

# Funding Education for the Future



May 25, 2011





May 2011

*“Education was key to our state’s past prosperity, and it will be key to our future prosperity. An excellent public education system will be the driving force behind job creation in Minnesota. We must prepare today’s students for the jobs and the industries of the future, and thus we must make important innovations in our public school system. With this plan, we will take what is good with Minnesota’s K-12 education and make it even better; to ensure every student full opportunity to succeed in this ever more competitive global economy.”*

- Governor Mark Dayton – February 4, 2011

When Governor Dayton introduced his 7-Point Plan for Achieving Excellence for all Minnesota students, education funding for the future was number 1 on the priority list. Minnesota’s future is dependent upon a strong system of public schools that provides assurances every student has access to a high-quality education that helps them reach their full potential.

The Education Finance Working Group has thoroughly considered the expectations schools face, the needs of our changing student population, and the increased challenge of ensuring every student graduates from high school well prepared for college and career. The recommendations contained in this report are the result of intensive dialogue; a focus on student learning and instruction; careful analysis of funding patterns in districts of differing size, demographics and region; and study of school finance reform proposals developed over the past eight years.

The working group’s conclusion clearly shows there is a better way to fund Minnesota schools for the 21st century by:

- Improving the adequacy, equity, and stability of pre K-12 education funding;
- Simplifying and streamlining education funding;
- Preserving local control;
- Closing achievement gaps;and
- Promoting high achievement for all students.

I encourage you to review this report carefully. It contains a blueprint for our future – a future in which we meet Minnesota’s constitutional obligation to provide a “uniform system of public schools” with improved education funding that takes what’s good and makes it better.

Sincerely,

A handwritten signature in black ink that reads "Dr. Brenda Cassellius". The signature is written in a cursive style.

Dr. Brenda Cassellius  
Commissioner of Education

# executive summary

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Minnesota's future economic success depends upon a strong system of public schools to create the highly skilled workforce necessary to compete in a global economy. Adequate, equitable and stable school funding that encourages innovation will help provide assurances that every student has access to a high-quality education that leaves them well prepared for success in college and career.

The Education Finance Working Group thoroughly considered expectations for students and schools, the needs of a changing student population, and the increased challenges of ensuring every student achieves at their highest potential. The recommendations contained in this report are the result of intensive dialogue; a focus on student learning and instruction; careful analysis of funding patterns in districts of differing size, demographics and region; and study of school finance reform proposals developed over the past eight years.

## **Major Recommendations**

Major recommendations from the Commissioner's Working Group on Education Funding:

1. Invest in early learning, with resources targeted first to all-day kindergarten for students living in poverty.
2. Roll a portion (\$400) of referendum levies into the general education formula to provide a more adequate, uniform and stable funding base for all districts and charter schools, and to lessen reliance on local referenda.
3. Establish a uniform general education levy by consolidating and replacing existing school levies, including a portion of existing referendum levies rolled into the formula. There will be no increase in total school levies with a component of the levy spread on tax capacity and a component spread on referendum market value.
4. Simplify funding formulas and student accounting to make E-12 education funding more understandable and transparent.
5. Reform basic skills funding by rolling extended-time funding into compensatory education revenue targeted to concentrations of poverty and allowing districts flexibility in the use of an additional 10% of revenue.

## executive summary

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6. Refocus integration funding by including it in the basic skills portion of the general education revenue. Funding will be based on the number of students of color in each district with each district receiving \$600 times the number of students of color enrolled in the district. Funding would be all state aid and some transition funding is recommended.
7. Recognize and reward growth by creating a noncompetitive grant program to recognize schools with outstanding growth in student achievement and disseminate best practices.
8. Change special education tuition bill by sharing of excess special education costs between the resident school district and the serving school district or charter school for open-enrolled students.
9. Recognize regional cost differences by rolling a portion of referendum revenue into a new location equity levy for the seven county metro area and for non-metro regional centers.
10. Restore inflation-adjusted general education formula to FY 2003 levels by setting the formula allowance at \$6,290 for FY 2013.
11. Reduce charter school lease aid as an offset to formula increases.
12. Phase in revenue increases and uniform general education levy to assure a smooth transition.

# background

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With limited resources and the need to focus those resources to maximize the impact for students in Minnesota, the Commissioner of Education established a Working Group on school funding charged with developing recommendations for education finance reform.

This report provides a blueprint for education funding for the 21st century. It is both a framework for funding and a first step in a statewide dialogue about how to best meet the needs of all children. A rich and full discourse will be essential in order to build the consensus necessary to enact fundamental change that will ensure Minnesota's system of education prepares all students to succeed in an increasingly global and competitive society.

Membership on the Working Group consisted of parents, school officials, teachers, and public members and was determined by the Commissioner. (See Appendix A)

The Working Group held seven meetings beginning on March 30, 2011. The final meeting took place on May 25, 2011, at which time the report was finalized. (See Appendix B) The group adopted tentative decisions at the meeting based on the major components within the proposal. These decisions were adopted based on a supportive vote of two-thirds of a quorum present.

