MINNESOTA

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I. GENERAL BACKGROUND

State

The General Education Revenue Program was initiated in 1988–89, replacing the Foundation Program and numerous categorical programs, including teacher retirement aid, summer school aid, and several smaller categoricals. All districts are provided equivalent revenue per pupil unit (adjusted for state-recognized cost factors) from a uniform level tax effort.

Beginning in 1992–93, state aid is provided to equalize a portion of the operating referendum levy and the debt service levy.

Beginning in 1993–94, the pupil unit weights for regular kindergarten and elementary students were increased to provide additional funding for class size reduction.

Beginning in 1996–97, funding for pupil transportation and operating capital were included in the general education revenue program.

Beginning in 1998–99, funding for limited English proficiency and assurance of mastery programs is included in the general education revenue program.

The general education revenue program includes 10 components: basic revenue, basic skills revenue, sparsity revenue, transportation sparsity revenue, training & experience revenue, operating capital revenue, graduation standards implementation revenue, transition revenue, supplemental revenue, and operating referendum revenue.
In 1998–99, general education revenue accounts for 84% of school district general fund revenues from state aid and property taxes, while special education revenue accounts for 9% of this revenue, and all other programs account for the remaining 7%.

State aid to school districts includes direct school aid, computed according to various education funding formulas (e.g., general education aid, categorical aids), and state-paid property tax relief (e.g., Education Homestead Credit Aid), which replaces a portion of the gross tax levy certified by local school boards. In addition to payments made by the state to school districts, homeowners and renters receive property tax refunds.

During most of the 1990s, the state share of total state-local tax revenue for elementary and secondary education remained fairly constant at about 62%. As a result of property tax relief enacted in 1997 and 1998, the state share increased to 66% in 1998–99, and will increase to about 69% beginning in 1999–2000.

Local

There are 350 fiscally independent school districts.

Local revenues are derived almost exclusively from property taxes.

School districts located on northeastern Minnesota’s iron range also receive taconite (iron ore) production tax revenues, which replace a portion of the property tax levy and state education aids.

Local non-tax revenues also include county apportionment, tuition, fees, gate receipts, interest earnings, rent, gifts and bequests.
**Funding Summary 1998–99**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total State School Aid (All Programs)*</td>
<td>$3,834 million</td>
</tr>
<tr>
<td>Grants in aid</td>
<td>3,834 million</td>
</tr>
<tr>
<td>Teacher Retirement Contributions</td>
<td>0 million</td>
</tr>
<tr>
<td>FICA</td>
<td>0 million</td>
</tr>
<tr>
<td>Total Local School Revenue</td>
<td>$2,588 million</td>
</tr>
<tr>
<td>Property Tax</td>
<td>1,980 million</td>
</tr>
<tr>
<td>Other local source tax revenue</td>
<td>28 million</td>
</tr>
<tr>
<td>Local source non-tax revenue</td>
<td>580 million</td>
</tr>
<tr>
<td>Total Combined State and Local School Revenue</td>
<td>$6,422 million</td>
</tr>
<tr>
<td>State Financed Property Tax Credits</td>
<td>$33 million</td>
</tr>
<tr>
<td>Attributable to School Taxes</td>
<td></td>
</tr>
</tbody>
</table>

*Excludes appropriations of $39 million for state education agencies (Minnesota department of Children, Families & Learning, Residential, Academies for the Deaf and Blind, and the Minnesota Center for Arts Education), and $191 million for other non-school district education programs.

**II. LOCAL SCHOOL REVENUE**

**Property Tax**

For most school districts, the property tax is the only local tax that funds schools. Sixteen school districts located on the iron range of northeastern Minnesota also receive taconite production tax revenues, which replace a portion of the property tax levy and state aid for these districts.

Property tax levies are computed on a calendar year basis. Property tax levies are certified by local school boards in December for taxes payable in the next calendar year. The levy certified in December 1997 for taxes payable in calendar year 1998 is recognized as revenue for school districts in 1998–99.

In 1998–99, gross property tax levies certified by school districts totaled $2,206 million. The state pays a portion of gross school levies through property tax relief aids paid to school districts; in 1998–99 state-paid property tax relief to school districts totaled $243 million. The portion of the school levy remaining after
subtracting the state paid property tax relief aids, called the "net levy," is collected through the property tax system. School district net levies totaled $1,963 million in 1998–99.

**Minn. Stat. § 273.11** requires that all taxable property (with certain exceptions), be valued at 100% of its market value. County assessors determine the estimated market value of taxable property as of January 2 of each year. One-fourth of the parcels are assessed each year so that all parcels can be reassessed every four years.

All taxable properties are assigned a classification according to how the property is used (e.g., commercial, residential homestead, agricultural). The “net tax capacity” of each parcel is computed by multiplying its estimated market value by a statutory “class rate” based on the property’s classification. Sample class rates for taxes payable in 1998 are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>First $75,000 of market value</th>
<th>Market value exceeding $75,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential homestead</td>
<td>1.00%</td>
<td>1.85</td>
</tr>
<tr>
<td>Agricultural homestead land &amp; buildings</td>
<td>0.40</td>
<td>0.90</td>
</tr>
<tr>
<td>Agr. homestead land &amp; buildings, over $115,000, first 320 acres</td>
<td>0.90</td>
<td>1.40</td>
</tr>
<tr>
<td>Agr. homestead land &amp; buildings, over $115,000, over 320 acres</td>
<td>2.70</td>
<td></td>
</tr>
<tr>
<td>Commercial-industrial, first $150,000 of market value</td>
<td>2.70</td>
<td></td>
</tr>
<tr>
<td>Commercial-industrial, over $150,000 of market value</td>
<td>4.00</td>
<td></td>
</tr>
</tbody>
</table>

The net tax capacity for a school district equals the sum of the net tax capacities computed for each parcel of property in the district.

To adjust for differing local assessment practices, the state Revenue Department conducts a sales ratio study each year. This study compares assessors’ estimated market values with actual sales prices over a 21 month period. The net tax capacity is divided by the sales ratio to determine the adjusted net tax capacity (ANTC) for each school district. The state average sales ratio for 1998–99 was 89.7%. The final ANTC for each district is certified by the Revenue Department in June of the year following the year of assessment.

Using ANTC figures certified by the Revenue Department, and other data driving school funding formulas, the Department of Children, Families & Learning computes and certifies the maximum property tax levy for each school district by September 8 of each year. For taxes payable in 1998, school district levy limitations are computed using 1996 market values and ANTC data.
Following a public notice and a hearing process, each school board must certify its final levy by late December. Tax rates and liabilities for taxes payable in 1998 are then computed by the county auditor using 1997 market values and net tax capacity data.

While most school levies are computed using ANTC data, operating referendum levies approved after November 1, 1992 are computed using referendum market values. Referendum market value is the same as 100% of market value, except that a lower percentage is used for agricultural homestead land & buildings and disabled homestead property.

Tax rates are expressed as a percentage of net tax capacity, or, for newer operating referendum levies, as a percentage of referendum market value.

In addition to payments made to school districts, homeowners and renters receive property tax relief based on the relationship of the property tax on the home or rental unit to total household income. This relief is paid directly to the individual by the state. As the claimant's income increases, the amount the state pays decreases. Eligibility for the property tax refund is limited to claimants with incomes under $64,500 for homeowners and under $38,170 for renters.

**Income Tax**

N/A.

**Sales Tax**

N/A.

