

# **Financing Education In Minnesota 2013-14**

**A Publication of  
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Fiscal Analysis  
Department**

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# **Financing Education in Minnesota**

## **2013-14**

*A Publication of the Minnesota House of Representatives Fiscal Analysis Department*

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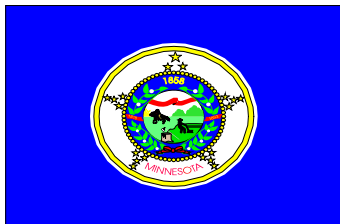
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## Introduction



“The stability of a republican form of government depending mainly upon the intelligence of the people, 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 Constitution, Article XIII, Section 1

The financing of elementary and secondary education in Minnesota comes through a combination of state-collected taxes (primarily income and sales) and locally collected property taxes. Revenue to school districts is received in three major categories, all of which are described in greater detail in this booklet. In summary, the three categories are:

1. State Education Finance Appropriations (funded with state-collected taxes)
  - A. General Education Aid - The largest share of the education finance appropriation, general education aid, is intended to provide the basic financial support for the education program.
  - B. Categorical Aids - Categorical revenue formulas are generally used to meet costs that vary significantly between districts (i.e., special education) or promote certain types of programs (i.e., literacy aid, adult basic education aid).

2. State Paid Property Tax Credits (funded with state-collected taxes)

Property tax credits reduce the amount of property taxes paid. To make up for this reduction, the state pays the difference between what was levied in property taxes and what is actually received in property taxes to school districts and other taxing districts.

3. Property Tax Levies

Property tax levies are made with voter approval, or at the discretion of individual school boards, usually up to limits or for expenditures in categories authorized in law by the Legislature. The largest share of the property tax levies made by school districts is from voter-approved levies: the excess operating referendum and debt service levies. ***Beginning in Fiscal Year 2015, the Student Achievement levy, a limited version of the old “general education” levy, will be instituted. It will be an “equalized” levy that will raise \$20 million statewide.***

## Minnesota Education Finance Terms

General Education Program - The general education program is the method by which school districts receive the majority of their financial support.

### 1. Basic General Education Formula Revenue

The basic general education formula establishes the minimum level of funding for school districts. General education aid is determined by multiplying the formula allowance by pupil units. The basic formula allowance is set each year in legislation, as is the tax rate.

***Beginning in Fiscal Year 2015, general education aid will be determined by subtracting the amount raised by the Student Achievement Levy (\$20 million) from the formula allowance multiplied by pupil units.***

| <u>School Year</u> | <u>Formula Allowance</u> | <u>Tax Rate</u> |
|--------------------|--------------------------|-----------------|
| 2001-02            | 3,964                    | 32.41%          |
| 2002-03            | 4,601 (a)                | 32.41%          |
| 2003-04            | 4,601                    | 0.00%           |
| 2004-05            | 4,601                    | 0.00%           |
| 2005-06            | 4,783                    | 0.00%           |
| 2006-07            | 4,974                    | 0.00%           |
| 2007-08            | 5,074                    | 0.00%           |
| 2008-09            | 5,124                    | 0.00%           |
| 2009-10            | 5,124                    | 0.00%           |
| 2010-11            | 5,124                    | 0.00%           |
| 2011-12            | 5,174                    | 0.00%           |
| 2012-13            | 5,224                    | 0.00%           |
| 2013-14            | 5,302                    | 0.00%           |
| 2014-15            | 5,806 (b)                | 0.35% (c)       |

- (a) The formula increase in 2002-03 of \$533 is the net result of the roll-in of \$14 in assurance of mastery revenue, the conversion of \$415 of referendum revenue onto the formula and a \$104 increase in the formula.
- (b) The net formula increase in 2014-2015 is \$80. However, due to pupil weighting changes that go into effect in FY 2015, the formula allowance is adjusted to reflect these changes.
- (c) This tax rate for the Student Achievement levy will generate \$20 million in statewide general education revenue.

The basic formula allowance for the FY 2014 is \$5,302 per marginal cost pupil unit. Of this amount, the revenue resulting from .057 times K, .115 times 1<sup>st</sup>-3<sup>rd</sup> and .06 times 4<sup>th</sup>-6<sup>th</sup> grade students in average daily membership must be reserved with the goal of reducing kindergarten and elementary classes to one teacher per 17 pupils. ***Beginning in Fiscal Year 2015, the formula will be revised to state a fixed dollar amount per average daily***

*membership that must be reserved for this purpose (\$299 for kindergarten and \$459 for grades one through six).*

## **2. Extended Time Revenue**

Extended time revenue replaced the former learning year pupil program, where a district that had students enrolled for more than a standard school year equivalent could generate additional revenue for those students. Under prior law, learning year pupils could generate up to a total of 1.5 headcount students in average daily membership (ADM) for a school district. Currently, extended time revenue allows students to generate up to an additional 0.2 (for a total of 1.2 maximum) ADM, which is then used to calculate the district's weighted pupil count, which is multiplied by the extended time formula amount of \$4,601 to calculate extended time revenue. The revenue can be used for extended day, week or year programs. 133 districts and 2 charter schools qualify for a total of \$72.2 million in extended time revenue.

## **3. Gifted and Talented Revenue**

Districts qualify for \$12 per pupil for gifted and talented revenue. Gifted and talented revenue must be used to identify gifted and talented students, to provide programming for those students and to provide staff development for teachers of those students. All districts qualify for a total of \$11.5 million in gifted and talented revenue.

## **4. Basic Skills Revenue**

Basic skills revenue includes compensatory, English learner (EL) (formerly limited English proficiency) and EL concentration revenues. The funding for basic skills revenue is based on separate formulas for the individual components. The components are:

- **Compensatory revenue.** School sites where pupils eligible for free and reduced priced lunches attend receive compensatory revenue based on the number of eligible pupils at the site. Compensatory revenue per pupil increases as the percent of free and reduced price pupils at a particular school site increases (however, the percent is capped).
- **English Learner (formerly Limited English Proficiency) revenue.** Districts receive EL revenue based on the number of students with limited proficiency in English for their first five years of enrollment in Minnesota public schools. In addition, a per pupil amount is provided to districts with concentrations of EL students. The per pupil funding increases as the concentration increases (though the concentration percentage is capped).

All school districts will receive some portion of \$541.5 million in basic skills revenue, which includes \$501 million in compensatory revenue and \$40.5 million in the EL revenues.

## **5. Sparsity Revenue**

Sparsity revenue provides additional revenue for small and isolated schools. This revenue acknowledges the higher cost of necessarily small education programs, where options to increase the number of students in a school would require students to travel an unacceptable amount of time. There are two parts to the sparsity formula, one for secondary schools and one for elementary

schools. The secondary school sparsity formula takes into account a secondary school's enrollment, distance from the secondary school to the nearest secondary school and the geographic area of the secondary school attendance area. The elementary sparsity formula provides additional funding for elementary schools that average 20 or fewer pupils per grade and that are 19 miles or more from the nearest elementary school. Districts that are relatively small in enrollment and large in geographic area tend to have the largest sparsity allowances. 97 districts and 147 charter schools receive a total of \$25.2 million in sparsity revenue.

## **6. Transportation Sparsity Revenue**

Transportation sparsity revenue provides districts with additional funding based on the number of pupils per square mile in a school district. \$62.1 million of transportation sparsity revenue is divided among all school districts and charter schools, with revenue amounts per district ranging up to \$991 per pupil unit.

## **7. Operating Capital Revenue**

Operating capital revenue replaced the capital expenditure facilities and capital expenditure equipment formulas. The operating capital formula has a component representing the former equipment and technology formulas (\$73 per pupil unit), and a component representing the former facilities formula (\$100 times the district's maintenance cost index). Operating capital revenue is an equalized formula. The equalizing factor is \$10,194 of adjusted net tax capacity per pupil unit. Operating capital revenue ranges from \$179 to \$290 per pupil unit per district and totals \$199.0 million statewide. ***Beginning in Fiscal Year 2015, the levy component of this revenue will have a significantly higher equalizing factor (\$14,500), resulting in a greater share of the revenue coming from state aid.***

## **8. Equity Revenue**

Equity revenue is intended to reduce the per pupil disparity between the highest and lowest revenue districts on a regional basis. For the purposes of equity revenue, there are two regions in the state: the seven-county metropolitan area and the balance of the state. In each region, districts are ranked according to their basic and referendum revenue. There are three components to the equity formula: regular, low-referendum and a supplemental amount. The regular component is based on a district's ranking in their region (rural or metro), the low-referendum component provides additional revenue for districts with referendum amounts below 10 percent of the state average referendum amount, and the supplemental component is a fixed amount (\$46 per pupil) for all districts. Only districts below the 95<sup>th</sup> percentile of revenue in referendum and basic revenue are eligible for the regular and low-referendum equity revenue, except districts in cities of the first class as of 7/1/99 (Minneapolis, St. Paul and Duluth), which are automatically excluded. Equity revenue is an equalized formula, equalized at the same rate as the first tier of referendum revenue, or \$476,000 of referendum market value per pupil.

For the regular equity program, a district without an excess levy referendum is eligible for \$13 per pupil unit. A district with an excess levy referendum is eligible for \$13 per pupil unit, plus an additional amount based on their percentile ranking. To determine how much regular equity revenue a district receives, the district's equity index is calculated by dividing the difference between a district's basic and referendum revenue by the regional 95<sup>th</sup> percentile of basic and referendum



revenue. The result is multiplied by \$75. The product of that calculation is added to the basic \$13 to generate the district's equity revenue.

Districts with referendum amounts below 10 percent of the state average referendum amount are also eligible for the supplemental low-referendum equity portion of equity revenue. Qualifying districts receive an amount per pupil equal to the difference between their referendum amount and 10 percent of the state average referendum amount, with a \$100,000 limit.

For districts in the seven county metropolitan area, the revenue amount resulting from both the regular and low-referendum equity calculations is multiplied by 1.25.

Finally, all districts are eligible for an additional \$46 per pupil.

Statewide, all districts qualify for equity revenue, sharing a total of \$93.7 million, with revenue amounts ranging from \$50 to \$264 per pupil per district.

## **9. Small Schools Revenue**

School districts (excluding charter schools) with fewer than 1,000 pupil units qualify for small schools revenue, with the revenue amount per pupil increasing as the size of the district decreases. The maximum amount a district could theoretically qualify for under the formula is \$530 per pupil. 158 school districts qualify for \$16.2 million in aid. ***Beginning in Fiscal Year 2015 the small schools revenue program is expanded to include small high schools in districts with more than one high school in geographically isolated areas.***

## **10. Alternative Compensation Revenue**

Alternative compensation revenue (also commonly called "QComp Revenue") was created to encourage districts to adopt alternative pay structures for teachers. A district that adopts such a pay structure is eligible to receive \$260 per unweighted pupil in revenue. Alternative compensation revenue is a combination of aid and equalized levy. The equalizing factor for the alternative compensation levy is \$5,634 of adjusted net tax capacity per pupil unit. Alternative compensation revenue is projected to go to 72 school districts and total \$70 million. ***Beginning in Fiscal Year 2015, the alternative compensation program is "rolled out" of the general education revenue program. It will henceforth be a standalone categorical revenue program.***

## **11. Transition Revenue**

Transition revenue guarantees a district that its FY 2004 general education revenue, excluding referendum, per FY 2003 defined pupil unit (using Adjusted Marginal Cost Pupil Units (AMCPU) as defined on page 7) was at least as high as its FY 2003 per old AMCPU general education revenue, less referendum, or what it would have received in FY 2004 had the general education revenue formulas not been changed by the 2003 legislature. Transition revenue is set as a fixed amount per pupil equal to the FY 2004 transition amount, and is undesignated revenue which may be used for any general fund purpose. Transition revenue is a mix of aid and levy, levied against referendum market value using \$476,000 per pupil as the equalizing factor. \$29.9 million of transition revenue is divided among 200 school districts and 39 charter schools.

## **12. Referendum Revenue**

Referendum revenue allows districts to increase their general fund revenue with the approval of the voters in the district. A referendum to increase general fund revenue may be held on the first Tuesday following the first Monday in November (Election Day) except that elections may be held at a different time if the election is held by mail ballot. If a district is in statutory operating debt and receives the commissioner's approval, the district may hold an additional election on a different day. A referendum election may be held in the calendar year before it is levied or one year earlier.

Referendum revenue is capped at an amount equal to the greater of 1) the greater of (a) 26 percent of the basic general education formula allowance (\$1,378.52 in 2013-14) or (b) \$1,294 multiplied by inflation since 2003-04 (which is currently estimated to be \$1,627.85 in 2013-14 school year); or 2) the district's 1994 referendum allowance amount times 1.177 times the inflationary increase between 2003-04 and 2007-08 plus one-fourth the percentage increase in the basic formula between 2007-08 and 2013-14 plus the district's 2002 supplemental and transition revenues minus \$215. District referendum revenue, except in districts eligible for sparsity revenue, may not exceed this cap. For most non-sparsity eligible districts, \$1,627.85 is the effective cap.

The referendum revenue formula is an equalized formula; that is, the state pays in aid the difference between what is raised by a local levy and a guaranteed revenue amount. The first \$700 per pupil of a school district's referendum levy is equalized at \$476,000 per pupil of referendum market value. Any amount above \$700 and below the cap \$1,627.85 in 2013-14) is equalized at \$270,000 per pupil of referendum market value. Districts qualifying for sparsity revenue have any amount of referendum revenue above \$700 per pupil and below 26% of the formula allowance (\$1,358.24 in 2013-14) equalized at \$270,000.

Equalization is used to make property tax burdens for districts with similar per pupil referendum revenues, but varying tax bases the same. The relationship of a district's referendum market value per pupil unit to the equalizing factor (\$476,000 in the case of the first \$700 of referendum revenue) indicates how much referendum revenue the district will receive from property taxes. If a district's property valuation per pupil unit were \$238,000 for example (50 percent of \$476,000), the district would receive 50 percent of its revenue from its referendum levy and 50 percent from state equalization aid. If a district's referendum market value per pupil unit is greater than \$476,000, that district will receive all of its referendum revenue from the local levy. The closer a district's referendum market value per pupil is to \$0, the higher the percentage of state aid the district receives for referendum levies below \$700 per pupil. The same district with \$238,000 per pupil in market value would levy 88.1 percent ( $\$238,000 / \$270,000 = .881$ ) of the revenue for a referendum amount between \$700 and \$1,332.24 per pupil.

For 2013-14, 300 districts have referendums totaling \$885.4 million, with amounts ranging up to \$3,969 per pupil. Some districts with referendum revenue receive referendum equalization aid, which totals \$105.6 million statewide (and is included in the \$885.4 million).

In 2002-03, basic revenue was increased by \$415 per pupil unit, and referendum, supplemental and transition revenue were decreased by \$415 per pupil. The reduction was first applied to a district's supplemental and transition revenue, with any supplemental and transition in excess of \$415 added to a district's referendum revenue. If the district's supplemental and transition revenues were below \$415, the balance was removed from the district's referendum revenue.

Referendum levies must be certified on referendum market value rather than adjusted net tax capacity (ANTC). (ANTC provides tax advantages for residential and agricultural property compared to commercial and industrial property; referendum market value treats most residential and commercial property the same.) Referendum market value excludes agricultural land and seasonal recreational cabin properties.