## **School finance decisions must consider the state's constitutional responsibility as interpreted by the courts.**

Minnesota's Constitution requires the state to provide adequate uniform funding for all public school students in the state.

### **Minnesota Constitution, Article 13, Section 1**

...it is the duty of the legislature to establish a general and uniform system of public schools.

The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

### **Minnesota Supreme Court, Skeen v. State of Minnesota, August 20, 1993**

...education is a fundamental right in Minnesota. However, the current system of state educational finance satisfies that fundamental right, particularly where all plaintiff districts are provided with an adequate level of education which meets or exceeds the state's basic educational requirements and where the districts are given sufficient funding to meet their basic needs...

...our decision ...requires the state to provide enough funds to ensure that each student receives an adequate education and that funds are distributed in a uniform manner...

...the State of Minnesota provides an adequate and uniform education which meets all state standards. It merely allows localities to augment this basic amount...

...the determination of education finance policy, in the absence of glaring disparities, must be a legislative decision because it involves balancing the competing interests of equality, efficiency, and limited local control...

# context

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Minnesota's concentration of students living in poverty, special education students, students with limited English proficiency, and students of color has increased significantly in recent years. The portion of students served in charter schools has increased significantly in recent years, but remains a small percentage of total enrollment (5% in FY 2011).

Most regions of the state experienced enrollment decline between 2003 and 2011, while the metro and east central areas experienced slight increases.

State aid per student for K-12 education increased over the past eight years, but at a rate well below the rate of inflation (15% increase in aid/student vs. 20-35% inflation, depending on the inflation measure used). Property tax levies per student for K-12 education more than tripled between 2003 and 2011, and more than doubled after adjusting for inflation. Voter approved operating referendum levies accounted for most of the increase.

Total state aid plus levy revenue per student increased by 6% between FY 2003 and FY 2011 if the Consumer Price Index is used to measure inflation; or decreased by 15% if the implicit price deflator is used to measure inflation.

Special education cross subsidies increased rapidly between 2003 and 2007, but decreased between 2007 and 2011 due to a large increase in state special education aid enacted by the 2007 Legislature, and a temporary increase in federal special education aid for 2010 and 2011.

After reaching an all-time high of 86% in FY 2003, the state share of K-12 education funding declined steadily to 77% by FY 2011. The state share of operating referendum and debt service levies declined more rapidly. Due to increasing reliance on referendum levies, and wide variations in districts' ability to pass referendums, the gap between the 95th and 5th percentiles of general education revenue per student (excluding cost factors) increased from 19% in FY 2003 to 30% in FY 2011.

Breakdowns of expenditures by program and object have remained very stable over time. The bulk of expenditures goes for salaries and fringe benefits of instructional staff. School district fund balances have increased since 2003, and fewer districts are in statutory operating debt. Pupil – staff ratios have remained very stable over the past eight years.

There are wide gaps in reading and math proficiency by race and by economic status. Little progress was made in closing these achievement gaps between 2006 and 2010.

# charge

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The Working Group was asked to develop realistic funding options for the Minnesota Department of Education to present to the Governor.

- Improve the adequacy, equity, and stability of pre K-12 education funding;
- Simplify education funding;
- Preserve local control;
- Close the achievement gap;
- Promote high achievement for all students; and
- Direct resources closest to students, teachers and the classroom.

As a starting point, the Minnesota Department of Education (MDE) developed a preliminary set of funding reform proposals for the Working Group to review, based on recent education funding reform work by other task forces. These funding reform task forces included “Choice for Change” (Ventura), “Investing in our Future” (Pawlenty), P.S. Minnesota (Coalition of Education Organizations) and a funding bill referred to as “The New Minnesota Miracle” authored by State Representative Mindy Greiling.

The Department proposal focused on the following nine components:

1. Invest in early learning, with resources targeted first to all-day kindergarten for students living in poverty. (Note: Included in Governor’s budget recommendation.)
2. Roll \$400 per student of referendum revenue into the basic general education formula to provide a more adequate, uniform and stable funding base for all districts and charter schools, and to lessen reliance on local referenda.
3. Fund the \$400 formula increase by consolidating existing school levies (including the referendum levies rolled into the formula) into a uniform general education levy, with no increase in total school levies. (Note: Proposals #2 and #3 go together.)
4. Make E-12 education funding more understandable by eliminating unnecessary formulas and simplifying how students are counted for funding purposes.
5. Reform the calculation of compensatory education revenue to target funding more directly based on need as measured by statewide assessments of student learning. (Note: 10% of compensatory revenue allocated based on concentration of non-proficient students; 90% allocated based on concentration of students eligible for free or reduced-price lunch.)
6. Roll integration funding into the basic skills portion of the general education program, with resources targeted to close the achievement gap. (Note: Integration funding would be allocated as a rate times the number of students of color in districts with an integration plan; funding would be all aid instead of 70% aid and 30% levy.)