**Taconite Production Tax**

**Description:** Mining companies pay a taconite production tax in lieu of property taxes on the land, buildings and equipment used in connection with taconite (iron ore) mining, quarrying, and production. The tax is based on the tonnage of ore concentrate produced from taconite, iron sulfides, and semi-taconite. Tax rates per ton of each type of ore are specified in state statute. The tax is collected by the eligible counties and is distributed to a number of entities, including school districts on the iron range, based on requirements and formulas specified in statute. A portion of school district taconite receipts is subtracted from state aid, and a portion is subtracted from property tax levies.
State Share: None.

Local Share: $28 million.

Extent of Participation: 16 school districts.

Tax Credits and Exemptions

Education Homestead Credit
(Minn. Stat. § 273.1382)

Description: This credit was enacted in 1997, and is effective beginning with taxes payable in 1998. For each residential homestead, the state pays 32% of the basic general education levy, up to a maximum of $225 per homestead. Under an amendment enacted in 1998, the credit will be increased to 66.2% of the basic education levy, up to $320 per residential homestead for taxes payable in 1999. The net property tax is reduced by the amount of the credit, and a matching amount of state aid is paid to the school district to offset the loss of the property tax revenue.

State Share: $161 million.

Local Share: None.

Extent of Participation: All school districts.

Homestead And Agricultural Credit Aid (HACA)
(Minn. Stat. § 273.1398)

Description. HACA is a general state aid provided to most taxing jurisdictions in the state. It replaced two older property tax credit programs, the homestead credit and agricultural credit, beginning with taxes payable in 1990. The older programs provided property tax relief to owners of residential and agricultural homesteads by providing a credit against the gross tax computed for their individual property; school districts received state aid to offset the reduction in school levies attributable to these credits. HACA was intended to strengthen local incentives to control the growth of property taxes by basing the credit on adjusted FY1990 tax data, instead of current data, thereby severing the link between current tax levies and the amount of state paid property tax relief. The school portion of HACA is being phased out, and replaced with other school aids which reduce property taxes. The first
reduction in HACA offsets an increase in referendum equalization aid. The second reduction in HACA offsets the phase-out of the special education levy.

**State Share:** $64 million.

**Local Share:** None.

**Extent of Participation:** 346 school districts.

**Disparity Reduction Aid**
(Minn. Stat. § 273.1398, Subd. 3)

**Description:** Disparity reduction aid reduces the total tax rate of unique taxing jurisdictions that have relatively high tax rates. Disparity reduction aid is equal to the previous year's disparity reduction aid multiplied by the ratio of 1) the jurisdiction's tax capacity using class rates for taxes payable in the year for which aid is being computed, to 2) its tax capacity using the class rates for taxes payable in the prior year, both based upon market values for taxes payable in the prior year. School Debt service and excess referendum levies are excluded from gross taxes payable for purposes of allocating disparity reduction aid.

**State Share:** $12 million.

**Local Share:** None.

**Extent of Participation:** 286 school districts.

**Taconite Homestead Credit**
(Minn. Stat. §§ 273.134, 273.135)

**Description:** Homeowners in a taconite property tax relief area have their property taxes reduced by the taconite homestead credit. The taconite homestead credit is subtracted from each homestead taxpayer's gross property tax.

**State Share:** None.

**Local Share:** $11,615 million. Taconite production tax revenues are used to fund this credit.

**Extent of Participation:** 17 school districts.
Attached Machinery Aid  
(Minn. Stat. § 273.138 Subd. 3)

Description: Attached machinery (tools, implements, machinery, or equipment which is attached to or installed in real property for use in business or production) is exempted from real property taxation. Attached Machinery Aid replaces the revenue which school districts lost as a result of this exemption.

State Share: $0.8 million.

Local Share: None.

Extent of Participation: 14 school districts.

Other Credits

Enterprise Zone Credit (Minn. Stat. §§ 273.1312, 273.1314)

Disaster Credit (Minn. Stat. § 273.123)

Agricultural Preserves Credit (Minn. Stat. § 473H.10)

III. TAX AND SPENDING LIMITS

The state of Minnesota limits the amounts that school districts can levy for general education and each categorical funding program. Formulas for computing the maximum aid and levy for each funding category are specified in state law. The State Department of Children, Families & Learning determines the maximum levy for each school district by funding category and certifies this information to school districts and county auditors.

School districts may increase the amount levied for general education purposes with approval of district voters in a referendum election. A simple majority of those voting is required to approve an operating referendum. Operating referendum elections may only be held on general election day in November, by mail ballot, or, with the approval of the Commissioner of Children, Families & Learning, if the district is in statutory operating debt. A district’s maximum operating referendum allowance per pupil unit is limited to the greater of the district’s referendum allowance for 1993–94 or 25% of the general education formula allowance less $300 ($807.50 for 1998–99). However, a district that qualifies for sparsity aid is not subject to the referendum allowance limit.
School districts must limit expenditures to avoid ending a fiscal year with a deficit in the district’s net unappropriated operating fund balance which exceeds 2.5% of the district’s operating budget for the fiscal year. A district with a deficit exceeding this limit is in “statutory operating debt” and must submit a plan to the Commissioner of Children, Families and Learning to eliminate the deficit. If the plan is disapproved, the district receives no state aid until a plan is approved.

IV. STATE/PROVINCIAL EARMARKED TAX REVENUE

State aids and tax credits are paid out of Minnesota's General Fund.

Payments are made twice a year to all school districts based on earnings from the state’s Permanent School Fund (Endowment Fund). The amounts paid to each district from this fund are offset by an equal reduction in other state aids paid to the district from the state’s general fund.

V. BASIC SUPPORT PROGRAM

General Education Revenue Program

Funding in 1998–99: $2,868 million.

Percentage of Total State Aid: 74.8%.

Nature of Program: Foundation program, known in Minnesota as General Education Revenue program (Minn. Stat. 126C).

Allocation Units: Pupils. Current year weighted average daily membership (WADM), computed using data from all days in the school year. Revenue is allocated initially based on school district estimates of pupil units, and is adjusted at year-end using actual data. School districts may submit updated estimates at any time during the school year.

Local fiscal capacity: Equalized assessed property valuation, known in Minnesota as Adjusted Net Tax Capacity, or ANTC (Minn. Stat. § 126C.01, Subd. 2). While ANTC is used as the measure of local fiscal capacity for most school levies, referendum market value is used for operating referendum levies approved after November 1, 1992 (Minn. Stat. § 126C.01, Subd. 3; Minn. Stat. § 126C.17, Subd. 10).
How the funding formula works: The general education revenue program includes 10 components: basic revenue, basic skills revenue, sparsity revenue, transportation sparsity revenue, training & experience revenue, operating capital revenue, graduation standards implementation revenue, transition revenue, supplemental revenue, and operating referendum revenue. The funding formula allowance for 1998–99 is $3,530.

Basic revenue.

Basic Revenue = $3,530 X 1998–99 WADM.

Total funding $3,384 million; 350 school districts.

Basic skills revenue. A district's basic skills revenue equals the sum of the compensatory revenue, limited English proficiency revenue, and Assurance of Mastery (AOM) replacement revenue. Formulas for each of these categories are as follows:

Compensatory revenue = $3,530 X Compensatory revenue pupil units.

Beginning in 1997–98, compensatory revenue pupil units are computed using building-level free and reduced price lunch counts from the previous school year. The amount of compensatory revenue per eligible pupil varies directly with the concentration of poverty at the site. Pupils eligible for reduced price lunches are weighted at ½ of the rate used for pupils eligible for free lunches. The maximum revenue per pupil eligible for free lunch is 60% of the formula allowance ($2,118) in sites where the free lunch count plus ½ of the reduced-price lunch count equals 80% or more of the site’s enrollment.