***Legislation enacted in 2013 made a number of changes to referendum revenue, beginning in Fiscal Year 2015. These changes include:***

- (1) Allowing school boards to convert up to \$300 per pupil in referendum revenue from voter approved, to board approved authority. This authority may remain in place for up to 5 years and can be renewed with board approval.***
- (2) Establishing a new category of revenue called location equity revenue and allowing school boards (in the metro area and regional centers) to convert a portion of their referendum authority to location equity revenue. Metro districts may convert \$424 per pupil of referendum authority; regional center districts may convert \$212 per pupil of referendum authority.***
- (3) Changing the allowance for referendum revenue from amounts per resident marginal cost pupil unit to amounts per adjusted pupil unit.***
- (4) Enhancing referendum equalization aid. This will have a significant impact on the mix of aid and levy for referendum revenue. There will be three equalization tiers, as follows:***
  - Tier 1 – First \$300 of referendum authority is equalized at \$880,000 of referendum market value per adjusted pupil unit.***
  - Tier 2 – Referendum authority of between \$300 - \$760 per pupil is equalized at \$510,000 of referendum market value per adjusted pupil unit.***
  - Tier 3 – Referendum authority up to the cap, minus the sum of the first and second tier allowance, and is equalized at \$290,000 of referendum market value per adjusted pupil unit.***

Equalizing Factor - The dollar amount used to calculate the state and local shares in formulas that are equalized. Most equalizing factors are fixed, such as that for health and safety revenue, which is set at \$2,796. A fixed equalizing factor is a guarantee by the State that a certain tax rate will generate a certain amount of revenue for a school district, regardless of the district's property value. In the case of health and safety revenue, the State guarantees that a 1% tax rate will generate \$27.96 (.01 x \$2,796) in revenue for the district, whether it is raised via the local property tax, or provided by the State. The percent of revenue in a given formula which will be raised through local levies is equal to the district's property value (in ANTC or market value for referendum) divided by the equalizing factor. In the case of health and safety revenue, for example, a district with \$1,398 in ANTC per pupil unit will raise 50% of its revenue locally ( $\$1,398 / \$2,796 = .5$ ), with the balance being provided as state aid.

Pupil Weighting - A weighted count of pupils used to determine revenue in many formulas:

| Grade Level                      | FY 2014            | FY 2015 and later                       |
|----------------------------------|--------------------|---|
| One Kindergarten Pupil           | = .612 pupil units | <i>1.0 pupil unit (full)/0.55(half)</i> |
| One Elementary Pupil (grade 1-3) | = 1.115pupil units | <i>1.0 pupil units</i>                  |
| One Elementary Pupil (grade 4-6) | = 1.06pupil units  | <i>1.0 pupil units</i>                  |
| One Secondary Pupil (grade 7-12) | = 1.3pupil units   | <i>1.2 pupil units</i>                  |

A Preschool Pupil with Disabilities is counted as 1.25 pupil units for the ratio of hours of service to 825 with a minimum of .28 ADM and a maximum of 1.25 pupil unit.

***Beginning in Fiscal Year 2015, pupil weights are simplified to two basic weightings – 1.0 for grades K-6 and 1.2 for grades 7-12, as noted above. (If a district chooses to offer a half day kindergarten program, the pupil weighting will be 0.55). A prekindergarten student with a disability will be counted as 1.0 pupil units for the ratio of hours of service to 825.***

Adjusted Marginal Cost Pupil Units (AMCPU) is the greater of: (1) the total of weighted average daily membership served by the school district in the current school year multiplied times .77 plus the total of the weighted average daily membership served by the school district for the prior school year multiplied times .23, or; (2) the actual current weighted average daily membership served by the district. ***In Fiscal Year 2015 a separate declining enrollment adjustment will take the place of adjusted marginal cost pupil unit (AMPCU) calculations.***

Weighted Average Daily Membership (WADM) is the total of the above weighted pupil unit categories for a school district. ***Beginning in Fiscal Year 2015, another term that will be used to describe weighted pupil counts (in absence of adjustments for declining enrollments) is Adjusted Pupil Units (APU).***

Pupil units in Average Daily Membership (ADM) is the total headcount of students in a school district. Each student may not count for more than 1.0 ADM.

*In the examples presented in this booklet, “pupil units” means adjusted marginal cost pupil units, unless otherwise noted.*

Categorical Revenues - Additional resources for specific school programs. Examples of categorical revenues include:

1. Special Education Revenue
2. School Lunch Aid
3. Debt Service Equalization Aid

Market Value - The value assigned to property by an assessor. Referendum market value (RMV) allows for certain types of property that have classification rates below one to have a lower market value than the value assigned by the assessor, and excludes cabins and agricultural land.

Property Tax Classification Rates - Percentages applied to the market value of property to arrive at the adjusted net tax capacity. For example, residential homestead property under \$500,000 has a class rate of 1 percent; the amount over \$500,000 has a class rate of 1.25 percent.

Adjusted Net Tax Capacity (ANTC) - The property value used for calculating most school taxes. ANTC is determined by equalizing differences in tax capacities by property type in different counties. This equalization process compares market values to actual sales and is intended to neutralize the effect of differing assessment practices. Also, the ANTC reflects the application of the classification rates to the market value of property.

Tax Capacity Rate - The rate of taxation for a specific program. Tax capacity rates are expressed as a percent of the adjusted net tax capacity. Many tax capacity rates are set in law.

UFARS (Uniform Financial Accounting and Reporting Standards) - A statewide accounting procedure that must be used by school districts to record financial transactions and report financial information to the State Department of Education.

School Funds - A set of financial accounts to manage school operations.

*A. Operating Funds*

- i. General Fund – general operations of the school district including salaries and benefits, instructional materials, supplies and custodial operations, transportation, ongoing capital expenditures and equipment
- ii. Food Service Fund – school lunch and breakfast programs
- iii. Community Service Fund – community service, early childhood family education, adult and recreation programs

*B. Non-Operating Funds*

- i. Building Construction Fund – bond proceeds used to pay for building construction
- ii. Debt Service Fund – used to pay principal and interest on building project bonds
- iii. Trust Fund
- iv. Agency Fund

Districts Off The Formula - In districts with high property values per pupil unit, the levy rate for particular programs may generate revenue that is equal to or greater than the total revenue the district is entitled to for the program. These districts are referred to as being “off the formula” for that program, because all of the revenue is paid by local property taxes.

### General Education Program Revenue

General education revenue is a combination of several revenue categories that provide the major share of funding for school districts. Most of the general education revenue is for the general operation of the school district and is not designated by the state for a specific purpose. General education revenue is part aid and part levy, with the equity, transition, operating capital, alternative compensation and referendum portions of the general education program being equalized.

The basic general education formula for 2013-14 is \$5,302 per pupil unit. Basic general education revenue plus several additional components (extended time, gifted and talented, basic skills, secondary sparsity, elementary sparsity, operating capital, transportation sparsity, equity, alternative compensation, transition and referendum) make up total general education revenue.

#### Example - General Education Program Revenue Gopherville School District (\$ per pupil unit)

|                                  |   |         |
|----------------------------------|---|---------|
| Number of Pupil Units *          | = | 1,000   |
| Basic Revenue                    | = | \$5,302 |
| Extended Time Revenue            | = | \$20    |
| Gifted & Talented Revenue        | = | \$12    |
| Basic Skills Revenue             | = | \$30    |
| Secondary Sparsity Revenue       | = | \$10    |
| Elementary Sparsity Revenue      | = | \$0     |
| Operating Capital Revenue        | = | \$194   |
| Transportation Sparsity Revenue  | = | \$62    |
| Equity Revenue                   | = | \$107   |
| Alternative Compensation Revenue | = | \$225   |
| Transition Revenue               | = | \$16    |
| Referendum Revenue               | = | \$425   |

General Education Revenue = (Basic Revenue + Extended Time Revenue + Gifted & Talented Revenue + Basic Skills Revenue + Secondary Sparsity Revenue + Elementary Sparsity Revenue + Operating Capital Revenue + Transportation Sparsity Revenue + Equity Revenue + Alternative Compensation Revenue + Transition Revenue + Referendum Revenue) x Pupil Units

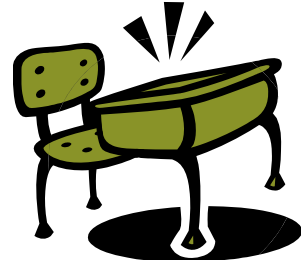
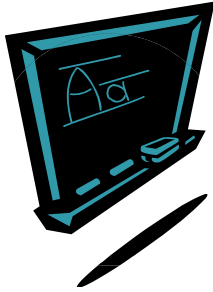
$$= (\$5,302 + \$20 + \$12 + \$30 + \$10 + \$0 + \$194 + \$62 + \$107 + \$225 + \$16 + \$425) \\ \times 1,000$$

$$= \$6,403 \times 1,000$$

$$= \$6,403,000$$

\* As noted earlier, all references to “pupil units” are references to adjusted marginal cost pupil units.

## Basic Revenue



Basic revenue is also referred to as basic formula, or formula revenue. Basic revenue is calculated as the basic formula allowance (\$5,302 for 2013-14) times the district's adjusted marginal cost pupil units (AMCPU). AMCPU is calculated as the greater of the district's current year weighted students in average daily membership served in the district (adjusted pupil units) or the district's current year adjusted pupil units multiplied by 77 percent, plus the district's prior year weighted pupil count multiplied by 23 percent. This calculation allows districts that have declining adjusted pupil units to count 23 percent of the reduction in adjusted pupil units in their formulas for calculating current year revenue. [126C.10, 2] ***Beginning in Fiscal Year 2015, a separate declining enrollment calculation will take the place of marginal cost pupil unit calculations (AMCPU) within the General Education formula. Basic revenue will then be calculated by multiplying the formula allowance (\$5,806 for FY 2015) by Adjusted Pupil Units (APU).***

### Example -- Basic Revenue

#### Gopherville School District

|  |       |
|--|-------|
| Kindergarten ADM                             | 70    |
| 1 <sup>st</sup> – 3 <sup>rd</sup> Grade ADM  | 220   |
| 4 <sup>th</sup> – 6 <sup>th</sup> Grade ADM  | 200   |
| 7 <sup>th</sup> – 12 <sup>th</sup> Grade ADM | 370   |
| 2012-13 Adjusted Pupil Units                 | 1,000 |

2013-14 adjusted pupil units

$$\begin{aligned} &= (.612 \times \text{K ADM}) + (1.115 \times 1^{\text{st}}\text{-}3^{\text{rd}} \text{ ADM}) + (1.06 \times 4^{\text{th}}\text{-}6^{\text{th}} \text{ ADM}) + (1.3 \times 7^{\text{th}}\text{-}12^{\text{th}} \text{ ADM}) \\ &= 42.84 + 245.3 + 212.0 + 481.0 \\ &= 981.14 \end{aligned}$$

2013-14 AMCPU

= the greater of: 1) 2013-14 adjusted pupil units, or;  
2) 2012-13 adjusted pupil units x .23 + 2013-14 adjusted pupil units x .77

$$\begin{aligned} &= \text{the greater of: } 1) 981.14 \quad \text{or;} \\ &\quad 2) 230 + 755.4 \end{aligned}$$

$$= \text{the greater of: } 1) 981.14 \quad \text{or;} \quad 2) 985.5$$

$$= 985.5$$

$$\begin{aligned} \text{Basic revenue} &= 2013\text{-}14 \text{ AMCPU} \times 2013\text{-}14 \text{ Basic Formula Allowance} \\ &= 985.5 \times \$5,302 \\ &= \$5,225,121 \end{aligned}$$

## Extended Time Revenue

Extended time revenue replaces the former learning year pupil program, which allowed districts with students enrolled for more than a standard school year equivalent to generate additional revenue for those students. Extended time revenue allows students to count as up to an additional 0.2 (for a total of 1.2 maximum) ADM, which is then used to generate an AMCPU based on the student's grade level. The AMCPU total for extended time ADM is then multiplied by the extended time formula amount to calculate total extended time revenue. The extended time formula amount is fixed at \$4,601. Extended time revenue can be used for extended day, week or year programs. [126C.05, 15; 126C.10, 2a]



***Beginning in FY 2015, a separate declining enrollment calculation will take the place of marginal cost pupil unit (AMPCU) calculations. Extended time revenue will be calculated by taking the formula allowance (for extended time) times Adjusted Pupil Units (APU) for ADM between 1.0 and 1.2.***

### Example – Extended Time Revenue

#### Gopherville School District

|                                     |   |         |
|-------------------------------------|---|---------|
| ADM between 1.0 and 1.2             | = | 7       |
| AMCPU for ADM between 1.0 and 1.2   | = | 10      |
| Formula Allowance for Extended Time | = | \$4,601 |

#### Extended Time Revenue

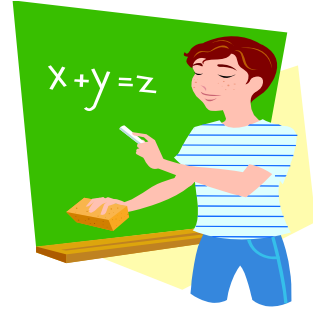
|   |   |
|---|---|
| = | AMCPU for ADM between 1.0 and 1.2 x Extended Time Formula Allowance |
| = | 10 x \$4,601  |
| = | \$46,010  |



## Gifted and Talented Revenue



Gifted and talented revenue is equal to \$12 per pupil unit. A district's gifted and talented revenue must be used to identify gifted and talented students, to provide programs for those students, and to train teachers for working with gifted and talented students. [126C.10, 2b] ***Beginning in FY 2015 AMPCU will be replaced by Adjusted Pupil Units (APU) in the calculation.***



### Example – Gifted and Talented Revenue

#### Gopherville School District

AMCPU = 1,000  
Gifted & Talented Revenue Formula Amount = \$12

Gifted and Talented Revenue

= AMCPU x Gifted & Talented Formula Allowance  
= 1,000 x \$12  
= \$12,000

## **Basic Skills Revenue**

Basic skills revenue includes compensatory revenue, English learner (EL) revenue and EL concentration revenue. While these revenues are combined into a single category, the total revenue is based on separate formulas for the individual components. [126C.10, 4; 126C.15; 124D.65]

**Compensatory revenue.** Districts receive additional funding, called compensatory revenue, for students eligible to receive free and reduced price lunches, based on the count on October 1 of the previous year. Compensatory revenue must be allocated to the school site in which the pupil who generated the revenue receives instruction, and must be used to meet the educational needs of pupils whose educational progress related to state or local content or performance standards is below the level that is appropriate for pupils at that age level. Each school's site decision-making team, or instruction and curriculum advisory committee if there is no site decision-making team, must make recommendations on how the revenue is to be spent. Districts that receive compensatory revenue must maintain separate accounts for the revenue and report on its expenditure.



Compensatory revenue is calculated by multiplying compensation pupil units times the general education formula allowance minus \$415. Compensation pupil units equal  $0.6 \times$  [the sum of the number of students receiving free lunch and  $0.5 \times$  students receiving reduced price lunches]  $\times$  the lesser of (a) 1, or (b) the quotient of the following calculation divided by 80: the number of free lunch pupils plus half the number of reduced price lunch pupils divided by the total number of pupils times 100.

**English Learner programs revenue.** School districts with English learning (EL) (formerly limited English proficient) students receive aid to recognize the additional cost of educating these students. For funding purposes, an EL student is defined as one whose primary language is not English, whose English language skills do not allow full classroom participation, whose prior year score on an emerging academic English test is below the cutoff score, and who is enrolled in an EL educational program but has not been enrolled in Minnesota public schools for five or more years.

EL regular revenue is equal to \$700 times the greater of 20 or the number of eligible EL pupil units. Districts also receive EL concentration revenue, which provides additional revenue when a district has a higher concentration of EL pupils. EL concentration revenue is computed by taking the lesser of 1, or the result of dividing the concentration percentage (which is 100 times the ratio of current year EL pupils to total average daily membership) by 11.5 and multiplying that number by the number of current year EL students and the concentration revenue formula amount of \$250.

