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**UNDERSTANDING THE  
GENERAL EDUCATION  
FUNDING PROGRAM  
FY 2001-02**

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## Introduction

The General Education Program is the method by which school districts receive the majority of their financial support. Two goals of the general education program are to provide adequate funding for the operation of the basic education program and to equalize differences in ability to raise revenue because of differences in property wealth between school districts. The general education program is funded by a combination of state aid (from state collected taxes) and local property taxes. For the 2002-03 school year, the Legislature approved eliminating the general education levy.

This paper provides information on the various components of the general education program for the 2001-02 school year (fiscal year 2002). The ten components of the general education program are:

### 1. Basic General Education Formula Revenue

The basic general education formula establishes the base level of per pupil unit funding for the 345 school districts in Minnesota. The general education aid is determined by subtracting the amount raised by the general education levy (local property taxes) from the formula allowance. The legislature sets both the basic formula allowance and the general education levy in law for each school year.

The formula allowance is a per marginal pupil unit amount. To determine pupil units a weighting system and a system to dampen pupil losses during periods of decline is used. The weighting counts kindergarten pupils as .557 pupil units; grades 1-3 as 1.115 pupil units, grades 4-6 as 1.06, and grades 7-12 as 1.3 pupil units. After the weights are applied, a marginal pupil unit calculation is performed, so that a district's current year marginal pupil count is the greater of its actual weighted pupil count or 77 percent of the current year's weighted count plus 23 percent of the prior year's weighted count.

<u>School Year</u>	<u>Formula Allowance</u>	<u>Levy</u>
1991-92	\$3,050	26.4% adjusted net tax capacity rate
1992-93	\$3,050	27.6% adjusted net tax capacity rate
1993-94	\$3,050	30.7% adjusted net tax capacity rate
1994-95	\$3,150	34.9% adjusted net tax capacity rate
1995-96	\$3,205	34.2% adjusted net tax capacity rate
1996-97	\$3,505	40.8% adjusted net tax capacity rate
1997-98	\$3,581	37.4% adjusted net tax capacity rate
1998-99	\$3,530	36.9% adjusted net tax capacity rate
1999-2000	\$3,740	36.58% adjusted net tax capacity rate
2000-01	\$3,964	35.78% adjusted net tax capacity rate
2001-02	\$4,068	32.41% adjusted net tax capacity rate

The property tax level for the general education levy is set as a tax capacity rate (percentage). This rate is multiplied times the adjusted net tax capacity (ANTC) of the school district to determine the local levy. The ANTC is an adjusted total of the property value in the district.

The general education 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. Beginning in fiscal year 2003, the general education formula will cease to be equalized and funded fully with state aid.

For 2001-02, **the basic formula allowance is \$4,068 per pupil unit and the general education tax capacity rate is 32.41% (.3241).**

If the formula allowance (\$4,068) is divided by the tax capacity rate (.3241), the quotient is \$12,552. The relationship of a district's adjusted net tax capacity per pupil unit to this number (\$12,552) indicates how much basic general education revenue the district will receive from property taxes. If a district's property valuation per pupil unit is \$6,276, for example (50 percent of \$12,552), the district would receive 50 percent of its revenue from the general education property tax levy and 50 percent from state aid. If a district's adjusted net tax capacity per pupil unit is greater than \$12,552, that district will receive all of its basic revenue from the general education levy and be "off the formula."

This relationship can be looked at in another way. When a district makes a levy of 32.41 percent against net tax capacity, the state guarantees that the levy will raise \$4,068 per pupil unit in basic general education revenue. The state pays the difference between the amount raised by the district's levy of 32.41 percent and \$4,068 per pupil unit.

This relationship can be carried further by dividing the \$4,068 by 32.41% which equals \$125.52. For every 1% of tax capacity the district levies, the state guarantees revenue of \$125.52 per pupil unit. In a district where 1% of tax capacity raises \$40 per pupil unit, the state pays the remaining \$85.52. In a district where 1% of tax capacity raises \$125.52 or more per pupil unit, the state pays no general education aid. The basic general education aid makes up the difference between what 1% of tax capacity raises in a district and \$125.52 per pupil unit for each percent levied.