Most of the compensatory revenue must be allocated directly to school sites that generated the revenue; however, for 1998–99 and 1999–2000 only, a small portion (5% of the previous formula revenue) may be allocated according to a local plan approved by the Commissioner of Children, Families & Learning.

For 1998–99 only, additional compensatory revenue is provided for districts with less than a 35% increase between what the previous formula would have generated per pupil unit in 1997–98 and the initial revenue for 1998–99. Six districts also received one-time compensatory revenue grants for 1998–99.

Total funding $207 million, including $14 million in one-time funding; 348 school districts.
Limited English proficiency.

(LEP) revenue = Regular LEP revenue + LEP concentration revenue

Regular LEP revenue equals the LEP base revenue (68% of one LEP teacher salary for every 40 LEP students, plus 47% of the cost of supplies & equipment, up to $47 per LEP pupil), computed using second prior year data, times the ratio of the LEP enrollment in the current year to the LEP enrollment in the base year. However, the state total regular LEP revenue is capped at $16.1 million, which has resulted in actual funding being prorated.

LEP concentration revenue equals $190 times the lesser of 1 or the ratio of district LEP concentration (LEP enrollment / total enrollment) to 11.5%.

Total funding $22 million, 168 school districts.

AOM replacement revenue = the lesser of $22.50 times WADM in grades K – 8 or the amount of district funds used to match this revenue for basic skills purposes.

Total funding $14 million, 350 school districts.

Sparsity revenue. Sparsity revenue is provided to districts with small, geographically isolated elementary or secondary schools. To qualify, a secondary school must have fewer than 400 students in grades 7 – 12, and an "isolation index" of more than 23. The isolation index is a function of the distance to the nearest secondary school and the school’s attendance area. An elementary school must average fewer than 20 students per grade level and be 19 miles or more from the nearest elementary school to qualify for this revenue.

Secondary Sparsity Revenue = $3,530 X Secondary ADM X (400 - Sec. ADM)/(400 + Sec. ADM) X Lesser of 1 or [Isolation index - 23]/10.

Elementary Sparsity Revenue = $3,530 X Elementary ADM X (140 - Elem. ADM)/(140+ Elem. ADM) for qualifying elementary schools.

Total funding $11 million; 67 school districts.
Transportation sparsity revenue. Beginning in 1996–97, funding for regular transportation to & from school was rolled into the General Education Revenue program.

Of the basic revenue for all school districts, 4.85% ($171 per WADM) is attributable to pupil transportation. This amount was added to the basic revenue in 1996–97 to reflect the average per pupil unit cost of regular transportation in the Minneapolis – St. Paul metropolitan area. In addition to the basic revenue, districts with fewer than 200 pupil units per square mile receive additional transportation sparsity revenue.

The transportation sparsity allowance per pupil unit varies inversely with the number of pupil units per square mile, based on a formula developed through regression analysis to reflect the average transportation cost per pupil unit as a function of population density. All districts receive some transportation sparsity revenue due to rounding of the coefficients used in the computation; however, only 320 districts receive more than $1 per pupil unit.

In addition to basic revenue and transportation sparsity revenue, pupil transportation funding is included in the transition revenue (see below), and in categorical revenues for special education, desegregation/integration, nonpublic transportation, and transportation safety.

Total funding $44 million, 350 school districts.

Training & experience (T&E) revenue. T&E revenue partially compensates school districts for the added costs of salaries for teachers with higher levels of training and experience.

T&E revenue = $660 x WADM x (district’s T&E index – 0.8).

To calculate T&E revenue, the Department of Children, Families & Learning constructs a state average teacher salary schedule and computes an index value for each combination of T&E which reflects the ratio of the average teacher salary for that T&E combination to the overall state average teacher salary. The T&E index for a district is the average of the values computed for each of its teachers; a value of 1.0 represents the state average level of training and experience.

Beginning in 1998–99, T&E revenue is being phased out. Teachers employed by a district in 1996–97 will continue to be counted at their 1996–97 level of T&E as
long as they are employed by the district; new teachers will be counted as if they has only a bachelor’s degree and no experience.

Total funding $92 million; 332 school districts.

Operating capital revenue. Beginning in 1996–97, operating capital revenue replaces two former categorical revenues known as equipment revenue and facilities revenue, and moves this revenue into each district’s general fund. Operating capital revenue must be reserved and used only for equipment and facility needs. A school district may spend other general fund revenue for operating capital purposes.

Operating capital revenue = WADM x ($168 + district average building age).

A district’s average building age is based on the number of square feet by age, with buildings or additions over 50 years of age counted as 50 years old.

Total funding $189 million; 350 school districts.

Graduation standards implementation revenue. Beginning in 1998–99, this revenue is intended to enhance the implementation of Minnesota’s graduation rule.

For 1998–99, the revenue consists of three components:

$52 per WADM for all districts, of which at least $20 must be allocated to sites for staff development, and at least $5 must be used for gifted & talented programs;

$14 per WADM for districts fully implementing the graduation rule in 1998–99, which must be allocated to sites for staff development (all districts qualified); and

$34 per WADM as an equity adjustment for districts with relatively low operating referendum revenue per WADM.

Revenue not reserved for staff development or gifted & talented programs may be used for technology or class size reduction.

Total funding $81 million; 350 school districts.
Transition revenue. This is a grandfather provision to ensure that (a) no district receives less revenue per WADM for transportation through the General Education Revenue program than it received in 1995–96 under the old categorical transportation formula, and (b) no district receives less compensatory revenue under the new formula, (based on free and reduced-price lunch counts), than it would have received in 1997–98 under the old formula (based on AFDC counts).

Total funding $19 million; 177 school districts.

Supplemental revenue. This is a grandfather provision initiated in 1988–89 to ensure that all school districts received an increase in revenue per WADM when the General Education Revenue program was established, replacing the foundation program, teacher retirement aid, and several other categorical programs. Beginning in 1994–95, supplemental revenue was reduced by $100 per WADM, plus 25% of a district’s increase in compensatory and T&E revenues between 1993–94 and 1995–96. A portion of the reduction is waived for districts with low ANTC per pupil unit.

Total funding $6 million; 34 school districts.

Operating referendum revenue. A school district may increase its general education revenue beyond the level otherwise provided in state law by obtaining approval of the voters in a referendum election. If a majority of those voting approve, the district may increase its general education revenue each year for the number of years specified on the ballot (not to exceed 10 years) by the product of the approved revenue per WADM times the district's WADM for the current school year. Referendum authority approved before July 1991 is based on an approved tax rate times the district's tax capacity, unless converted to an allowance per pupil unit. Referendum revenue per WADM is limited to $807.50 (25% of the basic revenue allowance less $300); however, school districts with a larger allowance in 1993–94 are permitted to retain the higher amount. The revenue limit does not apply to school districts qualifying for sparsity revenue.

Total funding $406 million; 280 school districts.

In addition to the above components, general education revenue for 1998–99 includes $3 million for the shared time program, $7 million for contracted alternative programs, $15 million for post-secondary enrollment options programs, and a negative $45 million adjustment to offset a reduction in the employer contribution rate for teacher retirement.
State Share: The state share of the basic, basic skills, sparsity, transportation sparsity, training & experience, operating capital, and graduation standards implementation revenue equals the total revenue for these components, minus the general education levy (36.9% of ANTC).