Example – **Compensatory** Component of Basic Skills

Gopherville School District, Central School

|   |   |         |
|---|---|---------|
| Number of pupils (October 1 <sup>st</sup> enrollment) | = | 800     |
| Number of pupils receiving free lunches               | = | 100     |
| Number of pupils receiving reduced price lunches      | = | 200     |
| General Education Formula Allowance                   | = | \$5,302 |

$$\begin{aligned}\text{Compensation pupil units} &= (100 + (200/2)) \times .6 \times \text{the lesser of (a) 1 or (b):} \quad \frac{(100+(200/2))}{100 \times \frac{800}{80}} \\ &= 120 \times \text{the lesser of (a) 1 or (b) } \frac{25.0}{80} \quad 80 \\ &= 120 \times \text{the lesser of 1 or .313} \\ &= 120 \times .313 = 37.6\end{aligned}$$

Maximum Compensatory

|         |   |                          |   |                                      |
|---------|---|--------------------------|---|--------------------------------------|
| Revenue | = | Compensatory pupil units | x | General Ed Formula Allowance - \$415 |
|         | = | 37.6                     | x | \$5,302 - \$415                      |
|         | = | 37.6                     | x | \$4,887                              |
|         | = | \$183,751                |   |                                      |

Gopherville School District, Country School

|   |   |         |
|---|---|---------|
| Number of pupils (October 1 <sup>st</sup> enrollment) | = | 200     |
| Number of pupils receiving free lunches               | = | 10      |
| Number of pupils receiving reduced price lunches      | = | 20      |
| General Education Formula Allowance for Compensatory  | = | \$5,302 |

$$\begin{aligned}\text{Compensation pupil units} &= (10 + (20/2)) \times .6 \times \text{the lesser of (a) 1 or (b):} \quad \frac{(10+(20/2))}{100 \times \frac{200}{80}} \\ &= 12 \times \text{the lesser of (a) 1 or (b) } \frac{10.0}{80} \quad 80 \\ &= 12 \times \text{the lesser of 1 or .125} \\ &= 12 \times .125 = 1.5\end{aligned}$$

Maximum Compensatory

|         |   |                          |   |                                      |
|---------|---|--------------------------|---|--------------------------------------|
| Revenue | = | Compensatory pupil units | x | General Ed Formula Allowance - \$415 |
|         | = | 1.5                      | x | \$5,302 - \$415                      |
|         | = | 1.5                      | x | \$4,887                              |
|         | = | \$7,331                  |   |                                      |

Example – English Learner Component of Basic Skills

Gopherville School District

|                                      |   |       |
|--------------------------------------|---|-------|
| Number of Pupils                     | = | 1,000 |
| Number of Eligible EL Students       | = | 68    |
| Concentration Revenue Formula Amount | = | \$250 |

$$\text{EL Revenue} = \text{Regular Revenue} + \text{EL Concentration Revenue}$$

EL Regular Revenue

$$\begin{aligned} &= \$700 \times \text{the greater of a) 20 or b) Eligible EL Pupil Units} \\ &= \$700 \times \text{the greater of a) 20 or b) 68} \\ &= \$700 \times 68 \\ &= \$47,600 \end{aligned}$$

EL Concentration Revenue

$$\begin{aligned} &= 2013-14 \text{ EL Students} \times \text{Concentration Formula} \times \text{Concentration Pupil Units} \\ &= 68 \times \$250 \times \text{the lesser of (a) 1 or (b): } \frac{68}{\frac{100 \times 1000}{11.5}} \\ &= 68 \times \$250 \times \text{the lesser of 1 or .59} \\ &= 68 \times \$250 \times .59 \\ &= \$10,030 \end{aligned}$$

$$\begin{aligned} \text{EL Total Revenue} &= \text{EL Regular Revenue} + \text{EL Concentration Revenue} \\ &= \$47,600 + \$10,030 \\ &= \$57,630 \end{aligned}$$

Example – Total Basic Skills Revenue

Gopherville School District

|  |           |
|--|-----------|
| Compensatory Revenue (Central School Site) | \$183,751 |
| Compensatory Revenue (Country School Site) | \$7,331   |
| EL Revenue                                 | \$57,630  |

$$\begin{aligned} \text{Basic Skills Revenue} &= \text{Compensatory Revenue (Central + Country)} + \text{EL Revenue} \\ &= (\$183,751 + \$7,331) + \$57,630 \\ &= \$248,712 \end{aligned}$$

## Secondary Sparsity Revenue

Districts with one or more sparsely populated high school attendance areas may be eligible for additional revenue to meet the higher cost of operating a secondary program with a small number of students. To be eligible, a high school must have an isolation index greater than 23 and less than 400 pupils in average daily membership. If a district has more than one high school, the district's sparsity revenue is the sum of the calculation for each high school. Districts with certain reforested lands have an additional factor in the formula that increases sparsity revenue. A district that certifies that it would not close a school building unless it continues to qualify for secondary sparsity revenue at the previous amount (with the building remaining open) may close a school building and not have its secondary sparsity revenue reduced. [126C.10, 6, 7]

### Example – Secondary Sparsity Revenue Gopherville School District

|  |   |                  |
|--|---|------------------|
| Pupil Units (WADM)                               | = | 530              |
| Secondary Average Daily Membership (ADM)         | = | 250              |
| General Education Formula Allowance for Sparsity | = | \$5,302          |
| High School Attendance Area                      | = | 356 square miles |
| Distance from High School to Nearest High School | = | 22 miles         |

$$\begin{aligned}
 \text{Isolation Index (ii)} &= \sqrt{.55 \times \text{Attendance} \_ \text{Area}} + \text{miles to nearest high school} \\
 &= \sqrt{.55 \times 356} + 22 \\
 &= \sqrt{196} + 22 \\
 &= 14 + 22 \\
 &= 36
 \end{aligned}$$

$$\begin{aligned}
 \text{Secondary Sparsity Revenue} &= \frac{(400 - \text{Sec ADM})}{\text{Formula Allowance} \times \text{Sec. ADM} \times (400 + \text{Sec ADM})} \times \text{the lesser of:} \quad \begin{array}{l} \text{a) } 1.5 \\ \text{b) } \frac{\text{ii} - 23}{10} \end{array} \\
 &= \frac{(400 - 250)}{\$5,302 \times 250 \times (400 + 250)} \times \text{the lesser of} \quad \begin{array}{l} \text{a) } 1.5 \\ \text{b) } \frac{36 - 23}{10} \end{array} \\
 &= \frac{150}{\$5,302 \times 250 \times 650} \times \text{the lesser of a) } 1.5 \text{ or b) } \frac{13}{10} \\
 &= \$5,302 \times 250 \times .23 \times \text{the lesser of a) } 1.5 \text{ or b) } 1.3 \\
 &= \$5,302 \times 250 \times .23 \times 1.3 \\
 &= \$5,302 \times 250 \times .299 \\
 &= \$5,302 \times 74.75 \\
 &= \$396,325
 \end{aligned}$$

$$\text{Secondary Sparsity Revenue per pupil unit} = \$396,325 / 530 = \$747.78$$

## Elementary Sparsity Revenue



Districts with a sparsely populated elementary school attendance area may be eligible for additional revenue to operate the elementary school. To be eligible, an elementary school must have an average of 20 or fewer pupils per grade level and be located 19 miles or more from the nearest elementary school. A district that certifies that it would not close a school building unless it continues to qualify for elementary sparsity revenue at the previous amount (with the building remaining open) may close a school building and not have its elementary sparsity revenue reduced. [126C.10, 8]

### Example – Elementary Sparsity Revenue

#### Gopherville School District ABC Elementary School

|  |   |          |
|--|---|----------|
| Grades K-6 Pupil (ADM)                           | = | 100      |
| General Education Formula Allowance for Sparsity | = | \$5,302  |
| Distance to Nearest Elementary School            | = | 23 miles |

#### Elementary Sparsity Revenue

$$\begin{aligned} &= \text{Elementary ADM} \times \text{Formula Allowance} \times \frac{(140 - \text{Elem ADM})}{(140 + \text{Elem ADM})} \\ &= 100 \times \$5,302 \times \frac{(140 - 100)}{(140 + 100)} \\ &= 100 \times \$5,302 \times \frac{40}{240} \\ &= 100 \times \$5,302 \times .1667 \\ &= 100 \times \$883.84 \\ &= \$88,384 \end{aligned}$$

(The 140 used in the formula assumes 20 pupils in each of grades K-6. If this elementary school had fewer than seven grades, the formula would be adjusted for the actual number of grades).

## Operating Capital Revenue

Operating capital revenue is available for repair and betterment of facilities, acquisition of land, purchase or lease of equipment, and purchase of books. Operating capital revenue is placed in the operating capital account in the general fund. Operating capital revenue is based on the two former components of a capital expenditure funding formula: facilities revenue and equipment revenue. The facilities component of the formula generates revenue of \$100 per pupil unit plus a weighting for the average age of the district's buildings. The old formula was \$128 per pupil unit. The equipment revenue component is \$73 per pupil unit. In addition, a district with a learning year program receives an additional \$30 per pupil unit at the site a program is in place. Operating capital revenue is an equalized formula, with an equalizing factor of \$10,194 of ANTC per pupil. [126C.10, 13]

### Example – Operating Capital Revenue

#### Gopherville School District

|  |  |
|--|--|
| Number of Pupil Units                    | = 1,000                                  |
| ANTC per Pupil Unit                      | = \$2,000                                |
| Operating Capital (facilities component) | = \$100 per pupil unit                   |
| Operating capital (equipment component)  | = \$73 per pupil unit                    |
| Average Age of District Buildings        | = 25 years                               |
| Maintenance Cost Index                   | = 1.25 (1 + ratio of average age to 100) |

$$\begin{aligned}\text{Operating Capital Revenue per Pupil} &= \text{equipment component} + (\text{facilities component} \times \text{maintenance cost index}) \\ &= \$73 + (\$100 \times 1.25) \\ &= \$73 + \$125 \\ &= \$198\end{aligned}$$

$$\begin{aligned}\text{Revenue} &= \text{pupil units} \times \text{operating capital per pupil revenue} \\ &= 1,000 \times \$198 \\ &= \$198,000\end{aligned}$$

$$\begin{aligned}\text{Levy} &= \text{Revenue} \times (\text{ANTC per pupil} / \text{Operating Capital Equalizing Factor}) \\ &= \$198,000 \times (\$2,000 / \$10,194) \\ &= \$198,000 \times .196 \\ &= \$38,808\end{aligned}$$

$$\begin{aligned}\text{Aid} &= \text{Revenue} - \text{Levy} \\ &= \$198,000 - \$38,808 \\ &= \$159,192\end{aligned}$$

## Transportation Sparsity Revenue

In 1996-97, a major portion of the funding of transporting students, equal to \$170 per pupil, was rolled into the basic general education formula. To recognize the additional costs of transporting students in those districts with fewer students per square mile, the transportation sparsity formula provides additional funding based on the number of students per square mile. The actual formula uses logarithms to calculate a revenue amount. The final part of the formula subtracts 4.85% of the basic formula amount, which in 1997 was the \$170 by which the general education formula was increased due to the “roll-in” of transportation revenue, adjusted for the changes in the basic formula since 1996-97. [126C.10, 18]



For this formula, sparsity index means the greater of .2 or the number of square miles in the district divided by the number of resident weighted average daily membership (WADM). Density index means the number of square miles divided by the number of WADM; however, the density index may not be greater than .2 or less than .005.

### Example – Transportation Sparsity Revenue

#### Gopherville School District

|                                     |   |         |
|-------------------------------------|---|---------|
| Number of Pupil Units               | = | 1,000   |
| Number of Square Miles              | = | 90      |
| General Education Formula Allowance | = | \$5,302 |
| District Sparsity Index             | = | .20     |
| District Density Index              | = | .09     |

Transportation Sparsity Revenue per Pupil Unit = [(formula allowance x .1469) x (the district's sparsity index raised to the .26 power) x (the district's density index raised to the .13 power)] - (formula allowance x .0485)

$$= [(\$5,302 \times .1469) \times (.20^{.26}) \times (.09^{.13})] - (\$5,302 \times .0485)$$

$$= [\$779 \times .658063 \times .731226] - \$253$$

$$= \$375 - \$253$$

$$= \$122$$

Total Transportation Sparsity Revenue = Revenue per Pupil Unit x Pupil Units

$$= \$122 \times 1,000$$

$$= \$122,000$$



## **Equity Revenue**

Equity revenue is intended to reduce the disparity in revenue per pupil unit between the highest and lowest revenue districts on a regional basis, with the regions defined as the seven county metropolitan area and the balance of the state, using a set of three formulas, one for regular equity, one for low-referendum equity and one for supplemental equity.

Regular equity revenue is calculated by ranking all districts in each region according to their total basic and referendum revenue. Districts below the 95<sup>th</sup> percentile of revenue in those two components combined are eligible for regular and low-referendum equity revenue, except school districts located in cities of the first class on July 1, 1999 (Duluth, Minneapolis and St. Paul), which are automatically excluded. All eligible districts receive \$13 per pupil unit, but districts with operating referendum receive additional revenue based on their percentile ranking compared to the rest of the region the district is in. To determine how much extra revenue a district receives, the district's equity index is calculated by dividing the difference between the district's revenue in the two categories by the 95<sup>th</sup> percentile of revenue in those two categories. The result is multiplied by \$75.

Low-referendum equity was created to provide additional aid for districts with referendum amounts per pupil below ten percent of the state average referendum amount (state average referendum revenue per pupil is \$921 for 2013-14). Low-referendum equity is equal to difference between a district's referendum per pupil and 10 percent of the state average referendum amount, with the total low-referendum supplemental equity amount not to exceed \$100,000 for any one district.

For districts in the seven county metropolitan area, the revenue amount resulting from both the regular and supplemental low-referendum equity formulas is multiplied by 1.25.

Finally, supplemental equity provides \$46 per pupil of revenue for all districts.

Equity revenue is equalized at the same rate as the first tier of referendum revenue, using \$476,000 of referendum market value (RMV) per pupil as the equalizing factor. [126C.10, 24-28]

Example – Equity Revenue  
Gopherville School District

|   |   |           |
|---|---|-----------|
| Number of pupil units                               | = | 1,000     |
| Basic Revenue                                       | = | \$5,302   |
| Gopherville Referendum Revenue per pupil            | = | \$71      |
| 7-County Metro area                                 | = | no        |
| Rural 95 <sup>th</sup> percentile *                 | = | \$7,173   |
| Rural 5 <sup>th</sup> percentile *                  | = | \$5,302   |
| Metro 95 <sup>th</sup> percentile *                 | = | \$7,031   |
| Metro 5 <sup>th</sup> percentile *                  | = | \$5,684   |
| State Average Referendum Revenue per pupil          | = | \$921     |
| Gopherville Referendum Market Value (RMV) per pupil | = | \$150,000 |

Regular Equity Revenue

|                                |   |  |   |         |
|--------------------------------|---|--|---|---------|
| Regional Equity Gap<br>(Rural) | = | 95 <sup>th</sup> percentile - 5 <sup>th</sup> percentile<br>\$7,173 - \$5,302            | = | \$1,871 |
| District Equity Gap            | = | 95 <sup>th</sup> percentile - District Basic and Referendum Revenue<br>\$7,173 - \$5,373 | = | \$1,800 |
| Equity Index                   | = | [District Equity Gap / Regional Equity Gap]<br>\$1,800 / \$1,871                         | = | .962    |
| Regular Equity Rev.            | = | Pupil units x [\$13 + (\$75 x Equity Index)]   |   |         |
|                                | = | 1,000 x [\$13 + (\$75 x .962)]   |   |         |
|                                | = | 1,000 x [\$13 + \$72.15]   |   |         |
|                                | = | 1,000 x \$85.15  |   |         |
|                                | = | \$85,150   |   |         |

Supplemental Low-Referendum Equity Revenue

|                                  |   |  |
|----------------------------------|---|--|
| Low-Referendum Equity<br>Revenue | = | Pupils x [(State Avg. Referendum x 10%) – District Ref.] |
|                                  | = | 1,000 x [(\$921 x 0.10) - \$71]                          |
|                                  | = | 1,000 x (\$92.10 - \$71)                                 |
|                                  | = | 1,000 x \$21.10  |
|                                  | = | \$21,100   |

Supplemental Equity Revenue

$$\begin{aligned}\text{Supplemental Equity Revenue} &= \text{Pupils x Supplemental Equity Formula Amount} \\ &= 1,000 \times \$46 \\ &= \$46,000\end{aligned}$$

Total Equity Aid and Levy

$$\begin{aligned}\text{Equity Revenue} &= \text{Regular Equity Revenue} + \text{Low-Referendum Equity Revenue} \\ &\quad + \text{Supplemental Equity Revenue} \\ &= \$85,150 \quad + \$21,100 \quad + \$46,000 \\ &= \$152,250\end{aligned}$$

$$\begin{aligned}\text{Equity Levy} &= \text{Equity Revenue} \quad \times \quad \frac{\text{RMV per pupil unit}}{\$476,000} \\ &= \$152,250 \quad \times \quad \frac{\$150,000}{\$476,000} \\ &= \$152,250 \quad \times \quad .315 \\ &= \$47,959\end{aligned}$$

$$\begin{aligned}\text{Equity Aid} &= \text{Equity Revenue} \quad - \quad \text{Equity Levy} \\ &= \$152,250 \quad - \quad \$47,959 \\ &= \$104,291\end{aligned}$$

\* 5<sup>th</sup> and 95<sup>th</sup> percentile figures are preliminary (July 2013) estimates, and are subject to change.