Several restrictions also apply to the basic general education revenue:

- An amount equal to .115 times the pupil units in kindergarten through grade three times the formula allowance and .06 times the fourth through sixth grade pupil units must be used for class size reduction in grades kindergarten through grade six.
- An amount equal to two percent of the per pupil basic formula amount (\$81.36 per pupil) must be spent for staff development. Each year, if a district's licensed teachers and school board agree via a vote, this requirement may be waived, and the revenue used for other purposes. In addition, a district in statutory operating debt is exempt from this reserve.
- \$11 per pupil must be reserved for all-day kindergarten, class-size reduction, or reducing special education student-to-instructor ratios.

There are several components of general education revenue in addition to the basic formula allowance. These additional components recognize factors that increase the costs of operating an educational program.

## 2. Basic Skills Revenue

Basic skills revenue began in the 1998-99 school year, and includes the former Compensatory, Limited English Proficiency (LEP), LEP concentration, and Assurance of Mastery revenues. While these revenues are combined into a single category, the funding available for Basic Skills revenue is based on existing 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 increases as the percent of free and reduced price pupils at a particular school site increases (however, the percent is capped).
- **Limited English Proficiency.** Districts receive LEP revenue based on the cost of providing services to students with limited proficiency in English. In addition, a per pupil amount is provided to districts with concentrations of LEP students. The per pupil funding increases as the concentration increases (though the concentration percentage is capped).
- **Assurance of Mastery Revenue.** Districts receive state aid of \$22.50 per K-8 pupil unit. This revenue is eliminated and rolled into the basic formula amount for fiscal year 2002-03.

All school districts will receive some portion of approximately \$275 million in basic skills revenue in 2001-02. (The \$275 million is based on approximately \$221 million in Compensatory revenue, \$40 million in the LEP revenues, and \$14 million in Assurance of Mastery revenue.)

## 3. Sparsity Revenue

Sparsity revenue provides additional revenue for small and isolated schools. This revenue acknowledges the higher cost of necessarily small education programs. Options to increase the number of students 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. About 74 districts receive a total of about \$13 million in sparsity revenue in 2001-02.

## 4. Operating Capital Revenue

Operating Capital Revenue replaces the capital expenditure facilities and capital expenditure equipment formulas. The operating capital formula has a component representing the former equipment formula (\$68 per pupil unit), a component representing the former facilities formula (\$100

times the district's maintenance cost index), and a component for FY 2001-02 to fund technology costs (\$5 per pupil unit). Operating capital revenue ranges from \$173 to \$222 per pupil unit per district in 2001-02 and totals \$198 million statewide.

## **5. Training and Experience Revenue**

Training and experience revenue is based on the experience and education of a school district's faculty. Beginning in the 1998-99 school year, only teachers hired prior to 1996-97 are counted for the purposes of computing a school district's training and experience revenue. 258 school districts qualify for Training and Experience Revenue amounts ranging up to \$110 per pupil unit, for a total of \$28 million statewide.

## **6. Transportation Sparsity Revenue**

Transportation Sparsity Revenue provides districts with additional funding based on the number of pupil units per square mile in the school district. Approximately \$50 million of transportation sparsity revenue is divided among all school districts, with revenue amounts per district ranging from \$0 to \$585 per pupil unit.

## **7. Equity Revenue**

Equity Revenue is intended to reduce the 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 total basic, transition, supplemental and referendum revenue. Any district which is below the 95<sup>th</sup> percentile of revenue in those four components combined is eligible for equity revenue, except districts in cities of the first class, which are automatically excluded.

A district without an excess levy referendum is eligible for \$10 per pupil. A district with an excess levy referendum is eligible for \$10 per pupil, plus an additional amount based on its percentile ranking. 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 four categories by the 95<sup>th</sup> percentile of revenue in those four categories. The result is multiplied by \$55. The product of that calculation is added to the basic \$10 to generate the district's equity revenue. Statewide, 324 districts qualify for the revenue, sharing a total of \$36 million.

