

FISCAL ANALYSIS DEPARTMENT

373 State Office Building
St. Paul, Minnesota 55155
(651) 296-7176



Minnesota House of Representatives

Fiscal Analysts

Bill Marx, Chief Fiscal Analyst
Ways and Means

Doug Berg
Higher Education

Cynthia Templin
Family & Early Childhood Education

Greg Crowe
K-12 Education

Joe Flores
Human Services

Gary Karger
Judiciary

Matt Massman
Taxes

Helen Roberts
State Government

Peter Skwira
Environment & Natural Resources
Agriculture & Rural Development

Ron Soderberg
Jobs & Economic Development

John Walz
Capital Investment
Transportation & Transit

Paul Wilson
Taxes

Education Funding Formulas and the Census

October 18, 2000

This document has two parts. The first section of this information brief provides background on how census data has been incorporated into community education funding formulas. The final section covers what to expect when census data is a component in a funding formula.

Part One - Background

What are Community Education Programs?

Programs that maximize the use of Minnesota public school facilities and expand utilization of the human resources of the community. Aside from regular community education courses, other courses offered by most school districts associated with community education include:

- ▶ Early Childhood Family Education
- ▶ School Readiness
- ▶ School Age Care

Why is census data used in Community Education Funding Formulas?

Census information is viewed as being a fairly stable source of reliable data collected by the U.S. Census Bureau that provides indicators about the characteristics of political subdivisions within the state. The type of data collected by the census used in community education formulas and other state formulas include population, income and poverty data. This data is viewed as a possible indicator of the following:

- ▶ Potential *demand* for community education services; and
- ▶ Potential economic *need* for community education services.

How often is census data updated for community education state aid formulas?

Minnesota Planning Department anticipates that the Census 2000 population counts will be released and available to the Department of Children, Families and Learning (DCFL) in the spring of 2001. After the census 2000 population counts are certified by CFL, the earliest the state and school districts may learn of the financial implications of the new populations counts may occur around the November 2001 forecast for the 2002 legislative session. If this scheduled release occurs, the aid in census driven education formulas could be potentially affected for the 2002-03 school year.

During the years between the federal census, districts are allowed to adjust their population estimate upward or downward. To adjust a population estimate, a school district must pass a resolution containing the current population estimate and must submit the resolution to the state demographer describing the criteria and process by which the estimate is based. The state demographer will determine whether or not the criteria and process described in the resolution from the school district is reasonable. If the state demographer determines the resolution is not reasonable, the resolution has no effect. (M.S. 275.14)

Under this provision, districts with growing populations frequently adjust their population estimate upward in years when no federal census is taken. These growing districts are, therefore, able to access more state formula driven funds if the revenue component of the formula is linked to populations counts. Districts with declining populations, on the other hand, are not required to report the loss of population to funding agencies. Revenue for these districts stays fairly constant during the years between the federal census despite the loss of population.

See Table 1. shows the total number of districts that have submitted census count changes since 1995 that have been approved by the demographer.

Table 1. Recent History of Census Count Adjustments

School Year	Number of districts requesting census count adjustment over the total number of districts statewide*	Percent of districts requesting census count change
1995-96	20/365	5%
1996-97	24/358	7%
1997-98	30/353	8%
1998-99	28/350	8%
1999-00	37/347	11%

Data: Department of Children, Families and Learning, August 2000. * Each year, the number of districts statewide has fluctuated due to school district consolidations.

Part Two - Application of Census Data in State Funding Formulas

Which census data is used in the community education and non community education funding formulas?

See below.

Program	Census Data Used in Funding Formula	Type of Formula	Legal Reference
Community Education	▶ School District Population	Uncapped	M.S. 124D. 20
Early Childhood Family Education (ECFE)	▶ School District Population of Children under Age Five	Uncapped	M.S. 124D.13
Adult Basic Education (ABE)	▶ School District Population; and ▶ School District Population of	Capped	M.S. 124D.52
School Readiness	▶ School District Population of Children Under Age Four	Capped	M.S. 124D.15
Minnesota Economic Opportunity Grants	▶ Population and Poverty Data	Capped	M.S. 119B. 374

How is census data used in most funding formulas?

Community education funding formulas provide state aid to school districts after a calculation of two components: (1) revenue; and (2) levy. The levy component of the formula is linked to the adjusted net tax capacity (ANTC) and the revenue component is often linked to population counts.

For the latter, the impact of linking revenue to population counts in the funding formula has two effects. First, linking revenue and population counts influence *where* community education funds are distributed and it also influences *how much* community education funds are distributed. Depending on the type of funding formula, the linkage of revenue to population counts in the funding formula has one or both of the following effects:

- ▶ Fiscal and distributional impact to school districts only; or,
- ▶ Fiscal and distributional impact to both school districts and the state.