# charge

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7. Allocate a portion of general education revenue to schools with outstanding levels of growth in student performance (>40% high growth), with up to 50% of the funds used to maintain the outstanding performance and at least 50% used to disseminate best practices to other schools. (Note: Included in Governor's budget recommendation.)
8. Reform special education funding, including: (a) a student-driven formula for increases in aid above the FY 2011 level; and, (b) sharing of excess special education costs between the resident school district and the serving school district or charter school for open-enrolled students.
9. Recognize regional cost differences by rolling \$400 per pupil of referendum revenue for metro area districts into a new location equity levy. (Note: Recognizes that a portion of existing referendum levies goes to cover added costs in metro area; no new revenue and no change in total levies.)

Recommendations from the committee work are to be presented to Governor Mark Dayton for his consideration.

# assumptions

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When building a foundation for funding, it was necessary to begin with some working assumptions. The assumptions were based on the current fiscal realities facing the state. The working group discussed how best to recognize these limitations while creating a sustainable funding infrastructure that allows for innovation and clearly defines accountability – accountability for the state – for those serving students, and for the students themselves. Future work will build on defining those expectations to ensure they fully meet the needs of all students.

The follow working assumptions were used as the committee began its deliberations.

1. The state’s \$5.0 billion budget shortfall for the FY 2012 - 2013 biennium, and the projected shortfall of \$4.4 billion for the FY 2014 - 2015 biennium, will preclude large increases in E-12 education funding in the near future.
2. Despite the state’s gloomy budget outlook, state policymakers and the public put a high priority on E-12 education. Therefore, it was assumed that E-12 education funding will not be reduced in the near future, but will increase by a modest amount (\$20 - \$200 million per year).
3. Using MDE’s preliminary draft proposal as a starting point, the working group would identify and develop options that will most effectively advance education funding reform with a modest influx of new state funding.
4. Changes in state taxes (e.g., income, sales) were not part of the charge to the working group.
5. Property tax levies for E-12 education may be restructured with the following constraints:
  - State total property tax levies for E-12 education will not increase (zero levy target).
  - Given limited new state aid for education, priority will go to providing new revenue for schools over property tax relief (no significant decrease in state total school levies).
  - No significant redistribution of total school levies between the metro area and greater Minnesota will be made.
  - Modest reallocation of levies within regions may be acceptable if it results in more uniform tax burdens among school districts and doesn’t create sizeable tax burden shifts.
  - Changes creating large “losers” will not be acceptable.

# recommendations

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## 1. Investment in Early Learning

### A. All-day Kindergarten:

- Beginning in FY 2013, schools that provide an all-day kindergarten program at no cost to all students will receive state funding for the portion of all-day kindergarten participants who are eligible for free and reduced-price meals. This is a first step toward state funding of all-day K for all kindergarten students.
- Participation in the program would be optional.
- School districts and charter schools could choose to provide this option at one or more school sites. The pupil unit weighting for students eligible for free or reduced-price lunches participating in the program would be increased to 1.0.
- The balance of program costs not funded through all day kindergarten aid would be funded using other non-fee resources from the school district or charter school's general fund.
- Further study is needed to address transportation costs and facilities or space needs that may be a barrier to implementation of the program in some districts.

### Background / Rationale:

- Kindergarten is a vital part of the overall K-12 education system, preparing students for success in first grade and later years.
- The national Early Childhood Longitudinal Study – Kindergarten cohort found that students who attended all-day K had significantly greater achievement than students attending half-day programs, including greater progress in language and literacy skills and mathematical thinking.
- By improving the opportunities for students living in poverty and minority students to be successful, all-day K helps to close the achievement gap.
- Forty four percent of Minnesota kindergarten students currently receive free all-day K, and another 15% participate in fee-based programs. State funding will make this opportunity more uniformly available to kindergarten students throughout the state.

### B. Quality Rating System: (See Addendum I on page 16)

## 2. Roll a Portion of Referendum Levies into the General Education Formula

- Beginning in FY 2013, roll \$400 per pupil of operating referendum revenue into the basic general education formula.
- Reduce the referendum cap by \$400 per pupil.

### Background / Rationale:

- Provide a more adequate, uniform and stable funding base for all districts and charter schools.
- Lessen reliance on local referenda, and reduce funding disparities. Inflation-adjusted basic formula allowance has declined by \$352 – \$808 / pupil unit over the past eight years, depending on the measure of inflation used.

# recommendations

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- Districts have used referendums to offset the reduction in real basic formula revenue; inflation-adjusted referendum revenue has increased by \$362 - \$462 / pupil unit over the past eight years.
- Not all districts have been able to pass referendums, and districts with strong tax bases have passed higher referendums than districts with lower tax bases. This has resulted in an increase in revenue disparities among districts, from 19% in FY 2003 to 30% in FY 2011.
- Reducing the referendum cap by the amount of the roll-in would leave all districts that same distance from the cap as they are now.
- Referendum Revenue was previously rolled into the basic formula in FY 2003 (\$415) and in FY 1995 (\$100).