Transition revenue and supplemental revenue are funded with a combination of state aid and local property tax levies. The state share of these revenues is based on a guaranteed ANTC of $9,039 per WADM:

Local Share = Revenue \times \text{Lesser of 1 or (District ANTC/WADM)/$9,039.}

State Share = Revenue - Local Share.

State equalization of operating referendum levies was initiated in 1992–93. Equalization is limited to the first $315 per WADM of referendum revenue. For referendum levies based on net tax capacity, the guaranteed tax base is set at $9,039 per WADM, as with the transition and supplemental levies. For referendum levies based on referendum market value, the guaranteed tax base is set at $476,000 per WADM.

The amounts received by a district through "county apportionment" (e.g., penalties on property taxes, fines) and taconite (iron ore) taxes are also deducted from state aid or local levies.

Local Share: A district's maximum levy equals 36.9% of district ANTC, plus the local share of any transition, supplemental or operating referendum revenue.

If a district levies less than its maximum amount for the general education, transition, or supplemental revenues, or less than its maximum amount for the equalized portion of its referendum revenue, the corresponding state aid is reduced proportionately. Few if any districts levy less than the maximum amount.

A district is "off the formula" if the sum of its basic, basic skills, sparsity, transportation sparsity, training & experience, operating capital, and graduation standards implementation is less than the amount raised by a tax levy of 36.9% of ANTC. For 1998–99, there is one district off the formula. This district receives all of its general education revenue from the local levy, and categorical aids are reduced by the amount that the levy exceeds the revenue. (If the amount the district is off the formula exceeds the total state aids for the district, the levy is limited to the sum of the district’s general education revenue plus the total state aids.)
Weighting Procedures:

- Disabled prekindergarten and kindergarten ADM: 1.00
- Regular kindergarten ADM: 0.53
- Elementary ADM (grades 1–6): 1.06
- Secondary ADM (grades 7–12): 1.30

Revenue from the increase in the kindergarten weight above 0.50 and the increase in the elementary weight above 1.00 is reserved for class size reduction.

Adjustments for Special Factors: See above, and descriptions of categorical formulas below.

Aid Distribution Schedule: 90% of state aid is paid on a current basis; a 10% final adjustment is paid by October 30 of the following fiscal year. Current aid payments for the operating funds are distributed twice each month based on a complex system taking into account average school district expenditure patterns and cumulative district receipts of state aids and local property tax revenues. Payments for the non-operating funds are made in 12 equal monthly installments. (MINN. STAT. § 127A.45)

Districts off formula: 1 of 350.

VI. TRANSPORTATION

Funding in 1998–99: $323.7 million in addition to funding in the basic program.

Percentage of Total State Aid: 8.4%.

Description: 1995–96 was the last year of categorical funding for regular pupil transportation. For 1998–99, most transportation funding is provided through the general education revenue program, the special education program, and the integration/desegregation program. Categorical funding for pupil transportation is limited to (1) nonpublic pupil transportation aid, (2) transportation safety aid, and (3) enrollment options transportation aid.

1. Nonpublic pupil transportation aid. School districts are required to provide equal transportation within the district for public and nonpublic school pupils. A district’s nonpublic pupil transportation aid is the sum of its aid for regular to and from school transportation and non-regular (e.g., shared time, late activity, during-day) transportation. A district’s aid for regular to and from school transportation equals 100% of the district’s actual cost per public and nonpublic
school pupil transported in the second prior year, times the number of nonpublic school pupils transported in the current year, times the ratio of the general education formula allowance for the current year to the formula allowance for the second prior year. A district’s aid for nonregular transportation equals 100% of the district’s actual cost for this transportation in the second prior year, times the ratio of the general education formula allowance for the current year to the formula allowance for the second prior year.

Total aid: $17 million; 233 school districts.

2. Transportation safety aid. A district’s transportation safety aid equals the greater of $1.50 per WADM or $500. The aid must be placed in a reserved account, and can only be spent for transportation safety purposes.

Total aid: $1.5 million; 350 school districts.

3. Enrollment options transportation aid. For students participating the enrollment options program, the parents/students are responsible for the cost of transportation between home and the boundary of the attendance area for the school attended. For students participating in the post-secondary enrollment options program, the parents/students are responsible for transportation to and from the post-secondary institution. State aid is provided to school districts that reimburse families whose income is below the federal poverty level for these expenses. The mileage reimbursement rate is set at 15 cents per mile and is limited to 250 miles per week.

Total aid: $0.2 million; 30 school districts

4. Transportation funding included in other programs:

General education revenue program, $223 million: basic, transportation sparsity and transition components; see Section VI above.

Special education revenue, $69 million; see Section VII below.

Integration revenue, $13 million; see Section XII below.

Extent of Participation: Not reported.
VII. SPECIAL EDUCATION

Special Education Aid and Levy
(MINN. STAT. § 125A.75 – 125A.79)


Percentage of Total State Aid: 10.8%.

Description: State and local funding for special education includes: (1) special education revenue, (2) special pupil aid, (3) home-based travel aid and (4) excess cost revenue.

Special education revenue is computed using expenditure data from the second prior (base) year. The revenue for 1998–99 is based on expenditures in 1996–97.

A district’s special education base revenue equals the sum of the following amounts, computed using 1996–97 data: Salaries, 68% of the salary of essential staff providing direct instructional services to students; Supplies and Equipment, 47% of the costs of special supplies and equipment, not to exceed an average of $47 per disabled pupil served; Contracted Services, 52% of the difference between the contracted cost and the general education revenue for the pupil; Transportation, 100% of the cost of special transportation services.

A district’s adjusted base revenue equals the product of the base revenue times the ratio of the district’s total average daily membership (ADM) in the current year to the district’s total ADM in the base year.

A district’s special education revenue equals the adjusted base revenue times the ratio of the state total special education revenue, set by statute at $435,322,000 for 1998–99, to the sum of the adjusted base revenue computed for all districts in the state.

Special pupil aid equals 100% of the cost of serving special pupils during the prior school year, minus the general education revenue and any other aid earned on behalf of the child. Special pupils are pupils temporarily placed in a state institution or residential facility for care and treatment, where the district of residence cannot be determined (e.g., parental rights terminated by court order or parent lives outside of the state).
Home-based travel aid equals 50% of the travel cost for home-based services to disabled children under 5 years of age and their families.

Excess cost revenue equals 70% of the difference between the district’s unreimbursed special education cost in the current year and 5.7% of the district’s general education revenue, including operating referendum revenue but excluding transportation sparsity and operating capital revenue.

**State Share:** Special education aid equals 90% of special education revenue, and excess cost aid equals 90% of excess cost revenue. State aid is provided to equalize the special education levy (which equals 10% of the special education and excess cost revenue), using an equalizing factor (guaranteed tax base) of $3,200 in ANTC per WADM. The equalization aid equals the difference between the special education levy equalization revenue and the special education levy, as described below. Special pupil aid and home-based travel aid are also paid by the state.

**Local Share:** The special education levy equals 10% of the special education and excess cost revenue, times the lesser of 1 or (District ANTC/WADM)/$3,200. Beginning in 1999–2000, special education revenue and excess cost revenue are funded completely from state aid, and the special education levy is eliminated.

**Extent of Participation:** All districts.

**Secondary Vocational Education Aid for Children with A Disability**  
(Minn. Stat. § 124D.454):

**Funding in 1998–99:** $8 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** This program funds a portion of the cost of secondary vocational education for children with a disability. Like special education revenue, this revenue is computed using expenditure data from the second prior (base) year. The revenue for 1998–99 is based on expenditures in 1996–97.