### Small Schools Revenue

Small Schools revenue is allocated to school districts (excluding charter schools) based on their enrollment. Districts with more than 1,000 pupil units do not qualify for the revenue. The formula amount for the revenue is 10 percent of \$5,302 per pupil, which is then multiplied by a factor that allocates more revenue per pupil to smaller school districts on a sliding scale. [126C.10, 2c]

#### Examples – Small Schools Revenue

##### Gopherville School District

|                                 |   |         |
|---------------------------------|---|---------|
| Number of Pupil Units           | = | 200     |
| Small Schools Formula Allowance | = | \$5,302 |

$$\begin{aligned}\text{Small Schools Revenue} &= (\text{Small Schools Allowance} \times .10) \times \frac{(1,000 - \text{Pupil Units})}{1,000} \times \text{Pupil Units} \\ &= (\$5,302 \times .10) \times \frac{(1,000 - 200)}{1,000} \times 200 \\ &= \$530.20 \times .80 \times 200 \\ &= \$424.16 \times 200 \\ &= \$84,832\end{aligned}$$

##### Gopher City School District

|                                 |   |         |
|---------------------------------|---|---------|
| Number of Pupil Units           | = | 750     |
| Small Schools Formula Allowance | = | \$5,302 |

$$\begin{aligned}\text{Small Schools Revenue} &= (\text{Small Schools Allowance} \times .10) \times \frac{(1,000 - \text{Pupil Units})}{1,000} \times \text{Pupil Units} \\ &= (\$5,302 \times .10) \times \frac{(1,000 - 750)}{1,000} \times 750 \\ &= \$530.20 \times .25 \times 750 \\ &= \$132.55 \times 750 \\ &= \$99,413\end{aligned}$$

*\*\* Example note: Because the Gopher City school district has more pupils, its TOTAL revenue is greater than Gopherville, but the smaller district (Gopherville) has more revenue PER PUPIL (\$424 vs. \$133).*

## Transition Revenue

Transition revenue was initially a revenue guarantee for 2003-04 revenue, fixed at the 2004-05 amount per pupil, but now also includes a component for pre-kindergarten transition and for tuition reciprocity transition. For 2003-04, transition revenue ensured that a district's 2003-04 revenue was equal to the lesser of its 2002-03 revenue or its 2003-04 revenue under the laws prior to their amendment by the 2003 Legislature, calculated by comparing a district's 2003-04 general education revenue, less referendum, per 2002-03 defined AMCPU and the lesser of: (a) what the district would have received in 2003-04 had the general education revenue formulas not been changed by the 2003 legislature or (b) the district's 2002-03 general education revenue per old AMCPU, less referendum.

In addition to the revenue guarantee, transition revenue includes a pre-kindergarten component and a tuition reciprocity component. School districts that had pre-kindergarten programs prior to July 1, 2003 receive 4 percent of the amount they received for those programs prior to that date, and must reserve that revenue for those programs. In the first year of a tuition reciprocity agreement between Minnesota and a neighboring state, a district is eligible for transition revenue equal to an amount that would increase the district's general education revenue and tuition revenue up to the amount that the district would have received had the tuition reciprocity agreement not been in place.

Transition revenue is a fixed amount that is undesignated and may be used for any general fund purpose. Transition revenue is a mix of aid and levy, levied against referendum market value (RMV), using \$476,000 as the equalizing factor. [126C.10, 31-33]

### Example – Transition Revenue Gopherville School District

|   |   |           |
|---|---|-----------|
| 2013-14 Pupil Units   | = | 960       |
| 2003-04 Pupil Units   | = | 980       |
| 2003-04 Pupil Units, Old Law *                                      | = | 1,000     |
| 2002-03 General Ed. Revenue per pupil                               | = | \$6,000   |
| 2003-04 Old law General Ed. Revenue per Old law pupil               | = | \$6,025   |
| 2003-04 General Ed. Revenue per Old law pupil, excluding transition | = | \$5,900   |
| Referendum Market Value (RMV) per pupil                             | = | \$200,000 |

*\*Old Law means as defined in MN Statutes 2002, prior to changes made by the 2003 Legislature.*

Transition Revenue Allowance = the greater of (a) \$0 or (b) the result of the following calculation:

2003-04 Pupil Units, Old Law x the result of the following calculation:

2003-04 Pupil Units

((the lesser of 2002-03 General Ed. Revenue per pupil or:  
2003-04 Old law General Ed. Revenue per Old law pupil)  
- 2003-04 General Ed. Rev. per Old law pupil, excluding transition

$$\begin{aligned} (b) &= 1000 / 980 \times ((\text{the lesser of } \$6,000 \text{ or } \$6,025) - \$5,900) \\ &= 1.02 \times (\$6,000 - \$5,900) \\ &= 1.02 \times \$100 \\ &= \$102 \end{aligned}$$

Transition Revenue Allowance = the greater of \$0 or \$102 = \$102

$$\begin{aligned}
 \text{Transition Revenue} &= 2013\text{-}14 \text{ Pupil Units} \times \text{Transition Revenue Allowance} \\
 &= 960 \times \$102 \\
 &= \$97,920 \\
 \text{Transition Levy} &= \text{Transition Revenue} \times \frac{\text{RMV per pupil}}{\$476,000} \\
 &= \$97,920 \times \frac{\$200,000}{\$476,000} \\
 &= \$97,920 \times .42 \\
 &= \$41,126 \\
 \text{Transition Aid} &= \text{Transition Revenue} - \text{Transition Levy} \\
 &= \$97,920 - \$41,126 \\
 &= \$56,794
 \end{aligned}$$

*\*\* This example assumes the district does NOT qualify for pre-kindergarten transition revenue or for tuition reciprocity transition revenue.*

## Alternative Teacher Compensation Revenue

Alternative teacher compensation revenue of \$260 per prior year unweighted pupil is available to school districts, intermediate school districts and charter schools that develop and implement an alternative teacher pay system by October 1<sup>st</sup> of that school year. In general, in order to qualify for the revenue, the district must, one full school year prior to the year of implementation, notify the Commissioner of Education of the district's intent to implement an alternative pay system. Individual school sites may also qualify for alternative teacher compensation revenue, even if the school district in which the site is located does not qualify.



The \$260 per pupil of revenue is a mix of aid and levy, with 65 percent of the per pupil amount, \$169, coming in the form of state aid and the balance, \$91 per pupil, in the form of equalized levy revenue. The levy revenue is equalized using an equalizing factor of \$5,634 of adjusted net tax capacity per pupil. Qualifying districts may choose to receive only the basic aid portion of the revenue (the \$169 per pupil) or at the district's discretion, may opt to also access the additional equalized levy (the \$91 per pupil). In addition, charter schools and intermediate school districts (which do not have levy authority) receive a prorated aid amount based on the percentage of \$260 per pupil that all districts receive. Total alternative compensation aid is capped at \$75.6 million, and is available, in general, to districts on a first come, first served basis. [126C.10, 34-36; 122A.413-416]

### Example – Alternative Teacher Compensation Revenue

#### Gopherville School District

|   |   |         |
|---|---|---------|
| Prior Year October 1 <sup>st</sup> Enrollment             | = | 1,000   |
| Qualifies for revenue?                                    | = | Yes     |
| Alternative Compensation Revenue formula amount per pupil | = | \$260   |
| ANTC per pupil unit                                       | = | \$2,000 |

#### Alternative Compensation Revenue

$$\begin{aligned} &= \text{Alternative Compensation Formula} \times \text{Prior Year October 1}^{\text{st}} \text{ Enrollment} \\ &= \$260 \times 1,000 \\ &= \$260,000 \end{aligned}$$

#### Alternative Compensation Basic Aid

$$\begin{aligned} &= \$169 \times \text{Prior Year October 1}^{\text{st}} \text{ Enrollment} \\ &= \$169 \times 1,000 \\ &= \$169,000 \end{aligned}$$

Alternative Compensation Equalized Levy Revenue

$$\begin{aligned} &= \$91 \times \text{Prior Year October 1}^{\text{st}} \text{ Enrollment} \\ &= \$91 \times 1,000 \\ &= \$91,000 \end{aligned}$$

*However*, the Alternative Compensation Levy Revenue is itself a mix of aid and levy, so:

Alternative Compensation Equalized Levy Revenue

$$= \text{Alternative Compensation Levy} + \text{Alternative Compensation Equalization Aid}$$

Alternative Compensation Levy

$$\begin{aligned} &= \text{Alternative Compensation Equalized Levy Revenue} \times \frac{\text{ANTC per pupil unit}}{\$5,634} \\ &= \$91,000 \quad \times \quad \frac{\$2,000}{\$5,634} \\ &= \$91,000 \quad \times \quad .355 \\ &= \$32,305 \end{aligned}$$

Alternative Compensation Equalization Aid

$$\begin{aligned} &= \text{Alternative Compensation Equalized Levy Revenue} - \text{Alternative Compensation Levy} \\ &= \$91,000 \quad - \quad \$32,305 \\ &= \$58,695 \end{aligned}$$

Alternative Compensation Revenue =

Alternative Compensation Basic Aid + Alternative Compensation Levy + Alternative Compensation Equalization Aid

$$\begin{aligned} &= \$169,000 + \$32,305 + \$58,695 \\ &= \$260,000 \end{aligned}$$



## **General Education Revenue - Reserved Revenue and Reductions**

### **Learning and Development Revenue**

Of a district's basic general education revenue, an amount equal to .057 times kindergarten students in average daily membership times the basic formula amount plus .115 times first grade through third grade students in average daily membership times the basic formula amount plus .06 times fourth grade through sixth grade students in average daily membership times the basic formula amount must be reserved for class size reduction. The reserved revenue must be used to reduce and maintain the average class size to 1 to 17 beginning with kindergarten through third grade.

[126C.12] ***Beginning in Fiscal Year 2015, the formula will be revised to state a fixed dollar amount per average daily membership that must be reserved for this purpose (\$299 for kindergarten and \$459 for grades one through six).***

### **Revenue for Staff Development**

An amount equal to two percent of the per pupil basic formula amount (\$106.04) must be spent for staff development. Staff development revenue may be used for teacher evaluation activities. Each year, if a district's licensed teachers and school board agree via a vote, this reserve may be waived. In addition, a district in statutory operating debt is exempt from this reserve requirement. [122A.61]



## Referendum Revenue

Referendum revenue allows districts to increase the revenue available in the district's general fund with the approval of the voters in the district. Referendum revenue up to \$700 per resident pupil unit is equalized at \$476,000 of market value, and revenue above \$700, up to the cap, is equalized at \$270,000. (Districts that qualify for sparsity revenue are eligible for equalization of \$270,000 on the entire amount of referendum authority above \$700). Referendum revenue is initially calculated on the resident pupil count. When a student open enrolls into a different district, the levy portion of the referendum is not reduced for the resident district. The aid portion of the referendum revenue for that student is paid to the serving district based on the serving district's referendum aid amount per pupil, and the aid portion of the referendum revenue for that student is eliminated for the resident district.

Referendum revenue is capped at an amount equal to the greater of 1) the greater of (a) 26 percent of the basic general education formula allowance (\$1,378.52 in the 2013-14 school year) or (b) \$1,294 multiplied by inflation since 2003-04 (which is currently estimated to be \$1,627.85 in the 2013-14 school year); or 2) the district's 1994 referendum allowance amount times 1.177 times the inflationary increase between 2003-04 and 2007-08 plus one-fourth the percentage increase in the basic formula between 2007-08 and 2013-14 plus the district's 2002 supplemental and transition revenues minus \$215. District referendum revenue, except in districts eligible for sparsity revenue, may not exceed this cap. For most non-sparsity eligible districts, \$1,627.85 is the effective cap. [126C.17]

### Example – Referendum Revenue Gopherville School District

This example assumes voter approval of a referendum and a school board decision to levy the full authorized amount.

|                                    |   |               |
|------------------------------------|---|---------------|
| Resident Marginal Cost Pupil Units | = | 1,000         |
| Referendum Market Value            | = | \$200,000,000 |
| Referendum Market Value per pupil  | = | \$200,000     |
| Referendum Revenue per pupil unit  | = | \$750         |
| First Tier equalization factor     | = | \$476,000     |
| Second Tier equalization factor    | = | \$270,000     |

To calculate a district's total referendum levy, and the amount that will be paid to the district from the State in the form of referendum equalization aid, first calculate referendum revenue in each tier (remembering that if the district's referendum revenue per pupil is less than \$700, the \$700 in the first tier calculation would be replaced with the actual approved amount, and the second tier calculation would be unnecessary):

|                                |   |   |
|--------------------------------|---|---|
| First Tier Referendum Revenue  | = | \$700 x Pupil Units                               |
|                                | = | \$700 x 1,000                                     |
|                                | = | \$700,000   |
| Second Tier Referendum Revenue | = | (Referendum per pupil unit - \$700) x Pupil Units |
|                                | = | (\$750 - \$700) x 1,000                           |
|                                | = | \$50 x 1,000                                      |
|                                | = | \$50,000  |

Next, calculate the levy portion of referendum revenue by calculating the amount of levy for each tier of referendum revenue:

$$\begin{aligned}
 \text{First Tier Levy} &= \text{First Tier Revenue} \times \frac{\text{Referendum Market Value per pupil}}{\text{First Tier Equalizing Factor}} \\
 &= \$700,000 \times \frac{\$200,000}{\$476,000} \\
 &= \$700,000 \times .42 \\
 &= \$294,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Second Tier Levy} &= \text{Second Tier Revenue} \times \frac{\text{Referendum Market Value per pupil}}{\text{Second Tier Equalizing Factor}} \\
 &= \$50,000 \times \frac{\$200,000}{\$270,000} \\
 &= \$50,000 \times .74 \\
 &= \$37,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Total Levy} &= \text{First Tier Levy} + \text{Second Tier Levy} \\
 &= \$294,000 + \$37,000 \\
 &= \$331,000
 \end{aligned}$$

Finally, calculate the aid portion of referendum revenue by subtracting the total levy from the total referendum revenue generated:

$$\begin{aligned}
 \text{Aid} &= \text{Referendum Revenue} - \text{Referendum Levy} \\
 &= \$750,000 - \$331,000 \\
 &= \$419,000
 \end{aligned}$$

This aid amount may be reduced by the amount of referendum tax base replacement aid that the district receives. (See p. 55 for a discussion of referendum tax base replacement aid.)

### Referendum Equalization Examples

As illustrated by the table below, districts with different tax bases in referendum market value per pupil unit can have a significantly different mixes of referendum levy and referendum equalization aid. The table shows, using the formulas described in the previous pages, the referendum aid and levy in a district with high, medium and low market values per pupil unit with \$900 per pupil unit of referendum revenue authorized.