### **3: Establish a Uniform General Education Levy**

- Fund a portion of general education revenue with a uniform general education levy, to include a component spread on tax capacity and a component spread on referendum market value. The uniform levy would replace the following existing levies on a dollar-for-dollar basis, with no change in state total school levies:
  - The \$400/pupil portion of referendum levies rolled into the basic formula;
  - Operating Capital levy;
  - Equity levy;
  - Transition levy;
  - Integration levy; and,
  - Safe Schools levy.
- School boards could choose to levy less than the maximum amount, but general education aid would be reduced proportionately for districts electing to levy less than the maximum.

#### **Background / Rationale:**

- A uniform general education levy was an integral part of Minnesota's general education funding formula from its inception in the 1950s through 2002.
- Provide a more stable source of funding to support the basic general education formula.
- In conjunction with referendum roll-in, ensure that all districts have access to an adequate basic funding level with uniform local tax effort throughout the state.
- Growing reliance on referendum levies to fund basic education, together with a decline in state equalization of referendum levies over the past eight years, has led to growing disparity across Minnesota in tax rates needed to fund a basic education program.

# recommendations

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## 4: Eliminate and Simplify Formulas and Student Calculations

- Simplify student weightings:
  - Grades 1-6 and Handicapped K at 1.0
  - Grades 7-12 at 1.2
  - K at 0.5
- Eliminate marginal cost pupil units and establish a separate declining enrollment component of general education revenue.
- Convert referendum allowances from an amount per resident student to an amount per adjusted (served) student; eliminate separate alternative attendance adjustment for referendum revenue.
- Adjust allowances to neutralize changes in pupil unit weights and use of adjusted vs. resident student counts.
- Eliminate Equity Revenue.
- Eliminate Training and Experience Revenue.
- Eliminate Existing Transition Revenue.
  - (New transition revenue would be much more limited.)
- Eliminate Existing Pension Adjustment.
  - (New pension adjustment would be much more limited.)
- Roll Safe Schools Levy and Gifted and Talented revenue into basic formula with set-asides.

### Background / Rationale:

- Eliminate unnecessary complexity, making it easier for policy makers, school districts and the general public to understand and evaluate how schools are funded and to set and manage budgets.
- Current pupil weights are overly complex and don't reflect actual expenditure patterns.
- Current complexity makes it difficult for stakeholders to understand and evaluate funding system.
- Referendum roll-in will be much more effective in closing the spending gap between high-revenue and low-revenue districts than the current equity revenue.
- Pension adjustment and transition adjustment are based on old data and create inequities among districts.
- Funds can be set aside for safe schools and gifted and talented programs without the added complexity for separate aid and levy calculations.

## 5: Reform Basic Skills Funding

- Roll extended-time funding into compensatory formula, proportionately increasing current allocations based on concentration of poverty.
- Provide districts flexibility to use an additional 10% of compensatory revenue based on district-wide compensatory / extended-effort plan.

# recommendations

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- Extend eligibility for Limited English Proficiency funding from five to seven years.
- Adjust the Limited English Proficiency (LEP) concentration formula by extending the sliding scale up to \$350 for districts with 16% or higher concentration of LEP students.

## **Background / Rationale:**

- Align funding more closely with educational need to better support high academic achievement for all students and closing achievement gaps.
- Current extended-time formula rewards districts that choose to serve high-need students through an extension of the school day or year. Districts that choose to provide more intensive services during the regular school calendar do not receive this funding. Rolling this funding into the compensatory education formula would provide more flexibility to local districts to determine most effective strategies to close achievement gaps.

## **6: Refocus Integration Funding**

- Roll integration funding into the basic skills portion of general education revenue and allocate based on the number of students of color in each district. Each district currently participating in the integration revenue program would receive revenue equal to the lesser of the approved budget or \$600 times the number of students of color enrolled in the district.
- Minneapolis would receive an additional \$150 per student of color as a transition adjustment.
- Funding would be 100% from state aid. (Integration levy is rolled into uniform general education levy.)
- Clarify the uses of integration revenue.
  - Does the state have a compelling interest to integrate schools?
  - Should portions of this funding be set aside for integrating schools?  
Closing the achievement gap?

## **Background / Rationale:**

- Align funding more closely with need to better support achieving integrated schools and closing the achievement gap.
- Integration funding per student of color varies widely among districts; some districts with low concentrations of these students receive much higher funding than other districts with much higher concentrations.
- Uses of integration revenue have not been well-defined.

## **7: Recognize and Reward Growth**

- Establish a noncompetitive grant program to recognize schools with outstanding growth in student achievement and enable these schools to provide best practices training or disseminate best practices information to other schools.

# recommendations

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- The top 20% of schools in the percent of tested students making exceptional growth in reading and math will be eligible for a grant. The amount of the grant will vary, depending on the percent of tested students making high growth.
- Up to 50% of the grant may be used at the school to maintain the school's excellent performance. The remainder of the grant must be used to provide best practices training or to disseminate best practices information to other schools.
- Participation for eligible schools is optional; to qualify for a grant, school districts and charter schools with eligible schools must accept the award and submit a budget to the Department of Education.

