994
Total Revenue	**1,992**	**3,161**	**499**	**497**	**497**	**994**

Dollars in Thousands Full-Time Equivalents (FTE)	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
	79.7	79.9	77.2	73.2	72.7	

Change Item: BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($952)	($1,393)	($1,172)	($1,172)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($952)	($1,393)	($1,172)	($1,172)

Recommendation
In FY 2004-05, the Governor recommends $13.3 million in general fund support for the Perpich Center for Arts Education (PCAE). This is a biennial reduction of $2.345 million and reflects a 15 percent base reduction. The Governor expects the agency to focus its appropriated funding on maintaining its highest priority services and minimizing reductions to the classroom at the Arts High School.

Background
The PCAE Board and staff used a multi-objective decision analysis to identify and weigh each reduction. Using this process the Board and staff assigned weights and values to all of the Center's functions and identified the areas for budget reductions.

With a cut of 15 percent for the biennium, it will be necessary to shrink the mission of the Center and focus on those objectives that can be accomplished with a more restricted budget.

The Arts High School, for example, will do exemplary work with the 300 students who attend from throughout the state. The Center's effectiveness will be diminished with connecting to other schools, students and teachers in sharing successful curriculum and instruction. In addition, with less support staff and services, the Arts High School may serve fewer at risk students and fewer students who may, for economic reasons, require more services just to attend. Transportation is an example of the kind of service that will be eliminated or run for a fee that covers the cost.

The Center's outreach with arts organizations, schools, school districts, teachers and students throughout Minnesota, will be more focused on working where the numbers or needs are the greatest and eliminate or postpone services and partnerships that benefit fewer people. While the Center will still aim for statewide impact, efforts will focus on regional activities that alternate in all parts of the state by year or biennium

Also, the PCAE's Board and administration will consider raising fees for students and other clients of the Center's services and facilities. One specific area under consideration is an increase in the fee for students living in the Dormitory. Other considerations would be to close the dormitory on all weekends or significantly reduce the number of students staying in the dormitory on weekends. Currently, the dorm is closed every third weekend.

The PCAE Board intends to reactivate its Foundation, Friends of Arts Education, and solicit support from alumni and parents.

The overall plan involves a more significant reduction in FY 2005 than FY 2004. This provides more time for the Center to plan and evaluate alternatives. The PCAE anticipates that the FY 2005 budget would be addressed, in part through one-time reductions and that the biennial reduction would be distributed equally across fiscal years in 2006 and 2007.

Relationship to Base Budget
The reductions would result in a $1.1 million biennial decrease in program budgets and elimination of approximately 10 FTE.

Key Measures

- During its existence, the Arts High School has prepared all of its students for success in post-secondary schools and programs. For the class of 2002, 80% went immediately to a college, university or art school. It is the intent of the Perpich Center's Board and administrators, that the proposed change would not alter these positive results.

- During 2001-2002, the Perpich Center positively influenced – through grants, workshops, and technical assistance – the teaching and learning of more that 18,887 teachers, teaching artists, administrators and students. The proposed reduction would reduce the number of teachers, teaching artists, administrators and students that the Perpich Center can positively influence.

Statutory Change: Not Applicable