A district’s secondary vocational-disabled base revenue equals the sum of the following amounts, computed using 1996–97 data: Salaries, 68% of the salary of essential staff providing direct instructional services to students; Supplies, 47% of the costs of special supplies, not to exceed an average of $47 per disabled pupil served; Equipment, 47% of the cost of necessary equipment; Contracted Services,
52% of the difference between the contracted cost and the general education revenue for the pupil.

A district’s adjusted base revenue equals the product of the base revenue times the ratio of the district’s total average daily membership (ADM) in the current year to the district’s total ADM in the base year.

A district’s secondary vocational-disabled revenue equals the adjusted base revenue times the ratio of the state total special education revenue, set by statute at $8,078,000 for 1998–99, to the sum of the adjusted base revenue computed for all districts in the state.

**State Share:** Vocational-disabled aid equals 90% of the revenue. The remaining 10% of the revenue is included in the special education levy, and is equalized using the formula described above for special education.

**Local Share:** Districts levy for 10% of the revenue, times the lesser of 1 or (District ANTC/WADM)/$3,200. Beginning in 1999–2000, secondary vocational-disabled revenue is funded completely from state aid, and the levy is eliminated.

**Extent of Participation:** 164 districts.

**VIII. COMPENSATORY EDUCATION**

Included in the basic skills component of the general education revenue formula.

**IX. GIFTED AND TALENTED EDUCATION**

Included in the graduation standards implementation component of the general education revenue formula (see Section V above). In addition, grants totaling $316,000 were made to 36 district gifted and talented programs.

**X. BILINGUAL EDUCATION**

Included in the basic skills component of the general education revenue formula.
XI. EARLY CHILDHOOD EDUCATION

Early Childhood Family Education (ECFE)
(Minn. Stat. §§ 124D.13, 124D.135)


Percentage of Total State Aid: less than 1%.

Description: ECFE programs are designed to enhance the ability of parents to provide for their children’s optimal learning and development through education and support during the years from birth to kindergarten. Activities include parent discussion groups, play and learning activities that promote children’s development, special events for the entire family, early screening for children’s health and developmental problems, and information on community resources for young children and families. Maximum revenue is equal to $113.50 times the greater of 150 or the population under 5 years of age residing in the district.

State Share: Aid is equal to maximum revenue minus levy, with a proportionate reduction in aid for any underlevy.

Local Share: Levy is equal to the lesser of maximum revenue or .722% times the ANTC.

Extent of Participation: 343 school districts.

Learning Readiness
(Minn. Stat. §§ 124D.15, 124D.16)

Funding in 1998–99: $10 million.

Percentage of Total State Aid: less than 1%.

Description: Learning readiness provides coordinated child development services for 4 year olds. Components include comprehensive planning for coordinated social services, development & learning, nutrition, health referral, parent involvement, community outreach, community-based staff and programs, and parent literacy. Fifty percent of the state appropriation is distributed based on the number of 4 year old children in the district; the other 50% is distributed based on the number of pupils eligible for free or reduced price lunches enrolled in the district.
Extents of Participation: 330 of 350 school districts.

**Early Childhood Health & Development Screening**  
(Minn. Stat. §§ 121A.16 - 121A.19)

**Funding in 1998–99:** $1.6 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** Each school board must provide a mandatory program of early childhood developmental screening for children before school entrance, targeting children who are between 3 1/2 and 4 years old. Mandatory and optional components of the screening are specified in law. State aid is paid at the rate of $25 per child screened.

**Extent of Participation:** All school districts.

**Head Start**  
(Minn. Stat. § 119A.50 – 119A.54)

**Funding in 1998–99:** $19 million State Aid (not counted in total state aid to school districts because funding goes primarily to non-school agencies).

**Percentage of Total State Aid:** N/A.

**Description:** Head Start provides a comprehensive program of health, education, parent involvement and social services. The state has provided funding to supplement the federal Head Start program since 1988. State funding is used to expand services and serve additional low-income children.

**Extent of Participation:** Of 34 Head Start programs in Minnesota, one is operated by a school district, 7 by Indian reservations, and 26 by private nonprofit corporations, 23 of which are community action agencies.

**XII. OTHER CATEGORICAL PROGRAMS**

**School District Cooperation Revenue**  
(Minn. Stat. § 126C.22)

**Funding in 1998–99:** $7 million.
Percentage of Total State Aid: less than 1%.

Description: School districts are eligible for district cooperation revenue equal to the greater of $67 per WADM or $25,000. The revenue must be used for purchases from cooperative entities or to provide educational services in a cooperative manner.

State Share: State aid is provided to equalize the district cooperation levy using an equalizing factor (guaranteed tax base) of $3,164.

Local Share: School districts must levy to receive district cooperation revenue. The local share of the revenue equals the district’s revenue times the lesser of one or the ratio of the district’s ANTC per WADM to $3,164.

Extent of Participation: 350 districts.

Consolidation Transition Revenue
(Minn. Stat. § 123A.485)

Funding in 1998–99: $0.7 million.

Percentage of Total State Aid: less than 1%.

Description: School districts reorganized after June 30, 1994 are eligible for this revenue, which may be used to offer early retirement incentive, reduce operating debt, enhance learning opportunities, and for other costs of reorganization. This program replaces the cooperation and combination revenue, an earlier incentive for school district reorganization.

State Share: The state pays $200 per WADM in the first year of consolidation, and $100 per WADM in the second year of consolidation. The aid is based on a maximum of 1,500 WADM.

Local Share: If the state aid is insufficient to cover early retirement costs, the district may levy over a three-year period for the additional amount.

Extent of Participation: 6 districts.
Integration Revenue  
(Minn. Stat. § 124D.86)

**Funding in 1998–99:** $30 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** Districts that file desegregation plans with the Department of Children, Families and Learning are eligible for integration revenue. Funding is provided for program operations and transportation. Maximum revenues are specified in law as follows: $523 per WADM for the Minneapolis school district, $427 per WADM for the St. Paul school district, and $193 per WADM for the Duluth school district. These are the only districts currently participating. Other districts that file a plan are eligible for revenue equal to the lesser of the cost of implementing the plan or $93 per WADM.

**State Share:** 54% of the integration revenue. This percentage is scheduled to increase to 67% in 1999–2000 and to 78% for later years.

**Local Share:** 46% of the integration revenue.

**Extent of Participation:** 3 districts.

American Indian Programs  
(Minn. Stat. §§ 124D.71 – 124D.85)

**Funding in 1998–99:** $7 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** Minnesota has a variety of programs providing funds for American Indian education. These programs include American Indian Language and Culture, American Indian Education, American Indian Post-Secondary Preparation Grants, American Indian Scholarships, Indian Teacher Preparation Grants, and Tribal Contract Schools.

**State Share:** State provides grants to fund program costs.

**Local Share:** Balance of costs.

**Extent of participation:** 40 school districts; 4 Indian schools; individual students.
Secondary Vocational
(Minn. Stat. § 124D.453)

Funding in 1998–99: $12 million.

Percentage of Total State Aid: less than 1%.

Description: State aid is provided to fund a portion of the cost of approved secondary vocational programs.

State Share: A district’s secondary vocational aid is the lesser of (a) $80 times the district’s ADM in grades 10 – 12, or (b) 25% of approved expenditures for salaries of essential licensed personnel providing direct instruction to students; contracted services; instructor travel between sites, for professional development and to vocational student organization activities within the state; curriculum development; and specialized vocational instructional supplies. A hold-harmless provision guarantees that a district will receive at least 95% of the amount received in the previous school year, not to exceed 40% of the cost in the current school year.