Calculating the tax rate for the total levy in each school district shows how equalization works. The tax rate is calculated by dividing total levy by total tax base (which is referendum market value per pupil unit multiplied by referendum pupil units). In each of these cases, the tax rate is the same for the equalization factor, so although the low value district has the same effective tax rate as the high value district, and less property value per pupil than the high value district, the low value district receives the same amount of revenue per pupil as the high value district, up to the level of the equalizing factor, due to the referendum equalization aid provided by the state, with a tax rate that is the same. Once a district's tax base per pupil exceeds the equalizing factor, the tax rate declines as value grows.

|                                  | School District Referendum Market Value |               |             |
|----------------------------------|---|---------------|-------------|
|                                  | <u>Low</u>                              | <u>Medium</u> | <u>High</u> |
| Market Value per pupil unit      | \$185,000                               | \$400,000     | \$600,000   |
| Referendum Amount per pupil unit | \$900                                   | \$900         | \$900       |
| Referendum pupil units           | 750                                     | 2,000         | 10,000      |
| Total Revenue                    | \$675,000                               | \$1,800,000   | \$9,000,000 |
| First Tier Revenue               | \$525,000                               | \$1,400,000   | \$7,000,000 |
| Second Tier Revenue              | \$150,000                               | \$400,000     | \$2,000,000 |
| First Tier Levy                  | \$204,044                               | \$1,176,471   | \$7,000,000 |
| Second Tier Levy                 | \$102,778                               | \$400,000     | \$2,000,000 |
| First Tier Aid                   | \$320,956                               | \$223,529     | \$0         |
| Second Tier Aid                  | \$47,222                                | \$0           | \$0         |
| Total Levy                       | \$306,822                               | \$1,576,471   | \$9,000,000 |
| Total Aid                        | \$368,178                               | \$223,529     | \$0         |
| Percent Levy                     | 45.5%                                   | 87.6%         | 100.0%      |
| Percent Aid                      | 54.5%                                   | 12.4%         | 0.0%        |
| Tax Rate                         | 0.221%                                  | 0.197%        | 0.15%       |

## Special Education

Districts receive funding to recognize a portion of the additional costs of providing required services to students with a disability. All operating districts receive some special education aid, but the amount can vary greatly between districts, ranging up to \$3,265 per pupil. [125A.76]

For 2013-14 Special Education Aid consists of the sum of 1.) Special Education Initial Aid, 2.) Excess Cost Aid and 3.) Cross-subsidy Reduction Aid. Initial aid and excess cost aid are prorated using a statewide adjustment factor to stay within statutory statewide revenue caps. Cross-subsidy Reduction Aid is a new aid category for FY 2014 and FY 2015 only. ***Beginning in Fiscal Year 2016, special education aid will transition to a new funding formula that is more “census-based” – Funding will be distributed, in part, based on overall district average daily membership served, poverty concentration, district size, and the average costs of educating students with different primary disabilities.***

The total aid entitlement for 2013-14 is \$1.05 billion.

For 2013-14, Initial Aid includes:

- a.) 68% of the salaries of teachers, persons providing related services to students and support service staff providing direct services to students;
- b.) 47% of supplies, materials and equipment up to \$47 per student;
- c.) 52% of difference between general education basic allowance and the cost to a resident district for special education services provided by contract with agencies other than school districts;
- d.) Funding for summer programs in categories (a), (b), and (c) listed above.

### Example – Special Education Initial Revenue

#### Gopherville School District

|  |   |                 |
|--|---|-----------------|
| District Special Education Initial Revenue       | = | \$500,000       |
| Statewide Adjusted Base Revenue                  | = | \$916,575,000   |
| Statewide Current Year Special Education Revenue | = | \$1,039,723,438 |

$$\begin{aligned}\text{Statewide Adjustment Factor} &= \text{State Adjusted Base Revenue} / \text{Statewide Current Year Revenue} \\ &= \$916,575,000 / \$1,039,723,438 \\ &= 0.882\end{aligned}$$

$$\begin{aligned}\text{Initial Special Education Revenue} &= \text{2013-14 Initial Revenue} \times \text{Statewide Adjustment Factor} \\ &= \$500,000 \quad \times \quad 0.882 \\ &= \$440,778\end{aligned}$$

## Excess Cost Aid

If a district's special education cost per pupil unit that is not reimbursed by the special education formula is greater than 4.36 percent of their general education revenue (which for this purpose includes general education revenue minus operating capital and transportation sparsity revenue), the district receives excess cost aid equal to the greater of: 75 percent of the amount of the unreimbursed cost minus 4.36 percent of the district's general revenue, or zero. However, excess cost aid is capped at \$119.82 million for 2013-14. Aid will be calculated using prior year data. If the statewide district entitlement for excess cost aid is greater than the cap amount, the amount each district would receive is adjusted in proportion to the ratio of the entitlement to the cap. The amount which the district is entitled to is based on the uncapped formula (or the statewide total entitlement) and is called initial excess cost aid. For 2013-14, 321 districts receive some excess cost aid, with the highest amount being \$434 per pupil. [125A.79, 2]

***Beginning in Fiscal Year 2016, excess cost aid will be calculated as the greater of:***

- (1) 56 percent of the difference between the district's unreimbursed nonfederal special education cost and 7 percent of the district's general education revenue, OR***
- (2) 62 percent of the difference between the district's unreimbursed old formula special education cost and 2.5 percent of the district's general education revenue.***

### Example – Excess Cost Aid – Gopherville School District

|  |   |               |
|--|---|---------------|
| State Total Excess Cost Aid  | = | \$119,820,000 |
| State Total Initial Excess Cost Aid (est.)                                       | = | \$126,679,442 |
| General education revenue  | = | \$5,000,000   |
| Unreimbursed special education costs   | = | \$375,000     |
| Qualify for aid? (Unreimbursed costs are greater than 4.36% of general revenue?) | = | Yes           |

Initial excess cost aid is the greater of:

$$\begin{array}{rclcl} 1. & 75\% \times (\text{unreimbursed costs} & - & .0436 \times \text{general revenue}) & \\ & .75 \times (\$375,000 & - & .0436 \times \$5,000,000) & \\ & .75 \times (\$375,000 & - & \$218,000) & = \$117,750 \end{array}$$

2. \$0

Initial Excess cost aid for Gopherville = \$117,750

Excess cost aid adjustment factor

$$= \text{State Total Excess Cost Aid} / \text{State Total Initial Excess Cost Aid}$$

$$= \$119,820,000 / \$217,323,824$$

$$= 0.551$$

$$\begin{aligned}
 \text{Excess cost aid} &= \text{Initial Excess Cost Aid} \times \text{Adjustment Factor} \\
 &= \$117,750 \times 0.551 \\
 &= \$64,880
 \end{aligned}$$

### **Cross-subsidy Reduction Aid**

Beginning in 2013-14, a new, temporary special education aid category is established (for 2013-14 and 2014-15 only). The aid for 2013-14 equals the lesser of \$20 per ADM served or one 1-percent of the amount generated for the district under the new pupil-based formula. The new pupil-based formula, (which will be fully phased in beginning in Fiscal Year 2016), moves toward a “census-based” model of special education funding. It assigns funding based on overall average daily membership served, poverty concentration, district size, and the average costs of educating students with different primary disabilities. The census-base portion of this formula is:

Average Daily Membership (ADM) Served times the sum of \$450 plus \$400 times the district’s poverty concentration factor plus .008 times the district’s ADM served. The poverty concentration factor equals the number of students eligible for free lunch plus ½ of the number eligible for reduced price lunch divided by the district’s total enrollment.

The three categories outlined in law are:

**Category 1:** \$10,400 times the child count for the primary disability areas of autism spectrum disorders, developmental delay and severely multiply impaired;

**Category 2:** \$18,000 times the child count for the primary disability areas of deaf and hard-of-hearing and emotional or behavioral disorders;

**Category 3:** \$27,000 times the child count for the primary disability areas of developmentally cognitive mild-moderate, developmentally cognitive severe-profound, physically impaired, visually impaired and deaf blind.

The total entitlement for FY 2013-14 is \$13 million. All operating districts will receive some cross-subsidy reduction aid, with the average district receiving \$16 per ADM in aid.

### Example – Special Education Cross-Subsidy Reduction Aid

#### Gopherville School District

|                              |         |
|------------------------------|---------|
| District ADM served          | = 1,000 |
| Poverty concentration factor | = 30%   |
| Category 1 Students          | = 60    |
| Category 2 Students          | = 40    |
| Category 3 Students          | = 20    |

Lesser of (1) or (2) below:

$$\begin{aligned} (1) & \$20 \times \text{ADM} \\ &= \$20 \times 1,000 = \$20,000 \\ &= \$20,000 \end{aligned}$$

(2) Sum of ((Census-based allocation + Category 1 + Category 2 + Category 3) x .01)

$$\begin{aligned} \text{Census-based allocation} &= 1,000 \text{ ADM served} \times [(\$450 + (\$400 \times 30\%) + (1,000 \times .008))] \\ &= 1,000 \text{ ADM served} \times \$578 \\ &= \$578,000 \end{aligned}$$

$$\begin{aligned} \text{Category 1 students} &\times \$10,400 \\ &= 60 \times \$10,400 \\ &= \$624,000 \end{aligned}$$

$$\begin{aligned} \text{Category 2 students} &\times \$18,000 \\ &= 40 \times \$18,000 \\ &= \$720,000 \end{aligned}$$

$$\begin{aligned} \text{Category 3 students} &\times \$27,000 \\ &= 20 \times \$27,000 \\ &= \$540,000 \end{aligned}$$

$$\begin{aligned} &= (\$578,000 + \$624,000 + \$720,000 + \$540,000) \times .01 \\ &= \$2,462,000 \times .01 \\ &= \$24,620 \end{aligned}$$

Lesser of (1) \$20,000 or (2) \$24,620  
= (2) \$20,000

Total Cross-Subsidy Reduction Aid = \$20,000

### **Home Based Travel Aid**

Aid is provided to reimburse 50% of the travel costs of personnel providing home-based travel services to children under age five with a disability. [125A.75, 1]

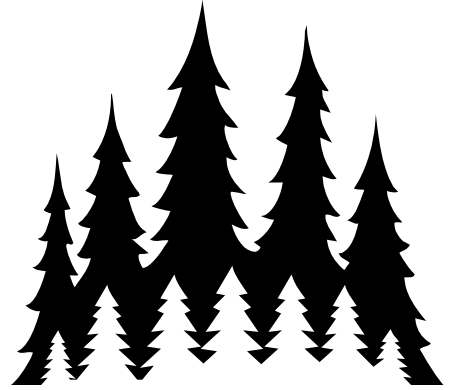
### **Special Pupil Aid**

Districts are reimbursed for the special education costs not covered by other special education funding or the general education formula for students with a disability residing in public or private residential facilities in the district and for whom there is no school district of residence because parental rights have been terminated or the parents cannot be located. [125A.75, 3]



## Permanent School Fund Revenue

School Districts and charter schools receive revenue from the State's Permanent School Fund, which is established in the state constitution (Article XI, section 8). The constitution makes provisions for the proceeds from school trust fund lands that were placed in trust after being granted from the federal government to the state in 1857, 1860 and 1866 for that purpose. The constitution requires that trust fund lands be managed to generate income for the Permanent School Fund. Initially, much of the land was sold, and the money deposited in the school trust fund. In addition to sale proceeds, income generated by the land (primarily through logging and mining activities) is deposited into the fund. The constitution requires that the proceeds remain in the fund "perpetual and inviolate forever." Any interest generated by the investment of the principal in the fund is allocated based on the number of students in the district.



Permanent School Fund revenue is paid twice during the school year, with one payment in September and one in March. Permanent School Fund revenue is paid based on the number of students in average daily membership (the headcount) served by the district or charter school during the previous year. Permanent school fund revenue received by school districts and charter schools is undesignated general fund revenue, and thus available for any purpose.

For 2013-14, \$23.8 million is expected to be allocated to school districts, with each district receiving approximately \$29 per student served in average daily membership.  
[MN Constitution, Art. XI, section 8; M.S. 127A.33]

### Example – Permanent School Fund Revenue

#### Gopherville School District

|                                       |                  |
|---------------------------------------|------------------|
| 2012-13 Adjusted (Served) ADM         | = 1,000          |
| 2013-14 Permanent School Fund Formula | = \$28.84 (est.) |

Permanent School Fund Revenue:

|   |   |
|---|---|
| = | Adjusted (Served) ADM x Permanent School Fund Formula |
| = | 1,000 x \$28.84                                       |
| = | \$28,840  |

## Capital Expenditure Related Programs

### Health and Safety

Capital expenditure health and safety revenue is available for hazardous substance removal, fire and life safety code repairs and health, safety, environmental and air quality management. Individual projects that otherwise qualify for health and safety but which cost more than \$500,000 must be funded using alternative facilities revenue. Health and safety revenue is equalized with an equalizing factor of \$2,796. [123B.57]

#### Example – Health and Safety Revenue

##### Gopherville School District

|   |   |  |
|---|---|--|
| Pupil Units                                   | = | 1,000  |
| Adjusted Net Tax Capacity (ANTC)              | = | \$2,000,000  |
| Equalizing Factor for Health & Safety Revenue | = | \$2,796  |
| Approved Health & Safety Revenue              | = | \$75,000   |
| Revenue                                       | = | Amount approved by the commissioner in accordance with district plan               |
|   | = | \$75,000   |
| Levy  | = | Revenue x Lesser of: (a) 1, or (b) $\frac{\text{District ANTC}}{\$2,796}$ per P.U. |
|   | = | Revenue x Lesser of: (a) 1, or (b) $\frac{\$2,000}{\$2,796}$                       |
|   | = | \$75,000 x .715  |
|   | = | \$53,625   |
| Aid   | = | Revenue - Levy   |
|   | = | \$75,000 - \$53,625  |
|   | = | \$21,375   |

### Alternative Facilities

A school district qualifies for the alternative facilities program if it has an average of at least 66 pupils per grade, more than 1.85 million square feet of space that averages more than 15 years old, or more than 1.5 million square feet of space that averages more than 35 years old, and insufficient health and safety and capital facilities revenue to meet its deferred maintenance needs, make accessibility improvements or fire, safety or health repairs, and if it has a ten-year facility plan approved by the Commissioner of Education. Districts also qualify for alternative facilities for individual health and safety projects that exceed \$500,000 in project cost. Qualifying districts may sell bonds and make a levy to repay the bonds, or may annually levy for the costs in the ten-year plan without voter approval. The cost of projects funded under this program is offset in part by state aid for districts that participated in the program before 1999-2000. Levies under this program are also eligible for the first tier of debt service equalization. [123B.59]

## Debt Service Revenue

School districts may issue general obligation bonds to finance capital improvements. Generally, the issuance of the bonds must be approved by a majority of the voters in a referendum. The district must then levy each year an amount necessary to meet its debt obligation. The amount of debt service revenue needed each year is equalized at varying rates in relation to the ratio of the amount of debt service revenue to the district's total adjusted net tax capacity. Debt service levies are equalized at an equalizing factor of \$3,049 for the amount of debt service that totals between 15.74% and 26.24% of the district's adjusted net tax capacity, and \$7,622 for the amount of debt service that exceeds 26.24% of the district's adjusted net tax capacity. [123B.53]



### Example – Debt Service Revenue

#### Gopherville School District

|                                  |   |             |   |
|----------------------------------|---|-------------|---|
| Number of Pupil Units            | = | 1,000       |   |
| Adjusted Net Tax Capacity (ANTC) | = | \$2,000,000 |   |
| ANTC per Pupil Unit              | = | \$2,000     | * |
| Debt Service Revenue for 2013-14 | = | \$630,000   |   |
| First Tier equalization factor   | = | \$3,049     |   |
| Second Tier equalization factor  | = | \$7,622     |   |

*\* This example doesn't show a "typical" Minnesota school district. \$2,000 of ANTC per pupil unit would be a very low-value district, and is used to display the entire debt service equalization aid calculation. For 2013-14, the average ANTC per pupil is \$5,933.*

To calculate a district's total debt service levy, and the amount that will be paid to the district from the State in the form of debt service equalization aid, first calculate the revenue amounts in the first and second tier that are eligible for equalization:

$$\begin{aligned}\text{First Tier Debt Service Revenue} &= \text{Debt Revenue} - 15.74\% \text{ of ANTC} - \text{Second Tier Debt Revenue} \\ &= \$630,000 - .1574 \times \$2,000,000 - \$105,200 \\ &= \$210,000\end{aligned}$$

$$\begin{aligned}\text{Second Tier Debt Service Revenue} &= \text{Debt Service Revenue} - 26.24\% \text{ of District ANTC} \\ &= \$630,000 - .2624 \times \$2,000,000 \\ &= \$105,200\end{aligned}$$

Next, calculate, for each Tier and for the initial unequalized portion, how much of the revenue will be raised in local levy:

$$\begin{aligned}\text{Unequalized Debt Service Levy} &= 15.74\% \times \text{ANTC} \\ &= .1574 \times \$2,000,000 \\ &= \$314,800\end{aligned}$$

$$\begin{aligned}\text{First Tier Debt Service Levy} &= \text{First Tier Debt Service Revenue} \times \frac{\text{District ANTC/P.U.}}{\text{First Tier Equalizing Factor}} \\ &= \$210,000 \times \frac{\$2,000}{\$3,049} \\ &= \$210,000 \times .656 \\ &= \$137,760\end{aligned}$$

$$\begin{aligned}\text{Second Tier Debt Service Levy} &= \text{Second Tier Debt Service Revenue} \times \frac{\text{District ANTC/P.U.}}{\text{Second Tier Equalizing Factor}} \\ &= \$105,200 \times \frac{\$2,000}{\$7,622} \\ &= \$105,200 \times .262 \\ &= \$27,562\end{aligned}$$

Next, calculate the total levy, by adding the levy component of the two equalized tiers of the revenue to the initial unequalized levy amount:

$$\begin{aligned}\text{Total Debt Service Levy} &= \\ &\text{Unequalized Debt Service Levy} + \text{First Tier Debt Service Levy} + \text{Second Tier Debt Service Levy} \\ &= \$314,800 + \$137,760 + \$27,562 \\ &= \$480,122\end{aligned}$$

Finally, calculate the amount of aid by subtracting the levy total from the total revenue need for that year:

$$\begin{aligned}\text{Debt Service Aid} &= \text{Debt Service Revenue} - \text{Total Debt Service Levy} \\ &= \$630,000 - \$480,122 \\ &= \$149,878\end{aligned}$$

### Telecommunications Access Revenue

School districts and charter schools receive reimbursement for their eligible telecommunication and Internet access costs from the previous fiscal year. Eligible costs are defined as ongoing costs for Internet access, data lines and video links for certain purposes, recurring contractual costs for certain portions of a district's network, recurring costs for shared regional delivery of access between school districts, postsecondary institutions and public libraries, and installation fees for new lines or increased bandwidth. Certain costs, such as staff support, telephone service, network hardware and fiber optic or wiring installation are defined as ineligible for reimbursement. School districts are also required to provide telecommunications and Internet access to nonpublic schools within the district's boundaries, with nonpublic school responsible for paying for any costs in excess of the revenue received by the district. To access telecommunication access revenue, districts must apply for federal Internet funding, called "e-rate" funding.