## **Background / Rationale:**

- Reward schools with outstanding growth in student performance and facilitate dissemination of best practices to other schools.

## **8: Reform Special Education Funding**

- No immediate change should be made in the state special education funding formula, but a study should be completed on the implications of a census-based formula for high-incidence / low-cost disabilities with a weighted pupil formula for low-incidence/high-cost disabilities, while continuing to provide excess cost aid as a safety net.
- Change special education tuition billing by requiring the serving district or charter school to cover 10 percent of unfunded costs for open enrolled students.
- Charter schools with more than 70% of enrolled students with Individual Education Plans would be exempt from this requirement.

## **Background / Rationale:**

- The state's special education formula is very complex and is not aligned well with the state's student-driven general education formula.
- Most other states use a pupil-driven formula for funding special education, in combination with an excess cost formula.
- A change from the current expenditure-driven special education funding formula to a student-driven formula would create a significant redistribution of aid among districts. To avoid creating large winners and losers, a substantial hold-harmless or phase-in period would be required.
- The current practice of requiring the resident district to cover 100% of unfunded special education costs does not provide an incentive for efficient service provision in districts serving nonresident students and in charter schools.

## **9: Recognize Regional Cost Differences**

- Roll a portion of referendum revenue into a new location equity levy.
  - Lesser of \$400/pupil or current referendum allowance exceeding \$400 for districts in seven county metro area.

# recommendations

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- Lesser of \$200/pupil or current referendum allowance exceeding \$400 for non-metro regional center districts (>2,000 ADM).
- Location equity levy would be equalized at the same rate as Tier 1 referendum revenue.
- Location equity levy would be ongoing and board-approved; voter approval not required for renewal.
- In addition to the levy, metro districts would receive additional location equity revenue funded with state aid equal to 1% of the basic plus basic skills revenue, and regional center districts would receive an additional location equity allowance equal to 0.5 percent of the basic and basic skills revenue.
- Reduce the referendum grandfather cap by the amount of the location equity revenue.

## **Background / Rationale:**

- Adjust for differences in the cost of delivering equivalent education services due to geographic location.
- The average FY 2011 referendum revenue for metro area districts is \$683 more per student (ADM) than for non-metro districts. A portion of referendum revenue for metro area districts is currently used to pay for regional cost differences.

## **10. Restore Inflation-adjusted General Education Formula to FY 2003 Level**

- Set General Education Formula Allowance for FY 2013 at \$6,290.

## **Background / Rationale:**

- Increasing the general education formula from \$5,124 to \$5,600 would adjust for changes proposed above in pupil weights and the roll-in of safe schools levy, gifted and talented revenue, equity revenue, Training and Experience revenue and pension offset (no new revenue).
- Prices as measured by the Consumer Price Index (CPI) will increase 25.1% between FY 2003 and FY 2013, while the general education formula has increase by 11.4%.
- A \$690 increase in the formula would be needed to cover the unfunded inflation (after adjusting for the pupil-unit weight change).
- \$400 of the increase is covered by the \$400 roll-in of referendum revenue; an additional \$290 is needed to restore the buying power of the formula to the FY 2003 level.
- $\$5,600 + \$400 + \$290 = \$6,290$ .

## **11. Reduce Charter School Lease Aid**

- Reduce the charter school lease aid formula from 90% of costs not to exceed \$1,200 per pupil to 85% of cost not to exceed \$1,133 per pupil.
- Eliminate the charter school lease aid grandfather, which allows some schools to receive up to \$1,500 per pupil in lease aid.

# recommendations

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## Background / Rationale:

- Charter schools receive a large increase from the \$400 roll-in of referendum revenue into the formula allowance. With this adjustment, charter schools will still receive a larger average increase than school districts.
- Charter school grandfather aid is based on old data and creates inequities between charter schools benefitting from the grandfather and other charter schools that do not.
- Lowering the percent of lease cost reimbursed, while simultaneously increasing general education funding, will strengthen incentives for cost containment on building leases and provide charter schools with more unrestricted dollars for general school operations.

## 12. Phase in Revenue Increases and Uniform General Education Levy

- Revenue for the first year of implementation would be calculated using both old and new formulas. The increase per pupil would be divided by the number of years of phase-in to determine annual increases. Revenue for later years would be calculated using the new formula, minus the transition adjustment for the portion of the phase-in not yet completed.

### example

**\$400/PU increase with four year phase-in: deduct transition adjustment of \$300/PU in year one, \$200/PU in year two, \$100/PU in year 3 from new formula calculation.**

- Levies for the first year of implementation would be calculated under both the new formula and the old formulas. The transition adjustment equals the difference between the two levy amounts – may be positive or negative – divided by the number of years of transition.
- The actual levy each year would equal the amount computed under the new formula plus or minus the transition adjustment. General education aid would be adjusted to offset the transition adjustment (no net impact on general education revenue).