Local Share: Balance of costs.

Extent of participation: 217 school districts.

Community Education
(Minn. Stat. §§ 124D.18 – 124D.21)

Funding in 1998–99: $1 million.

Percentage of Total State Aid: less than 1%.

Description: A district's community education revenue is the sum of the district's general community education revenue and youth service revenue. The general community education revenue equals $5.95 times the greater of 1,335 or the district's population. Youth service revenue is $1.00 times the lesser of 1,335 or the district's population.

State Share: A district's maximum community education aid equals the maximum community education revenue minus the maximum community education levy. If a district levies less than the maximum amount, state aid is reduced proportionately.
Local Share: To receive the maximum community education revenue, a district must levy an amount equal to the lesser of the maximum revenue or 1.21% of the district’s ANTC. Beginning in 1999–2000, the tax rate for community education is reduced, thereby increasing the state share to approximately 50% of the revenue.

Extent of participation: 350 districts have general community education programs, and 290 districts have youth service programs.

Adult Basic Education
(Minn. Stat. §§ 124D.52 – 124D.53)

Funding in 1998–99: $17 million.

Percentage of Total State Aid: less than 1%.

Description: Adult basic education (ABE) programs provide academic instruction for persons over age 16 who do not attend school, to enable these students to obtain high school diplomas or equivalency certificates. ABE funding is based on full-time equivalent (FTE) students. An FTE is 408 contact hours for a student at the secondary level or 240 contact hours for a student at a lower instructional level or an English as a second language student. ABE revenue equals 65% of the General Education formula allowance times the program FTEs. Districts receiving less revenue under the current formula than under the previous formula receive additional revenue equal to 80% of the difference between the 1996–97 revenue and the 1998–99 revenue (this hold-harmless is being phased out over a four year period).

State Share: The state pays the difference between the revenue and the local levy.

Local Share: Districts may levy an amount equal to the lesser of the revenue or 0.13% of the district’s ANTC. Beginning in 1999–2000, the levy is eliminated, and the state aid equals the revenue.

Extent of participation: 52 consortia, including 301 school districts and 4 non-profits.

Adult High School Graduation Aid
(Minn. Stat. § 124D.54)

Percentage of Total State Aid: less than 1%.

**Description:** School districts are eligible to receive funding for pupils over the age of 21 enrolled in an adult diploma program. The aid must follow the student to the area learning center, public school, private nonsectarian contract school, or adult basic education program providing the services.

**State Share:** Adult graduation aid for eligible pupils age 21 and over equals 65% of the General Education formula allowance times 1.3 times the average daily membership.

**Local Share:** Balance of costs.

**Extent of Participation:** fewer than 100 school districts; 10 colleges.

**School Breakfast and Lunch Aid** *(MINN. STAT. § 124D.111 – 124D.119)*

**Funding in 1998–99:** $8 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** The state pays aid to school districts for each school lunch served to a student, providing the required state matching funds to assure the continuation of federal assistance funds for the National School Lunch Program.

**State Share:** State aid equals 6.5 cents per fully paid, reduced price, and free student lunch. The state also provides funds to pay the cost of storing and transporting commodities donated by the U.S. Department of Agriculture. In addition, the state pays aid to school districts that participate in the federal school breakfast program.

**Local Share:** None.

**Extent of Participation:** 350 school districts; nonpublic schools.

**XIII. TEACHER RETIREMENT AND BENEFITS**

**Funding in 1998–99:** $0.

**Percentage of Total State Aid:** 0%. 
Prior to FY1987, the state was responsible for paying employer retirement and social security contributions for teacher retirement association member. Beginning in FY1987, school districts and cooperatives are responsible for paying all employer retirement and social security contributions. State categorical aid was provided for teacher retirement costs in FY1987 and FY1988. Beginning in FY1989, categorical funding for teacher retirement was eliminated and included in the general education revenue program.

Teachers in most school districts are members of the state Teachers' Retirement Association (TRA); teachers in the Minneapolis, St. Paul, and Duluth school districts belong to separate teachers' retirement associations. Employer contributions for the statewide TRA program are 5% for the coordinated plan and 9% for the basic plan. Employee contributions for the statewide TRA program are 5% for the coordinated plan and 9% for the basic plan.

XIV. TECHNOLOGY

The operating capital component of the general education revenue formula, (see Section V above), provides funding which can be used for technology or other equipment and facility needs. School districts are also permitted to use unrestricted general education revenue for technology. Categorical funding for technology is described below:

**Interactive Television (ITV) Revenue**
(Minn. Stat. § 126C.40, subd. 4)

**Funding in 1998–99:** $6 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** ITV revenue may be used for the construction, maintenance, and lease costs of an interactive television system for instructional purposes. A district that has completed the construction of its ITV system may also purchase computer hardware and software used primarily for instructional purposes and access to the Internet, provided that its total approved expenditures must not exceed its ITV revenue for FY1998. All school districts located outside of the Minneapolis–St. Paul metropolitan area are eligible to participate. The maximum revenue is the greater of $25,000 or 0.5% of the district’s ANTC. Beginning in 1999–2000, the ITV revenue will be phased out over a four-year period.
**State Share:** The state aid is the difference between the ITV revenue and the ITV levy.

**Local Share:** A district’s ITV levy equals the ITV revenue times the lesser of 1 or the ratio of the district’s ANTC per WADM to $10,000.

**Extent of Participation:** 253 school districts.

**Technology Grants** (One-time)

**Funding in 1998–99:** $22 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** One-time funding was provided for several technology programs for FY1999.

Telecommunications Access grants ($12.4 million). These grants provide funding for telecommunications services to provide Internet access, data transmission, and interactive television capability to school districts and libraries.

Electronic Curriculum ($1.6 million). These grants provide funding for development of curriculum and an electronic curriculum repository to be available as a teacher resource.

Technology Transformation ($1.2 million). These grants fund projects that demonstrate the use of technology in support of Graduation Standards record keeping and information management.

Computer Refurbishment ($4.5 million). Funding for partnerships with business and nonprofit organizations to refurbish computers for distribution to schools with the goal of increasing student access to technology.

Site-Based Technology Grants ($2.3 million). These grants fund technology projects in support of learning that increase community ties.
XV. CAPITAL OUTLAY AND DEBT SERVICE

Capital Outlay

The operating capital component of the general education revenue formula, (see Section V above), provides funding which can be used for a variety of equipment and facility needs. School districts are also permitted to use unrestricted general education revenue for operating capital purposes. Categorical funding for capital outlay is described below:

**Health and Safety Revenue**

(Minn. Stat. § 123B.57)

**Funding in 1998–99:** $14 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** This program provides funding for health & safety expenditures in the areas of asbestos encapsulation or removal, hazardous substance removal/cleanup/repairs, fire safety, physical hazard control, and environmental management. The amount of health and safety revenue in any given year is equal to the difference between the sum of the district's total health and safety expenditures approved since FY1985 and the accumulated receipt of health and safety aid and local levy plus the amount of federal, state, or local receipts due the district from FY1985 through the current fiscal year.

**State Share:** State aid equals health and safety revenue minus health and safety levy. If a district levies less than the maximum amount, the state aid is reduced proportionately.

**Local Share:** A district's maximum levy equals the health and safety revenue times the lesser of 1 or the ratio of the district’s ANTC per WADM to $3,956.