Telecommunications Access Revenue for a district is equal to the district's eligible costs for the prior year, minus any e-rate funding received, that exceed \$15 per pupil. If a district is a member of a telecommunications access cluster, the district's revenue is not reduced by \$15 per pupil, and the revenue is distributed directly to the cluster. District revenue is prorated so that total state aid payments do not exceed the appropriation for the fiscal year, regardless of how high eligible costs are. [124B.26]

#### Example – Telecommunications Access Revenue Gopherville School District

|                                   |   |             |
|-----------------------------------|---|-------------|
| Number of Pupil Units             | = | 1,000       |
| Eligible Telecommunications Costs | = | \$36,000    |
| Federal E-Rate Funding            | = | \$1,000     |
| Cluster Member?                   | = | No *        |
| Statewide Initial Revenue (Est.)  | = | \$8,000,000 |
| Available State Appropriation     | = | \$3,750,000 |

#### Initial Telecommunications Access Revenue

|   |                                       |                         |
|---|---------------------------------------|-------------------------|
| = | Eligible Costs - E-Rate Reimbursement | - (\$15 x pupil units)* |
| = | \$36,000 - \$1,000                    | - (\$15 x 1,000)        |
| = | \$36,000 - \$1,000                    | - \$15,000              |
| = | \$20,000                              |                         |

#### Telecommunications Access Revenue Proration Rate

|   |   |
|---|---|
| = | Available State Appropriation / Initial Statewide Revenue |
| = | \$3,750,000 / \$8,000,000                                 |
| = | 46.9 %  |

|                                       |   |                 |   |                |
|---------------------------------------|---|-----------------|---|----------------|
| Net Telecommunications Access Revenue | = | Initial Revenue | x | Proration Rate |
|                                       | = | \$20,000        | x | .469 = \$9,380 |

\* If the district was a member of a telecommunications cluster, the calculation of initial revenue would not include the subtraction of \$15 times the district's pupil units.

## Charter School Revenue

Charter schools in Minnesota are public schools, and are defined as being part of the State's system of public education. They are not school sites of the school district within which they are located, although they may have been sponsored by the school district within which they are located.

Although they are public schools, charter schools are exempt in law from many, but not all of the requirements governing public schools and school districts. In regard to revenue, charter schools are eligible for general education revenue, special education aid, building lease aid, start-up grants, and other revenue school districts receive. [124D.11]

Charter school revenue sources include:

1. General Education Revenue - Charter schools receive general education revenue per pupil just as school districts do, with a few exceptions. First, if the charter school does not provide transportation services, the charter school receives \$257 less per pupil (an amount equal to 4.85 percent of the basic formula) and will not receive their transportation sparsity revenue. (If transportation services are not provided by the charter school, the district in which the charter school is located must provide transportation to charter school students in the same way it provides transportation to students residing in or attending school in the public school district, and the school district receives some state aid to help pay for that transportation.) Basic skills and transportation sparsity revenues are calculated for the charter school, but a charter school receives the state average for all other components of general education revenue, except referendum revenue. Charter schools receive only the aid portion of referendum revenue, calculated based on the resident district of each student. Also, included in general education revenue is the state aid portion of a charter pupil's district of residence excess levy referendum. Finally, the operating capital component of general education revenue may be used for any purpose by the charter school.
2. Special Education Aid - Charter schools receive special education aid just as school districts do, and are allowed to bill a disabled student's resident school district for any eligible special education costs that are unreimbursed. ***Beginning in Fiscal Year 2015, charter schools will be required to cover 10 percent of unfunded special education costs, reducing the amount of unreimbursed costs borne by the resident district from 100 percent to 90 percent.***
3. Charter School Building Lease Aid - Charter schools with building leases qualify for aid equal to 90 percent of the approved cost of the lease, or \$1,200 per pupil, whichever is less.
4. Other aid, grants, and revenue - A charter school is eligible to receive other aids, grants, and revenue as though it were a school district, unless a property tax levy is required to obtain the money. Further, a charter school may receive money from any source for capital facilities needs.

## **Other Categorical Revenue**

1. **Abatement Revenue** - A replacement for anticipated property tax receipts because property valuation has been reduced after the levies were certified. The aid applies to equalized levies only; districts may make an adjustment levy the next year for the remaining revenue loss. Districts may also levy for the shortfall in abatement aid. [126C.46]
2. **Advanced Placement and International Baccalaureate Programs** - The state pays all Advanced Placement and International Baccalaureate exam fees for low income students, and a portion of those exam fees on a sliding scale based on income for all other students. The State also subsidizes a portion of the training costs for teachers in advanced placement or international baccalaureate courses. [120B.13]
3. **Consolidation Transition Revenue** - Districts that consolidate are eligible for state aid of \$200 per pupil unit in the first year of the consolidation and \$100 per pupil unit in the second year. The number of pupil units used to calculate this aid may not exceed 1,500. This funding is intended to cover early retirement costs of employees, operating debt of the districts, enhancing learning opportunities and for other costs of reorganization. If this aid is not adequate to cover the early retirement costs, the district may levy for the additional amount. [123A.485]
4. **Achievement and Integration Revenue** - This revenue is paid approximately 70 percent from state aid and 30 percent from local levy. Beginning in FY 2014, an eligible district's initial achievement and integration revenue equals the sum of (1) \$350 times the district's adjusted pupil units for that year times the ratio of the district's enrollment of protected students for the previous school year to total enrollment for the previous school year and (2) the greater of zero or 66 percent of the difference between the district's integration revenue for fiscal year 2013 and the district's integration revenue for fiscal 2014. In addition, "incentive" revenue of \$10 per adjusted pupil unit may be generated, provided the district is implementing a voluntary plan to reduce racial and economic enrollment disparities as part of its achievement and integration plan. Each year, .3 percent of a district's achievement and integration revenue is transferred to the department for oversight and accountability activities.

In order to receive revenue under the Achievement and Integration Revenue program districts must:

- (1) Develop a three year Achievement and Integration plan; the plan must be incorporated into the district's comprehensive strategic plan;
- (2) Have the school board approve the plan and corresponding budget; both must be submitted to the department for review by March 15 of the year prior to implementation;
- (3) Hold at least one formal annual hearing to publicly report its progress in realizing its goals;
- (4) Limit the amount of revenue spent on administrative services to no more than 10 percent.

If the district is not meeting the goals outlined in its plan, the Commissioner has the authority to withhold up to 20 percent of the district's achievement and integration revenue and use it to help the district implement an improvement plan. [124D.861]

5. **Library Basic Support Aid** - Aid to regional public libraries for operations, interlibrary programs and services. Can be used for data and video access costs, improving or maintain electronic access, and connecting the library system with the state information infrastructure. [134.35]

6. Literacy Incentive Aid - Schools are eligible for additional aid based on how well students in the third grade read (called “Proficiency Aid”), and how much progress is being made between the third and fourth grades in reading skills (called “Growth Aid”). Proficiency aid is calculated by multiplying \$530 times the average percentage of students in a school that meet or exceed proficiency over the current year and previous two years on the third grade reading portion of the Minnesota Comprehensive Assessment, multiplied by the number of students enrolled in the third grade at the school in the previous year. Similarly, Growth aid is calculated by multiplying \$530 times the percentage of students that make medium or high growth on the fourth grade reading Minnesota Comprehensive Assessment multiplied by the previous year’s fourth grade student count. [124D.98]
7. Multicounty, Multitype Library System Grants - Multicounty or multitype libraries are eligible to receive grants for development or operations. Consideration of costs for sparsely populated or large geographic areas must be made when the grants are made. [134.353]
8. Nonpublic Pupil Aid - Public school districts receive aid to fund services and textbooks for the benefit of nonpublic school students. The funding can be used for secular textbooks and other instructional materials, and the services include health services and secondary guidance and counseling services. The textbook funding level is set at the average amount expended in public schools per pupil for similar materials in the second prior year, multiplied by a factor equal to the growth in the basic formula amount between the second prior year and the current year. Similarly, health services are reimbursed on a per pupil basis to the public school district at the rate of the lesser of their actual cost or the average cost of providing those services to public school students in the second prior year, and guidance and counseling services are reimbursed on a per secondary pupil basis at the rate of the lesser of their actual cost or the average cost of providing those services to public school secondary students in the second prior year. [123B.40-123B.48]
9. Nonpublic Pupil Transportation - Nonpublic pupil transportation revenue is equal to the cost per pupil of providing transportation services in the base year (the second prior year, for 2013-14 the base year is 2012-13) and then adjusted for the change in the general education formula allowance between the current year and the base year. [123B.92]
10. Regional Library Telecommunications Aid - For regional public library systems to cover data and video access, maintenance, equipment, or installation of telecommunications lines. [134.47]
11. Safe Schools Levy - A district may levy up to \$30 per pupil unit for the costs of peace officers used for school liaison services, drug prevention programs, gang resistance education programs, voluntary opt-in suicide prevention tools and security costs in the district’s schools and on school property. The levy may also be used for school counselors, nurses, social workers, psychologists, and alcohol and chemical dependency counselors. Districts that are members of intermediate school districts may also levy an additional \$10 for these same purposes. [126C.44]  
***Beginning in Fiscal Year 2015, districts may levy an additional \$4 per pupil unit for school safety activities. Due to pupil weighting changes scheduled to take effect in Fiscal Year 2015, the statutory amount is noted as \$36 per pupil unit. Additional authorized uses include: facility security enhancements, efforts in improve school climate and costs associated with mental health services.***



12. School Breakfast Aid - Schools are eligible to receive 55 cents for each fully paid breakfast and 30 cents each reduced price breakfast served. Districts that receive school breakfast aid must provide breakfast without charge to those students eligible for free and reduced price meals. [124D.1158]
13. School Lunch Aid - Schools are eligible to receive up to 12.5 cents of state funding for each lunch served. [124D.111]

## Adult Basic Education

Adult Basic Education (ABE) provides instruction to eligible adults in basic academic skill areas of reading, writing, speaking and math. ABE courses include workforce instruction, literacy tutoring, English proficiency for speakers of other languages, citizenship training, work readiness, high school diploma instruction, and transition to post-secondary education. ABE participants must be over 16 years of age and currently not attending secondary or elementary education. Programs are delivered primarily through public school districts as well as through collaboration non-profit organizations, community and technical colleges and state and local correctional institutions. School districts may cooperate and form an ABE consortium, working with other districts and combining ABE aid. School boards and consortiums offering an ABE program may charge a sliding scale fee for students over 21 who are able to pay. [124D.52, 124D.531]

ABE aid has four components, which are connected to the needs of ABE students: basic population aid, contact hour aid, English Learner (EL) aid and aid for adults over age 20 with no diploma. Basic population aid is equal to the greater of \$3,844 or \$1.73 times the population of the district. Once basic population aid is subtracted from the state appropriation for ABE, the balance is distributed as follows:

- 84 percent for contact hour aid, distributed to ABE providers based on the total number of contact hours provided during the prior program year. Money is distributed based on the number of contact hours provided in the prior year multiplied by a variable dollar rate which is based on the total number of contact hours and the available funds. Contact hour aid cannot grow from the previous year by an amount equal to the greater of 11 percent of the prior year or \$10,000.
- 8 percent for EL aid, distributed based on the proportion of the state's K-12 EL student enrollment at the ABE program.
- 8 percent for high school diploma aid based on the school district population of adults over age 20 who do not have a high school diploma.

### Example – Adult Basic Education Aid

#### Gopherville School District

|                             |   |          |
|-----------------------------|---|----------|
| District Population         | = | 39,000   |
| Contact Hours               | = | 16,000   |
| Contact Hour Rate *         | = | \$5.31   |
| Prior Year Contact Hour Aid | = | \$72,000 |
|                             |   |          |
| EL Enrollment               | = | 65       |
| EL Rate *                   | = | \$45.98  |
|                             |   |          |
| Over 20, No Diploma Count   | = | 1,000    |
| Over 20, No Diploma Rate *  | = | \$5.72   |

\* Rates are calculated by the Department of Education and are based on the available appropriation and the census in each type of these types of funding. Rates stated here are the rates based on the statutory entitlement.

$$\begin{aligned}
 \text{Basic Population Aid} &= \$1.73 \times \text{District Population} \\
 &= \$1.73 \times 39,000 \\
 &= \$67,470
 \end{aligned}$$

$$\begin{aligned}
 \text{Contact Hour Aid} &= \text{Contact Hour Rate} \times \text{Contact Hours} \\
 &= \$5.31 \times 16,000 \\
 &= \$84,960
 \end{aligned}$$

$$\begin{aligned}
 \text{EL Aid} &= \text{EL Rate} \times \text{EL Enrollment} \\
 &= \$45.98 \times 65 \\
 &= \$2,989
 \end{aligned}$$

$$\begin{aligned}
 \text{Over 20, No Diploma} &= \text{Over 20, No Diploma Rate} \times \text{Over 20, No Diploma Count} \\
 &= \$5.72 \times 1,000 \\
 &= \$5,720
 \end{aligned}$$

$$\begin{aligned}
 \text{ABE Aid Total} &= \text{Basic Population Aid} + \text{Contact Hour Aid} \\
 &\quad + \text{EL Aid} + \text{Over 20, No Diploma Aid} \\
 &= \$67,470 + \$84,960 + \$2,989 + \$5,720 \\
 &= \$161,139
 \end{aligned}$$

### Adults with Disabilities

As a part of the Community Education program, districts may offer programs for adults with disabilities. The adults with disabilities program supports activities such as increasing public awareness of the roles of people with disabilities, classes for adults with disabilities, outreach and marketing strategies to identify and encourage adults needing service, and services that meet consumer needs and enhance the role and contribution of people with disabilities in communities. Districts receive revenue equal to actual program expenditures up to \$60,000, with that revenue split one-half aid and one-half levy. Districts may receive additional revenue from public or private sources that will not change the aid amount paid by the State. [124D.19, subd 7 & 8, 124D.56]

#### Example – Adults with Disabilities Revenue

##### Gopherville School District

Adults with Disabilities Program Cost        =        \$40,000

Revenue        =        Program Cost, up to \$60,000  
                     =        \$40,000

Levy            =        Revenue x 0.5  
                     =        \$40,000 x 0.5  
                     =        \$20,000

Aid             =        Revenue x 0.5  
                     =        \$40,000 x 0.5  
                     =        \$20,000

## Early Learning Scholarships



The 2013 legislature enacted a significant expansion of the Early Education Scholarship Program. The Program provides scholarships to high need children between the ages of three and five, to expand access to high quality pre-school programs. Priority will be given to students based on family income, child poverty and geographic area. A total of \$23 million in scholarships will be awarded annually, with each scholarship worth up to \$5,000 per student. The program was piloted with funding from a federal “Race to the Top - Early Learning Challenge Grant.” The Office of Early Learning within the Minnesota Department of Education is administering the program. [124D.142 and 124D.65]

## Community Education

Community education programs provide learning and involvement opportunities for people of all ages including providing school district residents with the opportunity to utilize educational facilities and programs during non-school hours. Community Education programs may also be offered to K-12 students during the summer and other non-school times, and fees for those programs may be charged. Community Education revenue may also be used for educational programming including: adults with disabilities, school age care, ABE, School Readiness and ECFE.