### example

**\$100,000 increase in levy with four year phase-in: deduct transition adjustment of \$75,000 in year one, \$50,000 in year two, and \$25,000 in year three. General education aid increased by \$75,000 the first year, \$50,000 the second year, and \$25,000 third year to offset levy adjustment.**

# recommendations

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## example

**\$100,000 decrease in levy with four year phase-in: add transition adjustment of \$75,000 in year one, \$50,000 in year two, and \$25,000 in year three. General education aid decreased by \$75,000 the first year, \$50,000 the second year, and \$25,000 the third year to offset levy adjustment.**

- Alternative facilities aid would be reallocated among alternative facilities districts to help neutralize the overall impact of levy changes in the proposal.

### **Background / Rationale:**

- The proposal is scalable and could be implemented all at once or phased-in. Given the current state budget shortfall, it was assumed that revenue increases will be phased in, with the length of the phase-in period dependent on the state budget situation.
- Since there is no change in state total property tax levies, the state budget situation is not a factor in determining the phase-in period for levy changes.
- The phase-in period should strike a balance between achieving greater taxpayer equity through uniform tax levies and providing a smooth transition by minimizing annual changes for taxpayers. The levy phase-in could be the same length as revenue phase-in period, faster or slower.

A summary of the statewide revenue (Appendix C) and levy impact (Appendix D) of the recommendations are attached.

### **Available information:**

The Working Group reviewed and discussed numerous documents with background information. All documents reviewed by the group can be found on the Minnesota Department of Education website. The specific documents and the website link may be found in Appendix E.

### **Addendums:**

The Working Group's commitment to the need for high-quality early learning programs and the connection to the work of this committee is reflected in Addendum I on page 16.

Finally, during the discussion of key funding recommendations, the need for additional policy clarification became apparent but was viewed as outside the charge given the committee. These concerns are reflected in Addendum II on page 17.

The report *Funding Education for the Future* with its final recommendations is presented to Governor Mark Dayton.

# addendum I

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## **Early Learning and Quality Rating System**

High-quality early learning is critical to long-term academic success, especially for young children living in poverty. Numerous studies demonstrate that high-quality early learning programs improve children's school readiness, which correlates with better K-12 outcomes and a reduction in the achievement gap.

## **Recommendation: Quality Rating and Improvement System (QRIS):**

- Continue to expand the Parent Aware QRIS to eventually include all economic development regions; and,
- Participation in the QRIS is voluntary on the part of early learning programs.

## **Background/Rationale**

QRIS provides a framework to guide both public and private investments in early learning, including access, quality improvement, and professional development. Parent Aware uses rating standards and indicators focused on program features that evidence shows are linked to improving children's school readiness outcomes, a critical first step toward accountability. Ratings of school readiness quality allow investments to be targeted to high-quality programs, which economists have demonstrated yield significant return on public investment, particularly when children from low-income families are provided with access to those programs. Evaluation of the Parent Aware QRIS showed children in highly rated programs showed significant gains in expressive and receptive vocabulary, phonological awareness, print knowledge and social competence. Even more importantly, children from low-income families in highly rated programs made greater progress in language and literacy measures than the full sample of children in Parent Aware QRIS programs.

# addendum II

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## **Policy Considerations**

Several issues the Commissioner's School Finance Working Group are dealing with are directly linked to unresolved policy questions. It is not this committee's purview to determine policy. The policy issues need to be resolved in the legislative arena. This is especially true around issues of integration and poverty.

## **Integration**

Globalization has had an enormous effect on our nation and state—our economies and our futures. It requires us to think differently and consider that diverse cultural perspectives and languages might now represent an asset in helping Minnesota relate to international divergent perspectives and better tap the opportunities of globalization.

### **The policy question to address:**

- **Does the state have a compelling interest to integrate schools?**

## **Poverty**

Global competition demands an educated work force at a time when the increased number of children living in poverty has created challenges for many. In Minnesota, 37% of school-age children live in poverty. The Brookings Institute has drawn direct links between family income and a child's readiness to learn. For Minnesota's economy to thrive, all children must be educated.

### **The policy question to address:**

- **Does the state have a compelling interest to ensure the educational success of children whose families live in poverty?**

## **Accountability**

**If it is determined that the state has a compelling interest in both of these issues, the next logical policy question to address would be:**

- **How do we measure the success of the effort?**

# appendix a

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## **Working Group Membership**

Earl Athman, Business Manager  
Pierz Public Schools

Julie Blaha, Teacher / President  
Anoka-Hennepin Education Minnesota

Mary Cecconi, Parent Advocate  
Parents United for Public Schools

Art Coulson, School Board Member  
Rosemount-Apple Valley-Eagan Schools

Ric Dressen, Superintendent  
Edina Public Schools

Les Fujitake, Superintendent  
Bloomington Public Schools

Hector Garcia, Executive Director  
Chicano Latino Affairs Council (CLAC)

**Peggy Ingison (Co-Chair)**  
Chief Financial Officer  
Minneapolis Public Schools

Joann Knuth, Executive Director  
MN Assoc. of Secondary School Principals

Eric Mahmoud, Executive Director  
The Best Academy

Coleman McDonough, Principal  
North Branch High School

Bob Meeks, Executive Director  
MN School Boards Association (MSBA)