**Extent of Participation:** 312 districts.

**Disabled Access Levy**

(Minn. Stat. § 123B.58)

**Funding in 1998–99:** No state aid.
Description: When approved by the Commissioner of Children, Families and Learning, a district may levy up to $300,000 over up to 8 years for costs of removing architectural barriers to disabled persons.

Extent of Participation: 60 districts.

Leased Facilities Levy  
(Minn. Stat. §§ 126C.40, subd. 1, 2, 6)

Funding in 1998–99: No state aid.

Description: When approved by the Commissioner of Children, Families and Learning, a district may levy for the cost of leasing land or facilities for instructional purposes.

Extent of Participation: 141 districts.

Debt Service

Funding in 1998–99: $34 million.

Percentage of Total State Aid: less than 1%.

Description: State aided programs for building construction and debt service include the equalized debt service levy, the alternative bonding and levy program, the maximum effort school loan program, and the secondary cooperative facilities grant program. State law also authorizes school districts to levy for a down payment on future construction costs, when approved by voter referendum.

Extent of Participation: Not reported.

Debt Service Revenue  

Description: When approved by voter referendum, a school district may issue bonds to finance a construction project, and levy for the amounts needed to pay the principal and interest due on the bonds.

State Share: State aid is provided to equalize the portion of the debt service levy that exceeds 11% of the district's ANTC using an equalizing factor (guaranteed tax base) of $4,255 in ANTC per WADM. Levies eligible for debt service equalization
include those for repayment of energy loans and for certain lease purchase payments as well as principal and interest on bonded debt. To be eligible for debt service equalization on bonds issued after July 1, 1992 for facilities serving students in grades 9 – 12, the district must serve at least 66 students per grade in the grades to be served by the facility, or be eligible for sparsity revenue.

Local Share: Amount needed to pay the principal and interest due on the bonds, less the amount of debt service equalization aid received.

Extent of Participation: 276 districts.

Alternative Facilities Bonding and Levy Program  
(Minn. Stat. § 123B.59)

Description: A district may participate in this program if it has more than 1,850,000 square feet of building space and the average age of its buildings exceeds 20 years. Participating districts must have a 10 year facilities plan for deferred maintenance, disabled access and health & safety projects approved by the Commissioner. An eligible district may issue general obligation bonds or make an annual pay-as-you-go levy without voter approval to finance the approved plan.

State Share: The state pays 100% of the district’s annual debt service costs, not to exceed the amount of the district’s alternative bonding debt service levy for taxes payable in 1997. Beginning in 1999–2000, the state also pays an amount equal to 1/6 of the district’s pay-as-you-go levy for taxes payable in 1998, not to exceed 100% of the current annual levy. The portion of the debt service or pay-as-you-go levy not funded with alternative facilities bonding and levy aid is eligible for debt service equalization (see above).

Local Share: The amount needed to pay the principal and interest due on the bonds, or for the annual pay-as-you-go levy, less the amount of alternative facilities and debt service equalization aid received.

Extent of Participation: 4 districts.

Maximum Effort School Aid  
(Minn. Stat. §§ 126C.62 – 126C.72)

State Share: Districts with low property wealth may find it difficult to finance construction projects through conventional bond sales. Under this program, the state borrows money through the sales of bonds, and lends it to qualifying districts
on favorable terms. Two types of loans are available: Capital loans for new construction projects, and debt service loans.

**Local Share:** Each district having an outstanding capital loan or debt service loan must levy the greater of the maximum effort debt service levy or the required debt service levy less any reduction for a debt service loan. The maximum effort debt service levy is equal to 20% of the district's ANTC for districts receiving capital and debt service loans after January 1, 1990 (lower rates apply to districts that received loans earlier). Loans are repaid when the proceeds from the maximum effort levy exceed the required debt service levy.

**Extent of Participation:** 21 districts with capital loans, and 11 districts with debt service loans.

**Cooperative Secondary Facility Grants**
*(MINN. STAT. §§ 123A.44 – 123A.446)*

**State Share:** State grants are provided to groups of two or more school districts to build a new secondary school facility. The facility must serve at least 66 students per grade, and each participating district must have fewer than 1,200 students in total. Grant amounts are limited to 75% of project costs or $6 million. A group of districts that desire a cooperative secondary facility must enter into a joint powers agreement and apply to the Department of Children, Families and Learning for approval. If the state makes state bond proceeds available, the districts must hold a referendum to approve the sale of bonds for the local portion of the project costs within 180 days of receiving the state grant. In recent years, the legislature has awarded a $100,000 planning grant to potential grant recipients and has also named specific grantees in law when the bond proceeds are made available.

**Local Share:** District makes annual debt service levy for principal and interest on bonds issued to fund local portion of project costs. This levy is not eligible for debt service equalization.

**Extent of Participation:** No districts are currently participating. The most recent project was approved in 1992.

**Down Payment Levy**
*(MINN. STAT. § 123B.63)*

**State Share:** None.
**Local Share:** A school district may levy the tax rate approved by a majority of voters on the question of providing funds for a down payment for an approved building construction project. All proceeds from the levy must be transferred to the down payment account in the building construction fund.

**Extent of Participation:** 3 districts.

**Local Capital Project Financing Process**

**Review and Comment for School District Construction**

*(Minn. Stat. § 123B.71)*

Proposed school construction and remodeling projects with an estimated cost in excess of $400,000 per school site must be submitted to the Commissioner of Children, Families & Learning for review and comment before holding a bond referendum or soliciting bids. The Commissioner may submit a positive, unfavorable, or negative review and comment on the project. If the review and comment is positive, the district may proceed with the construction according to the requirements of applicable laws; a simple majority vote is required in the bond election for approval. If the review and comment is unfavorable, the school board must reconsider the proposal; if it elects to proceed, a 60% positive vote is required in the bond election for approval. If the Commissioner submits a negative review and comment, the school board may appeal to the state board of education. If no appeal is made, or if the state board upholds the Commissioner's decision, the school board may not proceed with construction. At least 20 days but not more than 60 days before a bond referendum or solicitation of bids for a project receiving a positive or unfavorable review and comment, the school board must publish the Commissioner's review and comment in the legal newspaper of the district.

For proposed school construction and remodeling projects with an estimated cost between $100,000 and $400,000, the school board must consult with the Commissioner before proceeding with the project, but a formal review and comment is not required.

The Commissioner and the State Fire Marshal must develop a plan for inspection of all public school facilities used for educational purposes once every three years. The Commissioner may condemn school buildings and sites determined to be unfit or unsafe for that use.
Bond Referendum Procedures  
(Minn. Stat. Chapter 475)

In general, a bond referendum must be held to authorize the issuance of bonds for school construction or remodeling. If the district has received a positive review and comment, a simple majority of those voting in the election is required for passage. Proceedings for issuing bonds are initiated by a resolution of the school board, stating the amount proposed to be borrowed and the purpose for which the debt is to be incurred.

Limit on Net Debt  
(Minn. Stat. § 475.53)

A school district may not incur net debt in excess of 10% of the market value of all taxable property situated within its corporate limits.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

Description: Funding for graduation standards implementation is included in the General Education Revenue Program (See Section VI above).