Community education revenue is equal to \$5.42 multiplied by the population of the district (per capita), or 1,335, whichever is greater. A district that implements a youth service program is also eligible for an additional \$1.00 per capita. Districts with a Youth After-School Enrichment Program also receive \$1.85 times the greater of (a) 1,335 residents or (b) the population of the district, up to 10,000. Districts with populations over 10,000 offering a Youth After-School Enrichment Program also receive \$0.43 times the population greater than 10,000 in the district. To be eligible for its full community education revenue, a district must levy a maximum rate of .94 percent of its adjusted net tax capacity, with the rate limited so that the levy may not exceed total annual revenue. [124D.20]

First, the calculation for a district WITHOUT an After School Youth Enrichment Program:

### Example – Community Education Revenue

#### Gopherville School District

|                                  |   |             |
|----------------------------------|---|-------------|
| District Population              | = | 13,000      |
| Adjusted Net Tax Capacity (ANTC) | = | \$2,000,000 |
| Youth Service Program?           | = | Yes         |
| After School Enrichment Program? | = | No          |

#### Community Education Rate

|   |   |
|---|---|
| = | Community Education Rate + Youth Service Rate (if applicable) |
| = | \$5.42 + \$1.00 = \$6.42                                      |

#### Community Education Revenue

|   |   |
|---|---|
| = | Community Education Rate x the greater of: (a) 1,335 or (b) District Population |
| = | \$6.42 x the greater of: (a) 1,335 or (b) 13,000                                |
| = | \$6.42 x 13,000   |

$$= \$83,460$$

$$\begin{aligned}\text{Community Education Levy} &= .94 \text{ percent} \times \text{ANTC} \\ &= .0094 \times \$2,000,000 \\ &= \$18,800\end{aligned}$$

$$\begin{aligned}\text{Community Education Aid} &= \text{Community Education Revenue} - \text{Community Education Levy} \\ &= \$83,460 - \$18,800 \\ &= \$64,660\end{aligned}$$

Now, the calculation for community education revenue for a district WITH an After School Youth Enrichment Program:

Loon Lake School District

$$\begin{aligned}\text{District Population} &= 13,000 \\ \text{Adjusted Net Tax Capacity (ANTC)} &= \$2,000,000 \\ \text{Youth Service Program?} &= \text{Yes} \\ \text{After School Enrichment Program?} &= \text{Yes}\end{aligned}$$

$$\begin{aligned}\text{Community Education Rate} &= \text{Community Education Rate} + \text{Youth Service Rate (if applicable)} \\ &= \$5.42 + \$1.00 = \$6.42\end{aligned}$$

$$\begin{aligned}\text{Regular Community Education Revenue} &= \text{Community Education Rate} \times \text{the greater of: (a) 1,335 or (b) District Population} \\ &= \$6.42 \times \text{the greater of: (a) 1,335 or (b) 13,000} \\ &= \$6.42 \times 13,000 \\ &= \$83,460\end{aligned}$$

$$\begin{aligned}\text{Youth After School Enrichment Program Revenue} &= \$1.85 \times \text{the lesser of: (a) District Population or (b) 10,000} \\ &\quad + \$0.43 \times \text{District Population over 10,000} \\ &= (\$1.85 \times 10,000) + (0.43 \times 3,000) \\ &= \$18,500 + \$1,290 \\ &= \$19,790\end{aligned}$$

$$\begin{aligned}\text{Total Community Education Revenue} &= \text{Regular Revenue} + \text{Youth After School Revenue} \\ &= \$83,460 + \$19,790 \\ &= \$103,250\end{aligned}$$

$$\begin{aligned}\text{Community Education Levy} &= 0.94 \text{ percent} \times \text{ANTC} \\ &= .0094 \times \$2,000,000 \\ &= \$18,800\end{aligned}$$

$$\begin{aligned}\text{Community Education Aid} &= \text{Community Education Revenue} - \text{Community Education Levy} \\ &= \$103,250 - \$18,800 \\ &= \$84,450\end{aligned}$$

### **Early Childhood and Family Education**

As a part of the Community Education program, districts may offer an Early Childhood and Family Education (ECFE) program providing educational services to expectant parents and the parents and other relatives of children between birth and kindergarten. To the extent that funds are insufficient to serve all eligible children, the program must focus on children from birth to age three. School districts must also establish a reasonable sliding fee for ECFE classes and must waive fees for any participant unable to pay. ECFE program revenue is equal to \$120 times the number of children under age five in the school district or 150, whichever is greater. For 2013-14, districts must have certified a levy at a tax rate of .401846 percent to be eligible for the full ECFE revenue (but the total levy cannot exceed a district's total revenue for the year). The tax rate is based on a statutory requirement that in total, districts must levy \$22.1 million statewide for ECFE revenue. In addition, a district may also levy an additional \$1.60 per child under age 5 for a home visiting program. [124D.13; 124D.135]

#### **Example – ECFE Revenue**

##### **Gopherville School District**

|                                  |   |             |
|----------------------------------|---|-------------|
| Children under Age 5             | = | 1,000       |
| Adjusted Net Tax Capacity (ANTC) | = | \$2,000,000 |

$$\begin{aligned}\text{ECFE Revenue} &= \text{Children Under Age 5} \times \$120 \\ &= 1,000 \times \$120 \\ &= \$120,000\end{aligned}$$

$$\begin{aligned}\text{ECFE Levy} &= .401846 \text{ percent} \times \text{ANTC} \\ &= .00401846 \times \$2,000,000 \\ &= \$8,037\end{aligned}$$

$$\begin{aligned}\text{ECFE Aid} &= \text{ECFE Revenue} - \text{ECFE Levy} \\ &= \$120,000 - \$8,037 \\ &= \$111,963\end{aligned}$$

$$\begin{aligned}\text{Home Visiting Levy} &= \text{Children Under Age 5} \times \$1.60 \\ &= 1,000 \times \$1.60 \\ &= 1,600\end{aligned}$$

## School Readiness

The School Readiness program prepares children ages three to five to enter kindergarten. A School Readiness program must assess each child at program entrance and exit, and provide a comprehensive program based on early childhood research and professional practice.



Half of the state appropriation for school readiness aid is divided among school districts in direct proportion to the number of four-year-old children in the district, compared to the number of four-year-olds in the state, and half of the state appropriation for school readiness aid is divided among school districts in direct proportion to the number of students in the district from families eligible for free and reduced price lunches, compared to the number of students from families eligible for free and reduced price lunches in the state. Districts must adopt a sliding fee schedule based on family income, but must waive the fee if a participant is unable to pay.

Districts must use state aid to serve children with at least one of the following risk factors: qualifies for free or reduced-price lunch; is an English language learner; is homeless; has an individualized education plan (IEP) or an individual interagency intervention plan (IIIP); is identified, through early childhood health and developmental screening, as having a potential risk factor that may influence learning; or, is defined as at risk by the school district. Children who do not meet these eligibility criteria may still participate in School Readiness, but only on a fee-for-service basis.  
[124D.15; 124D.16]

### Example – School Readiness Revenue

#### Gopherville School District

|  |   |              |
|--|---|--------------|
| Four-year-old Children in the District             | = | 200          |
| Four-year-old Children in the State                | = | 50,000       |
| District Students - Free or Reduced Lunch Families | = | 500          |
| State Students - Free or Reduced Lunch Families    | = | 250,000      |
| State School Readiness Aid, 2013-14                | = | \$10,095,000 |

#### School Readiness Aid

$$\begin{aligned} &= (\text{District Four-year-olds} / \text{State Four-year-olds}) \times (50\% \text{ of State School Readiness Aid}) \\ &+ (\text{District Free-Reduced Students} / \text{State Free-Reduced Students}) \times (50\% \text{ of State School Readiness Aid}) \\ &= ((200 / 50,000) \times (.5 \times \$10,095,000)) + ((500 / 250,000) \times (.5 \times \$10,095,000)) \\ &= (.004 \times \$5,047,500) + (.002 \times \$5,047,500) \\ &= \$20,190 + \$10,095 \\ &= \$30,285 \end{aligned}$$



### School Aged Care / Disabled

Districts with a Community Education program may offer a School Age Care Program for children in kindergarten through grade 6 for the purposes of expanding learning opportunities when school is not in session. Districts may charge participants a sliding fee based on family income, and may receive money from private or other public sources for School Age Care Programs. Districts are eligible for school age care revenue for the additional cost of providing services to children with disabilities or to children experiencing family or related problems of a temporary nature that participate in the school age care program. Revenue is equal to the approved additional cost of providing services to children with disabilities or children experiencing family or related problems of a temporary nature that participate in a school age care program. School aged care revenue is an equalized aid and levy, but has an equalizing factor of only \$2,318. Because of this low equalizing factor, nearly all revenue is in the form of local levy. [124D.19, 11; 124D.22]

#### Example – School Aged Care Revenue

##### Gopherville School District

|  |   |             |
|--|---|-------------|
| Pupil Units                            | = | 1,000       |
| Adjusted Net Tax Capacity (ANTC)       | = | \$2,000,000 |
| District ANTC per Pupil Unit           | = | \$2,000     |
| Equalizing Factor for School Aged Care | = | \$2,318     |
| Approved School Aged Care Revenue      | = | \$75,000    |

Revenue = Amount approved as additional cost  
= \$75,000

Levy = Revenue x Lesser of: (a) 1, or (b)  $\frac{\text{District ANTC per P.U.}}{\$2,318}$

= Revenue x Lesser of: (a) 1, or (b)  $\frac{\$2,000}{\$2,318}$

= Revenue x Lesser of: (a) 1, or (b) .863

= \$75,000 x .863

= \$64,725

Aid = Revenue – Levy

= \$75,000 - \$64,725

= \$10,275

### **Other Categorical Family and Early Childhood Revenues**

1. GED Test Fee - Reimbursement of 60 percent of a fee charged for the full general education development (GED) test. Reimbursement cannot exceed \$40 per individual. [124D.55]
2. Head Start - Head Start is a federal program, with additional state funding, provided to low-income children ages birth to five and their families. The program is designed to meet emotional, social, health, nutritional and psychological needs of the children, and promote the economic self-sufficiency of the parents. There are 34 Head Start grantees, including 23 community action agencies, 3 single purpose agencies, 1 school district and Tribal governments. State funds are allocated based on: (1) grantees' share of federal Head Start funds, and; (2) grantees' proportion of eligible children in the grantee service area who are not being currently served. [119A.50; 119A.51; 119A.52; 119A.53]
3. Health and Development Screening Aid - School districts receive State aid for health and developmental screening services provided to children ages 3 through 6, prior to or within 30 days of enrollment in a public school kindergarten. The reimbursement rates are \$75 for each three-year-old screened, \$50 for each four-year-old screened and \$40 for each five-year-old or six-year-old screened prior to kindergarten enrollment; and \$30 for children who have not previously been screened and are screened within 30 days after first enrolling in kindergarten. Screening is required for public school enrollment. A child need not submit to developmental screening provided by a school district if the child's health records indicate they have received comparable developmental screening from a public or private health care organization or individual health care provider, or if the child's parent or guardian submits to the school a signed statement that the child has not been screened because of conscientiously held beliefs of the parent or guardian. [121A.16; 121A.17; 121A.18; 121A.19]
4. Hearing Impaired Adults - A program which provides interpreters or note-taker services for adults with hearing impairments wishing to continue their education on a part-time basis. Grantees include local school district adult education programs, adult technical college programs and vocational educational programs sponsored by public/private community agencies. [124D.57]

## Property Tax Relief Aids

Property tax aids are intended to replace property tax levies with state payments for local taxing jurisdictions. Property tax credits reduce property taxes with state payments for individual taxpayers. In both cases, the effect is that the property tax payer pays less than what the taxes would otherwise be on the property, and the state makes up the difference with state payments to the taxing district. The major tax relief programs are the market value homestead exclusion, the market value agriculture credit, referendum tax base replacement aid, county program aid and local government aid. Most school districts receive some level of aid under all of these programs except county program aid and local government aid, which are available only to counties and cities respectively.

Another major property tax relief program is the Homestead Credit Refund (formerly the Property Tax Refund Program). It does not reduce individual property tax amounts, but rather, provides refunds to property tax payers based on the relationship between their income and property tax amount. Property tax payers with low incomes relative to their property tax bills have a portion of their tax refunded. Renters are also eligible to receive a property tax refund based on the assumption that a portion of their rent is property taxes.

### Market Value Exclusion

The market value exclusion replaces the market value homestead credit, and reduces the overall property tax burdens for homeowners, particularly for low-valued homes. The exclusion reduces the taxable market value of all residential homesteads, including the house, garage, and one-acre of farm homesteads, and equals 0.4 percent multiplied by the market value of the property up to a maximum exclusion of \$30,400 with the exclusion being phased out for home values over \$76,000. The rate of phase-out equals 9 percent times the market value above \$76,000, resulting in the credit being fully phased-out for homes valued at \$413,800 or more.



### Market Value Agricultural Credit

The market value agricultural credit reduces the overall property tax burdens for farmers, particularly for low-valued agricultural homesteads. The credit applies to all agricultural homesteads, but does not apply to the house, garage, and surrounding one acre of farmland, since that portion of the property benefits from the homestead credit. The credit equals 0.3 percent multiplied by the market value of the agricultural portion of the property up to a maximum credit amount of \$345, with the credit being partially phased out for land values over \$115,000. The credit begins to phase down between \$115,000 and \$345,000 in value. Agricultural homesteads with values of \$345,000 and higher receive a credit of \$230.



### Referendum Tax Base Replacement Aid

Operating referendum levies are not assessed on agricultural land or non-commercial seasonal recreational property (cabins, for example). In order to prevent the shift of tax burden for referendum levies from these types of properties to other classes of property, districts are paid referendum tax base replacement aid. Payments to school districts equal the amount of taxes cabins and farms would have otherwise paid for existing levies had they not been exempted, based on referendum amounts in existence in 2003.