Colleen Mertesdorf  
Director of Finance and Operations  
Faribault Public Schools

Christopher E. Mills  
Superintendent and Elementary Principal  
Stephen/Argyle Central Schools

**Tom Nelson (Co-Chair)**  
Interim Superintendent  
Stillwater Area Public Schools #834

Jerry Ness, Superintendent  
Fergus Falls Public Schools

Mary Cathryn Ricker, Teacher / President  
St. Paul Federation of Teachers

Dane Smith, President  
Growth and Justice

Elona Street-Stewart, Chair  
St. Paul School Board

Shari Thompson, Business Manager  
East Metro Integration District #6067

Denny Ulmer, Director  
Bemidji Regional Interdistrict Council

Greg Vandal, Former Superintendent  
Sauk Rapids

Deb Wall, Director of Special Education  
Forest Lake School District

## **Ex-Officio Members**

Representative Jim Davnie

Representative Pat Garofalo

Representative Mindy Greiling

Senator Gen Olson

Senator LeRoy Stumpf

## **Minnesota Department of Education**

Brenda Cassellius, Commissioner

Rose Hermodson, Assistant Commissioner

Tom Melcher, Director of Program Finance

# appendix b

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## Working Group Schedule

<b>Wednesday, March 30</b>	<b>8:30 – 12:30</b>	<b>CCB - Room 15</b>
<ul style="list-style-type: none"><li>• Introductions</li><li>• Charge to the group</li><li>• Overview of the Problem</li></ul>	<ul style="list-style-type: none"><li>• Overview of MDE School Funding Reform Draft Proposal</li><li>• Set calendar and adjust agendas for upcoming meetings</li></ul>	
<b>Wednesday, April 6</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Review Findings and Recommendations of Recent Minnesota School Finance Studies</li><li>• Compare with MDE School Funding Reform Draft Proposal</li></ul>	<ul style="list-style-type: none"><li>• Assess Strengths &amp; Weaknesses of various plans</li><li>• Accountability measures</li><li>• Provide for reaction and comments to proposals from key legislators</li></ul>	
<b>Wednesday, April 20</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Review report compiled by MDE on conclusions from previous meeting</li><li>• Discuss options to improve adequacy, equity, &amp; stability, simplify funding formulas and preserve local control</li></ul>	<ul style="list-style-type: none"><li>* All-day kindergarten</li><li>* Early childhood programs</li><li>* Pupil Weighting change</li><li>* Simplify pupil accounting &amp; funding formulas</li><li>* Referendum roll-in</li><li>* Uniform general education levy</li><li>* Levy equalization</li></ul>	
<b>Wednesday, May 4</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Discuss options to targeting resources to promote high achievement for all student and close achievement gap</li></ul>	<ul style="list-style-type: none"><li>* Compensatory revenue</li><li>* Integration revenue</li><li>* Basic skills revenue</li><li>* LEP revenue</li><li>* Extended-time revenue</li></ul>	
<b>Wednesday, May 11</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Discuss options to targeting resources for needs</li><li>• Discuss options to improve efficiency and better utilize existing resources for K-12 education</li></ul>	<ul style="list-style-type: none"><li>* Special education and tuition billing</li><li>* Regional cost differences</li><li>* Rewarding success/innovation</li></ul>	
<b>Wednesday, May 18</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Complete discussion of outstanding issues</li><li>• Review fiscal runs by districts</li><li>• Review outline of draft report; discussion and revisions</li></ul>		
<b>Wednesday, May 25</b>	<b>8:30 – 12:30</b>	<b>CCA - Room 13</b>
<ul style="list-style-type: none"><li>• Review and Adopt Final Report to Governor</li></ul>		

# appendix c

E-12 Education Revenue Change Options					
\$ in Thousands					
	Description	Current Law Revenue	Proposed Revenue	Revenue Change	Aid Appropriation Change @ 70%
1	General Education Revenue Components:				
	Basic	4,916,240	5,523,690	607,450	
	Gifted & Talented	11,513	-	(11,513)	
	Extended time	76,067	-	(76,067)	
	Basic Skills:				
	Compensatory	452,560	550,536	97,976	
	LEP	40,367	47,882	7,515	
	Sparsity	24,367	25,544	1,177	
	Transport Sparsity	60,009	62,910	2,901	
	Training & Experience	159	-	(159)	
	Operating Capital	196,866	196,778	(88)	
	Equity	94,482	-	(94,482)	
	Transition	29,294	-	(29,294)	
	Q Comp	81,909	81,909	-	
	Referendum Revenue	895,213	420,623	(474,590)	
	Alternative Attendance Adjustment	(145)	(499)	(354)	
	Pension Adjustment	(31,243)	7,084	38,327	
2	General Education New Revenue Components:				
	Declining Enrollment	-	14,527	14,527	
	Regional Cost Adjustment	-	233,272	233,272	
	Integration Revenue	97,362	101,695	4,333	
	Eliminate Safe Schools Levy	27,222	-	(27,222)	
	Charter School Lease Aid	55,111	51,562	(3,549)	
	New Transition	-	150	150	
	Revenue Phase-In	-	(216,964)	(216,964)	
	Subtotal - General Education Changes	7,027,353	7,100,699	73,346	51,342
3	All Day Kindergarten	-	46,110	46,110	32,277
4	High Growth Revenue	-	7,000	7,000	4,900
5	Special Education Changes	846,220	846,220	-	-
6	Total Changes	7,873,573	8,000,029	126,456	88,519