If census data is a component within a *capped* state aid funding formula, the fiscal and distributional effects are limited to the local school districts. Each year, the level of state aid distributed to school districts is influenced by census information. The fiscal impact to the state within a capped formula is limited to the appropriation in law. On the other hand, if census data is a component within an *uncapped* state aid formula, there is a fiscal and distributional impact to both school districts and the state. The level of funding to each school district is impacted as well as the total cost liabilities to the state of the funding formula. Uncapped state aid funding formulas, as described, are often incorporated into the expenditure and revenue forecasts by the Department of Finance.

What to expect if census data is a component within an uncapped funding formula.

- A. Community Education Program
- B. Early Childhood Family Education (ECFE)

Funding Formula Description. Community Education and ECFE are full funded or uncapped formulas. These funding formulas primarily consists of two components: (1) revenue and (2) levy. State aid for Community Education and ECFE is equal to revenue minus levy.

Revenue in the community education formula, for example, is tied to both the population count of the school district and a fixed dollar rate. Revenue is a fixed dollar rate equal to \$5.95 multiplied by the greater of: (a) district population or, (2) 1,335 for a minimum population guarantee.

Revenue in the ECFE program is tied to both the population count in the school district of children under age 5 in the school district and a fixed dollar rate. ECFE revenue, for example, is a fixed dollar rate equal to \$115.96 multiplied by the greater of: (1) the number of children under age 5 in the district or, (2) 150 for a minimum population guarantee. The population count data helps determine the amount of revenue for the districts and the cost of the statewide program. Census data within an uncapped formula has both a fiscal and distributional impact to school districts and the state.

Census/Population Change Impact to Funding. If the population count of the school district is estimated to increase at the time of the forecast, the total forecasted community education revenue to be distributed to districts increases. At the same time, the level of funding needed to fully fund the program statewide also increases. Conversely if the population count of the school district decreases (if reported during a year when the decennial census year is not taken), the total revenue to school districts decreases and the level of funding needed to fully fund the program decreases and savings cancel back to the general fund.

Population/Formula Trends. For the Community Education program, the number of districts with a population small enough to receive the minimum population guarantee of 1,335 has decreased from 13 percent during the 1995-96 school year to 9 percent of the school districts during the 1999-2000 school year.

For the ECFE program, the number of school districts with a population small enough to receive the minimum population guarantee of (150 children under age five) has consistently declined each year from 33 percent during the 1995-96 school year to 26 percent during the 1999-2000 school year.

This trend denotes that the number of school districts relying on the minimum population guarantee for the determination of their revenue is decreasing as either small districts consolidate or as population counts shift upward.

What to expect if census data is a component in a capped funding formula?

- A. School Readiness Program.
- B. ABE
- C. MEOG

Funding Formula Description. The state aid in a capped funding formula is distributed based on components that may include but may not be limited to census data. Census data used as a component within a capped funding formula has a distributional impact at the local level.

Census/Population Change Impact to the Funding Formula. If the population count or poverty rate in the school district increases relative to other school districts, the proportion of state funding will increase to that district as weighted in the funding formula. In spite of the population or poverty rate changes in the district and the state, the overall cost of the program statewide will be unaffected because the amount state aid available for this program is capped.

Population/Census Trends. During the FY 1999-2000 school year, 95 districts or 27 percent of all school districts (95/347) had a population small enough to be eligible for the school district population minimum of 4,000.

Other state funding formulas that incorporated census related data.

The Minnesota Economic Opportunity Grant program (MEOG) provides assistance to community action agencies, tribal governments and migrant and seasonal farm worker organizations to help mitigate the effects of poverty by providing low-income citizens with opportunities to obtain skills, knowledge and motivation to become self sufficient.

The statutory allocation formula for this program incorporates population and poverty level estimates for the distribution of funds. Funding for this program is capped and therefore the impact of the census data is mostly distributional and the fiscal impact to the state is limited to the appropriation in law.

Conclusion and future considerations.

If census data is a component of a state aid formula, there may be significant shifts or changes in state aid due to population changes when the federal 2000 census data becomes available to state agencies. There are a few options to consider to mitigate these shifts such as the implementation of a hold harmless or changing components of the formula such as the minimum population guarantee or the revenue allowance.

For federal programs that utilize census data for the allocation of federal dollars such as Child Care Development Fund and Head Start, on the other hand, the options are more limited. The impact of the release of the federal 2000 census and how it will affect Minnesota's federal funding for these programs is less predictable.

Prepared By: Cynthia C. Templin, House Fiscal Analyst
651/296-5384