## **8. Transition Revenue**

Transition revenue is intended to minimize the negative impact of formula changes on individual school district revenue. There are three components of transition revenue for the 2000-01 school year: transportation transition, compensatory transition and cooperation transition. In the 1996-97 school year the basic formula increased by \$170 per pupil unit, representing the "roll-in" of transportation revenue. Transition revenue assures that districts which, in the 1995-96 school year, had received more than 4.89% of the basic formula amount (which represents the \$170 adjusted for the 1996-97 formula amount) in transportation revenue (excluding the amounts reflected in the transportation sparsity revenue and the targeted needs transportation revenue) will continue to receive that amount as transition revenue.

In the 1997-98 school year, AFDC revenue was replaced with compensatory revenue, and the basis for calculating the compensatory revenue formula was changed from pupils receiving AFDC to pupils eligible for free and reduced priced lunches. This change resulted in a reduction in revenue for some districts. Compensatory transition revenue is the difference between what a district would have received in the 1997-98 school year under the AFDC formula and its current year compensatory revenue, but the amount can not be negative.

In the 2000-01 school year, the basic formula increased by \$67 per pupil unit, representing the “roll-in” of district cooperation revenue. Transition revenue assures that districts will receive at least what they would have received per pupil in 2000-01 under the old cooperation formula (which was \$67 per pupil, with a minimum of \$25,000 per district) for 2000-01 and later. Districts with 373 pupils or less would have been receiving over \$67 per pupil in revenue, so they would qualify for cooperation transition.

Transition revenue is an aid and levy combination based on a fixed equalizing factor of \$8,404. 121 school districts receive transition revenue, amounting to \$8 million for the 2000-01 school year.

## **9. Supplemental Revenue**

Supplemental Revenue was originally a grandfather revenue for some school districts. Beginning in 1993-94, supplemental revenue became a fixed amount. Since 1993-94, the amount of supplemental revenue has been adjusted twice. First, a district's supplemental revenue was reduced by the increase in the formula allowance between 1993-94 and 1994-95 (\$100) and by 25% of increases in training and experience revenue and compensatory revenue between 1993-94 and 1994-95. Second, supplemental revenue was increased for 1997-98 by the amount of post-secondary replacement aid a district had received in 1996-97. Beginning in 1999-2000, some districts were exempted from the first reduction, and two districts qualified for fixed supplemental revenue amounts. Beginning in 2001-02, two districts qualified for increased supplemental revenue amounts. Supplemental revenue is an aid and levy combination based on a fixed equalizing factor of \$8,404. 36 districts receive approximately \$10 million in supplemental revenue.

## **10. Referendum Revenue**

Referendum revenue allows districts to increase the revenue available in their general fund with the approval of the voters in the district. A referendum to increase the general fund revenue may be held only on the first Tuesday following the first Monday in November (election day) except that elections may be held at a different time if (a) the district is in statutory operating debt and receives commissioner's approval or (b) the election is held by mail. 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 25 percent of the basic general education formula allowance (\$1,017 in the 2001-02 school year). District referendum revenue may not exceed this amount except that if a district's referendum revenue is already above the capped amount, the district can maintain the higher level, but the amount may not be increased. In addition, if a district is eligible for sparsity revenue, it may exceed the referendum limit.

The first \$415 per pupil of a school district's referendum levy is equalized at \$476,000 of market value.

For the 2001-02 school year, 308 districts have referendum levies totaling \$369 million. In addition, most of those districts receive referendum equalization aid totaling \$179 million.

Referendum revenue was reduced by the general education formula increase between 1993-94 and 1994-95 (\$100). Also, revenue in excess of \$315 per pupil unit was reduced by 25 percent of increases in training and experience revenue and compensatory revenue between 1993-94 and 1995-96. (These reductions applied first to supplemental revenue, amounts remaining after the supplemental reduction applied to referenda.) However, in a district with a low fund balance, no supplemental revenue, low adjusted net capacity and a high referendum amount, the reduction may have been less than the increase in the formula allowance. Beginning in FY 2002-03, district referendum amounts will be reduced by \$415 per pupil.

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—with a tax advantage for agricultural property.) Districts with referendum levies calculated on ANTC may convert those levies to referendum market value over several years.