# appendix d

E-12 Education Levy Change Options				
\$ in Thousands				
	Description	Levy Changes on ANTC	Levy Changes on RMV	Total Levy Changes
1	General Education Levy changes:			
	* Eliminate Operating Capital Levy	(112,869)		(112,869)
	* Eliminate Equity Levy		(74,181)	(74,181)
	* Metro and Regional Center Cost Adjustment		181,540	181,540
	* Roll in old Transition Levy to Referendum		(23,962)	(23,962)
	* \$400 Referendum Roll in to formula allowance		(414,988)	(414,988)
	* Eliminate Integration Levy	(29,784)		(29,784)
	* Proposed new Transition Levy		-	-
	Subtotal - General Education Changes	(142,653)	(331,591)	(474,244)
2	Eliminate Safe Schools levy	(27,222)		(27,222)
3	Alt Facilities aid adjustment	-		-
4	Subtotal - Proposed Levy Reduction	(169,875)	(331,591)	(501,466)
5	Proposed new General Education Levies on ANTC and RMV	169,875	331,592	501,466
6	Net Change in Levies	0	1	1

# appendix e

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MDE Working Group Documents. [Visit the agency website to view the documents.](#)

- 03-30-2011 - E-12 Education Funding Overview  
Tom Melcher Presentation
- 03-30-2011 - E-12 Education Funding Reform Proposal  
Preliminary Draft - Tom Melcher Presentation
- 03-30-2011 - Education Funding Statistics  
Handout
- 04-06-2011 - E-12 Education Funding Overview  
Addendum: Responses to Questions from March 30, 2011  
Meeting - Tom Melcher Presentation
- 04-06-2011 - E-12 Education Funding Reform Proposal  
Revised Draft #1 - Tom Melcher Presentation
- 04-06-2011 - Investing in Our Future  
Governor's Task Force on Education Funding Reform  
July 2004 - Ric Dressen Presentation
- 04-06-2011 - K-12 Education Finance  
Representative Mindy Greiling Presentation
- 04-06-2011 - Other Relevant Studies  
Tom Melcher Presentation
- 04-06-2011 - P.S. Minnesota: Everyone Benefits from Great Public Schools!  
House K-12 Education Finance Committee Report - Greg Vandal Presentation
- 04-06-2011 - Taxes and Education Funding  
Tom Melcher Presentation
- 04-20-2011 - All-Day Kindergarten - Early Learning  
Tom Melcher Presentation
- 04-20-2011 - Draft E-12 Education Finance Reform Proposal  
Compared with New Minnesota Miracle Bill and Other Bills and Study Reports
- 04-20-2011 - Formula Simplification  
Tom Melcher Presentation
- 04-20-2011 - Referendum Roll-In - Uniform General Education Levy  
Tom Melcher Presentation
- 05-04-2011 - Basic Skills Funding Reform  
Tom Melcher Presentation

# appendix e

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- 05-04-2011 - Formula Simplification  
Tom Melcher Presentation
- 05-04-2011 - Integration Funding Reform  
Tom Melcher Presentation
- 05-04-2011 - Reporting Back - April 20, 2011 Meeting  
Commissioner's Working Group on School Funding
- 05-11-2011 - Funding Based on Student Performance  
Tom Melcher Presentation
- 05-11-2011 - Regional Cost Difference  
Tom Melcher Presentation
- 05-11-2011 - Reporting Back - May 4, 2011 Meeting  
Commissioner's Working Group on School Funding
- 05-11-2011 - Special Education Funding Reform  
Tom Melcher Presentation
- 05-18-2011 - PreK-12 Education Finance Reform Proposal  
Draft
- 05-18-2011 - Proposed Revenue Summary  
E-12 Education Revenue Change Options
- 05-18-2011 - TABLE 1 - Proposed General Education Funding  
Includes Integration, Safe Schools and Charter Lease Aid
- 05-18-2011 - TABLE 2 - Proposed Overall Change  
Includes All-Day Kindergarten, High Growth and Special Education  
Tuition Changes
- 05-18-2011 - TABLE 3 - Proposed Change Per Pupil By Category  
Includes All-Day Kindergarten, High Growth and Special Education  
Tuition Changes
- 2011 Meeting Schedule  
Includes dates, times, location and meeting agendas. (Rev. May 11, 2011)
- 2011 Member Roster  
Member names and contact information
- Investing in Our Future, An Education Funding Reform Report  
Final Education Reform Task Force Report - July 2004