### **Property Tax Calculation - Residential Property**

Tax Calculation for Homestead Property in a City  
(For Property Taxes Payable in 2013)

$$\begin{array}{lcl} \text{Estimated Market Value} & = & \$185,000 \\ \text{Class Rate} & = & 1\% \end{array}$$

$$\begin{array}{lcl} \text{Taxable Market Value} & = & \text{Estimated Market Value} - \text{Exclusion} * \\ & = & \$185,000 - \$20,600 \\ & = & \$164,400 \end{array}$$

$$\begin{array}{lcl} \text{Tax Capacity} & = & \text{Taxable Market Value} \times \text{Class Rate} \\ & = & (164,400 \times .01) \\ & = & \$1,644 \end{array}$$

$$\begin{array}{lcl} \text{Tax Capacity Net Tax} & = & \text{Tax Rate} \times \text{Tax Capacity} \\ & = & \text{Tax Rate} \times \$1,644 \end{array}$$

$$\begin{array}{lcl} \text{Market Value Net Tax} & = & \text{Tax Rate} \times \text{Estimated Market Value} \\ & = & \text{Tax Rate} \times \$185,000 \end{array}$$

| <b>Calculation of Tax</b> | <i>Tax Capacity</i> |              | <i>Market Value</i> |                |
|---------------------------|---------------------|--------------|---------------------|----------------|
|                           | Tax<br>Rate         | x<br>\$1,644 | Tax<br>Rate         | x<br>\$185,000 |
| County Rate               | 51.7%               | \$850        | 0.0%                | \$0            |
| City Rate                 | 38.3%               | \$630        | 0.0%                | \$0            |
| School Rate               | 25.4%               | \$418        | 0.2%                | \$370          |
| Special Rate              | 5.0%                | \$82         | 0.0%                | \$0            |
| Gross Tax                 | 120.4%              | \$1,980      | 0.2%                | \$370          |

$$\begin{array}{lcl} \text{Net Tax} & = & \text{Tax Capacity Net Tax} + \text{Market Value Net Tax} \\ & = & \$1,980 + \$370 \\ & = & \$2,350 \end{array}$$

#### **\* Calculation of the Market Value Homestead Exclusion**

Maximum Exclusion = \$30,400

$$\begin{array}{lcl} \text{Phase-out portion} & = & (\$185,000 - \$76,000) \times .09 \\ & = & \$109,000 \times .09 \\ & = & \$9,800 \end{array}$$

$$\text{Exclusion} = \$30,400 - \$9,800 = \$20,600$$

## **Property Tax Calculation - Agricultural Homestead Property**

Tax Calculation for Agricultural Homestead

(For Property Taxes Payable in 2013)

|  |      |           |
|--|------|-----------|
| Estimated Market Value                       | =    | \$295,000 |
| Home, Garage & 1 Acre Estimated Market Value | =    | \$ 85,000 |
| Farm Land Estimated Market Value             | =    | \$210,000 |
| Class Rate = For Home, Garage and 1 acre:    | 1.0% |           |
| For Agriculture land:                        | 0.5% |           |

|                          |                   |
|--------------------------|-------------------|
| Taxable Market Value=    | Est. Market Value |
| (House, Garage & 1 Acre) | - Exclusion       |
| * (next page)            |                   |
|                          | = \$85,000 -      |
| \$29,590                 | = \$55,410        |

|                    |   |                        |
|--------------------|---|------------------------|
| Tax Capacity       | = | Taxable Market Value x |
| Class Rate         |   |                        |
| Tax Capacity, Home | = | (\$55,410 x .01)       |
|                    | = | \$554                  |
| Tax Capacity, Land | = | (210,000 x .005)       |
|                    | = | \$1,050                |

Tax Capacity, Home and Farmland = \$554 + \$1,050 = \$1,604

Tax Capacity Gross Tax = Tax Rate x Tax Capacity  
 = Tax Rate x \$1,604

Market Value Net Tax = Tax Rate x Market Value  
 = Tax Rate x \$85,000 \*\* (next page)

| <b>Calculation of Tax</b>        | <i>Tax Capacity</i> | <i>Market Value</i> |
|----------------------------------|---------------------|---------------------|
|                                  | Tax x Tax           | Rate x              |
|                                  | Rate \$1,604        | Rate \$85,000       |
| County Rate                      | 51.7% \$829         | 0.0% \$0            |
| Township Rate                    | 8.3% \$133          | 0.0% \$0            |
| School Rate                      | 25.4% \$407         | 0.2% \$170          |
| Special Rate                     | 5.0% \$80           | 0.0% \$0            |
| Tax Capacity Gross Tax           | 90.4% \$1,449       |                     |
| Agriculture Credit * (next page) | \$297               |                     |
| Market Value Net Tax             |                     | 0.2% \$170          |
| Total Net Tax                    | \$1,152             | + \$170             |
|                                  |                     | = \$1,322           |

**\* Calculation of Market Value Homestead Exclusion and the Market Value Agricultural Credit**

**Market Value Homestead Exclusion**

$$\text{Maximum Exclusion} = \$30,400$$

$$\text{Phase-out portion} = (\$85,000 - 76,000) \times .09$$

$$= \$9,000 \times .09$$

$$= \$810$$

$$\text{Exclusion} = \$30,400 - \$810 = \$29,590$$

**Market Value Agriculture Credit**

$$\text{Maximum Credit} = \$345$$

$$\text{Phase-out portion} = (\$210,000 - 115,000) \times .0005$$

$$= \$95,000 \times .0005$$

$$= \$48$$

$$\text{MV Ag Credit} = \$345 - \$48 = \$297$$

\*\* Farm land is excluded from Market Value for most school levies that are levied against Market Value, so this example excludes the farm land from the Market Value used to calculate the Market Value Net Tax.

## Effect of Tax Relief Aids on School District Revenue

### Gopherville School District

|   |   |             |
|---|---|-------------|
| Total Property Tax Levies Certified by the School Board | = | \$1,670,000 |
| Total Direct State Education Aid Payments               | = | \$2,435,000 |

Sum of the portion of the Agriculture Homestead Credit allocated to school levy, summed for all agriculture homesteads in the school district = \$95,000

|             |   |                                     |   |                            |
|-------------|---|-------------------------------------|---|----------------------------|
| Levy        |   | Agricultural<br>Homestead<br>Credit |   | Net School<br>Property Tax |
| \$1,670,000 | - | \$95,000                            | = | \$1,575,000                |

This is the amount of school property tax that will actually be received from property owners in the school district after reductions for the agriculture homestead credit.

The district receives the amount of the agriculture homestead credit as state aid in addition to other state aid paid on education funding formulas.

|                              |   |                                    |   |                             |
|------------------------------|---|------------------------------------|---|-----------------------------|
| Direct State<br>Aid Payments |   | Agriculture<br>Homestead<br>Credit |   | Total State<br>Aid Payments |
| \$2,435,000                  | + | \$95,000                           | = | \$2,530,000                 |

**Education Finance Appropriations\***

Fiscal Years 2013-14 and 2014-15

(\$ in thousands)

|  | FY 2013-14  | FY 2014-15  | Biennium     |
|--|-------------|-------------|--------------|
| General Education                      | \$6,687,211 | \$6,481,433 | \$13,168,644 |
| Education Excellence                   | \$183,759   | \$238,429   | \$422,188    |
| Charter Schools                        | \$56,470    | \$59,714    | \$116,184    |
| Special Programs                       | \$1,078,724 | \$1,113,073 | \$2,191,797  |
| Facilities and Technology              | \$47,685    | \$52,503    | \$100,188    |
| Nutrition and Libraries                | \$38,618    | \$38,584    | \$77,202     |
| Early Childhood and Life-Long Learning | \$131,154   | \$129,779   | \$260,933    |
| Education Department                   | \$24,021    | \$20,808    | \$44,829     |
| Minnesota State Academies              | \$11,749    | \$11,664    | \$23,413     |
| Center for Arts Education              | \$6,773     | \$6,773     | \$13,546     |
| Total Appropriations                   | \$8,266,164 | \$8,152,760 | \$16,418,924 |

State appropriations for programs are different than the revenue calculated based on the formula for those programs due to the statutory requirement that the state pay most education aids over a two year period, with a majority percentage of the current year's entitlement paid in the current year, plus the balance of the previous year's entitlement, which is adjusted for changes in formula variables (pupil counts, for example). For 2013-14, State appropriations equal 90 percent of the current year entitlement, and the final 13.6 percent payment from the prior year, 2012-13. [127A.45]

When these aid payment percentages are changed, there are significant changes in the State appropriations above, mostly on a one-time basis. For example, the change from 64.3 percent to 86.4 percent in 2012-13 increased the State aid appropriation for that year by over \$1.5 billion.

\*Appropriations include education finance related changes enacted in the Omnibus Tax Bill (2013 Sessions Laws, Chapter 143).



### **School District Property Tax Levies**

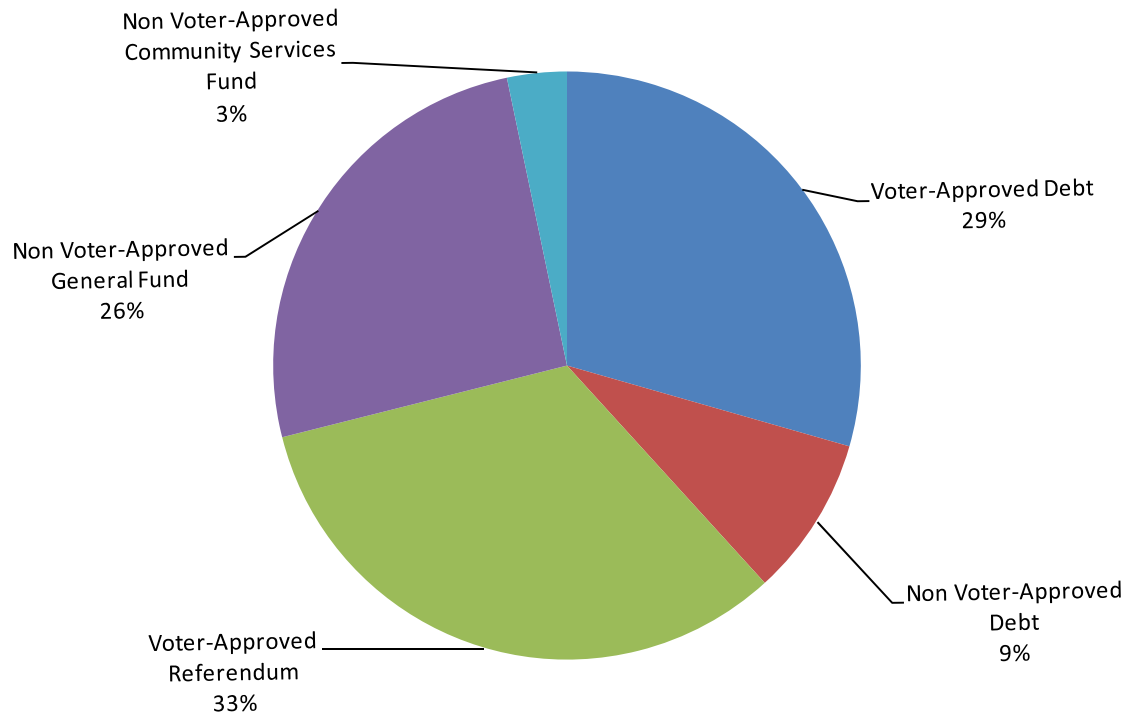
Fiscal Years 2013-14 and 2014-15

|  | FY 2013-14<br>Payable 2013 | FY 2014-15<br>Est. Payable 2014 |
|--|----------------------------|---------------------------------|
| General Fund                             | \$ 1,359,737,800           | \$ 1,440,181,685                |
| Debt Service Fund                        | \$ 815,544,700             | \$ 843,494,200                  |
| Other Post-Employment Benefits Debt Fund | \$ 69,952,400              | \$ 68,842,000                   |
| Community Service Fund                   | \$ 76,203,000              | \$ 75,861,900                   |
| Total Levies                             | \$ 2,321,437,900           | \$ 2,428,379,785                |

These are the levies certified (before applying the tax relief aids) for a specific year. Levy figures for payable 2014 are the amounts that are certified for 2014 in the fall of 2013. Levies certified in the fall of 2013 are paid in May and October of 2014.

### **FY 2013-14, Pay 2013 Levies**

**Total Levy: \$2.3 billion**



## **Property Tax Relief Aid Payments to School Districts**

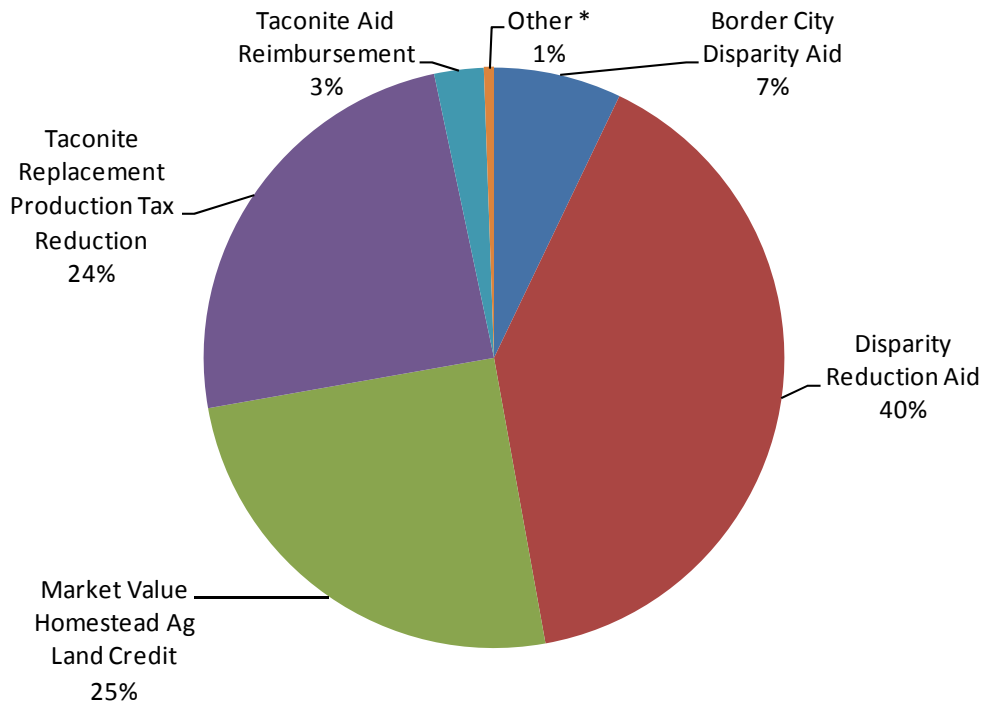
Fiscal Years 2013-14 and 2014-15

|   | <u>FY 2013-14</u>    | <u>FY 2014-15</u>    |
|---|----------------------|----------------------|
| Border City Disparity Aid                     | \$ 1,449,000         | \$ 1,451,000         |
| Disparity Reduction Aid                       | \$ 8,130,000         | \$ 8,139,000         |
| Market Value Homestead Ag Land Credit         | \$ 5,093,000         | \$ 5,064,000         |
| Taconite Replacement Production Tax Reduction | \$ 4,966,000         | \$ 5,020,000         |
| Taconite Aid Reimbursement                    | \$ 561,000           | \$ 561,000           |
| Other *                                       | \$ 115,000           | \$ 42,000            |
|   | <u>\$ 20,314,000</u> | <u>\$ 20,277,000</u> |

\* Other includes Disaster Credits and prior year adjustments

Tax relief aids are appropriated based on a percentage of the current year's entitlement plus the balance of the previous year's entitlement adjusted for changes in formula variables. Under current law for 2013-14, State appropriations equal 90 percent of the current year entitlement, and the final 13.6 percent from 2012-13 (when the aid payment percentage was set at 86.4 percent paid in the current year with 13.6 percent cleanup payment in the subsequent year). [127A.45]

### **Property Tax Relief Aid Payments 2013-14**



## **Education Revenue Sources**

This chart shows the revenue available for education from state and local sources. All state education finance appropriations including the Department of Education, Minnesota State Academies, the Minnesota Center for Arts Education, tax relief aid payments to districts, various dedicated revenues, and net education property tax levies are included. (Net levies are certified levies minus tax relief aids.) Federal revenues and fees charged by districts are not included. These are total revenue figures, not revenue per pupil unit.

### **School District Revenue** Fiscal Years 2013-14 and 2014-15

|                                   | <b>2013-14</b> | <b>2014-15</b> |
|-----------------------------------|----------------|----------------|
| Appropriations (1)                | 8,286,842,000  | 8,169,414,000  |
| Tax Credits                       | 20,314,000     | 20,277,000     |
| Net Levy (2)                      | 2,321,437,900  | 2,401,207,885  |
| Dedicated Funds (3)               | 41,588,789     | 41,610,789     |
| Total                             | 10,670,182,689 | 10,632,509,674 |
| <b>Percent from State Sources</b> | 78.4%          | 77.6%          |
| <b>Percent from Local Sources</b> | 21.6%          | 22.4%          |

(1) The calculation of State Appropriation includes a subtraction of one-time savings or expenditures related to changing the aid payment percentage or property tax recognition percentage. State appropriations for programs are different than the revenue calculated based on the formula for those programs due to the statutory requirement that the state pay most education aids over a two year period, with a majority percentage of the current year's entitlement paid in the current year, plus the balance of the previous year's entitlement, which is adjusted for changes in formula variables (pupil counts, for example). Under current law, for 2013-14, State appropriations equal 90 percent of the current year entitlement, and the final 13.6 percent payment from 2012-13. The state appropriation includes K-12 education appropriations (including state agencies), early childhood and family education appropriations, special TRA contributions for first class cities and maximum effort debt service.

(2) The property tax figure is the amount levied or estimated to be levied for the school year.

(3) Dedicated funds include permanent school fund, trunk highway fund, alcohol impaired driver account, county apportionment and taconite revenue.

## Education Revenue Sources

Fiscal Year 2014 Total State & Local Revenue: \$10,670,182,689