In 1992, the Minnesota Legislature approved a standards-based Graduation Rule, which included two components: (1) the Basic Standards, representing the minimum skills required of all students for high school graduation; and (2) a sequence of Preparatory Standards for grades K–8 and High Standards for grades 9–12, which students are expected to achieve before leaving school. The need to assess the minimum standards has since led to the establishment of Basic Standards Tests in reading, mathematics, and written composition for students at or above the eighth grade. Beginning with the class of 2000, students must pass these exams before they can receive their high school diplomas. Certain exceptions are provided for students with limited English proficiency and students with disabilities. In contrast to the tests used for measuring attainment of basic standards, each student’s attainment of the Preparatory and High Standards is measured using "performance packages" designed by classroom teachers.

In 1997, additional legislation called for schools and districts to be evaluated on their ability to help students achieve the Preparatory and High Standards through the administration of a series of standardized assessments. Given in the 1997–98 school year for the first time, the Minnesota Comprehensive Assessments (MCAs) measure third and fifth graders’ mastery of the Preparatory Standards in reading and mathematics. The MCAs also measure fifth graders’ writing skills.
While no student consequences are attached to the MCA testing program, the scores show the public and policymakers how well schools and districts are doing at helping their students attain higher academic standards. The 1997 legislation also authorized the formation of an independent Office of Educational Accountability (OEA) to advise the Legislature and the Commissioner of Children, Families and Learning on assessment and accountability issues.

Student passage rates for the Basic Standards Tests and the Minnesota Comprehensive Assessments for each school building and each school district are published on the Department of Children, Families & Learning web page (http://cfl.state.mn.us).

School districts must provide to the Commissioner of Children, Families & Learning and the State Auditor an audited financial statement by December 31 each year.

**XVII. REWARDS/SANCTIONS**

**Reduction of Aid for Violation of Law**

(Minn. Stat. § 127A.42)

**Description:** The Commissioner of Children, Families & Learning is required to reduce the state aid paid to a district whenever the board of the district authorizes or permits violations of law within the district, such as employing a teacher without a valid teaching license or noncompliance with state laws prohibiting discrimination.

There are no state-mandated rewards or sanctions based on the level of student performance.

**XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS**

Funding for non-traditional public schools is included in the General Education Revenue Program (See Section V above), and various categorical programs. A few categoricals, described below, apply only to charter schools.

**Enrollment Options**

(Minn. Stat. §§ 124D.03, 127A.47, subd. 7)

**Description:** The enrollment options program allows students to attend school in a district other than the student’s district of residence. A district may limit the
enrollment of nonresident students due to space constraints. A district may not include previous academic achievement, athletic ability, disabling conditions, proficiency in the English language, previous disciplinary proceedings, or the student’s district of residence as a factor in rejecting or accepting applications.

General education revenue generated by the student (excluding operating referendum revenue) follows the student to the district of attendance. The revenue transfer is accomplished by an adjustment to the state aid paid to the affected districts. The state aid paid to the resident district is reduced by the amount of general education revenue attributable to the student in the resident district, excluding referendum revenue. The state aid paid to the serving district is increased by the amount of general education revenue attributable to the student in the serving district, excluding referendum revenue.

The serving district is responsible for transporting the student within the attendance area for the school the student attends. The resident district has no responsibility for transportation. The student’s family is responsible for transportation between the home and the attendance area; a limited amount of state aid is available to reimburse low-income families for transportation costs (see Section VI above).

**Extent of participation:** 21,300 students.

**Post-Secondary Enrollment Options (PSEO)**

( Minn. Stat. § 124D.09)

**Description:** This program allows high school juniors and seniors enrolled in public or nonpublic schools to take courses at eligible Minnesota post-secondary institutions (PSI) with no charge for tuition, fees or textbooks. The students earn secondary credit when the course are completed, and earn post-secondary credit if they continue at a post-secondary institution that accepts those credit transfers after high school graduation.

For each full-time public school pupil attending a PSI, the public school district receives 12% of the basic general education revenue (12% x $3,530 x 1.3). For each part-time public PSEO pupil, the school district receives a proportionate share of the general education formula revenue based on the amount of time that the pupil attends the high school. No payment is made to the public or nonpublic school for nonpublic PSEO students. PSIs receive a standard rate per credit hour directly from the Department of Children, Families & Learning. For each quarter credit hour, the PSI receives $90 (88% x $3,530 x 1.3/45). For each semester
credit hour, the PSI receives $135 (88% x $3,530 x 1.3/30). Public PSIs also generate marginal cost funding for PSEO students, equal to 32% of the average cost of instruction, under the post-secondary funding formula.

**Extent of participation:** 7,300 students.

**Learning Year Programs**  
(Minn. Stat. §§ 124D.128, 123A.05, 124D.68, 126C.05, subd. 15)

**Description:** This program enables non-traditional schools to provide additional instructional time to ensure mastery of basic skills or to enable students to accelerate their educational program and graduate early. When a pupil is enrolled in a learning year program, an area learning center, an alternative program approved by the Commissioner, or a contract alternative program for more than the number of hours in the regular school year (1,020 hours for a secondary student, 935 hours for an elementary student, or 435 hours for a kindergarten student), the student is counted as more than one pupil in average daily membership (ADM). The ADM for these students is based on the ratio of the actual hours to the regular hours listed above; however, a kindergarten student may not be counted as more than 1.2 ADM under this program. The additional ADM is then used in computing the district’s general education revenue and in all other pupil-driven funding formulas. The use of this provision has grown rapidly in recent years, as districts have provided additional instructional time for students at risk of failing the basic standards tests.

**Extent of participation:** 15,560 additional WADM (approximate)

**Charter Schools**  
(Minn. Stat. §§ 124D.10 – 124D.11)

**Description:** Charter schools are public schools and receive general education revenue, special education revenue, building lease revenue, start-up aid, and certain other school district revenues. Charter schools are exempt from most state statutes and rules, but must: provide a comprehensive educational program to at least one age groups, design its programs to at least meet the outcomes adopted by the state board for public school students, employ licensed teachers, be nonsectarian, not limit admission of pupils based on intellectual or athletic ability or measures of achievement or aptitude, comply with the pupil fair dismissal act, comply with the public school fee law (cannot charge tuition), provide equal opportunity for members of both sexes to participate in its athletic programs, meet all state and local health and safety requirements, and comply with the same financial audit requirements as school districts.
General Education Revenue. The general education revenue per pupil unit attending a charter school equals the state average general education revenue per pupil unit, excluding operating referendum revenue, basic skills revenue, and transportation revenue. Charter schools qualify for basic skills revenue based on the characteristics of their students (e.g., free & reduced lunch concentration, LEP concentration). If the charter school elects to provide its own pupil transportation, it qualifies for the transportation component of general education revenue; otherwise, the district where the charter school is located provides the transportation and receives the transportation funding. Charter schools do not receive operating referendum revenue. All of the general education revenue for a charter school comes from state aid; there is no local levy.

Special Education Revenue. A charter school receives special education revenue as though it were a school district. A charter school may bill-back any unreimbursed special education costs to the pupil’s resident district.

Building Lease Aid. A charter school’s building lease aid equals the lesser of its actual building lease costs or the state average school district expenditure per pupil unit for debt service and certain capital expenditures (about $465 per pupil unit in 1998–99). Total state aid in 1998–99 was $2.1 million.

Start-up Aid. For the first two years of a charter school’s operation, the charter school is eligible for start-up aid equal to the greater of $500 per pupil unit or $50,000. Total state aid in 1998–99 was $1.7 million.

Other Aids. A charter school is eligible to receive other state aids and grants according to the school funding formulas as though it were a school district, unless a local property tax levy is required to receive the revenue.

Extent of Participation: 37 schools; 5,500 students.

XIX. AID TO PRIVATE SCHOOLS

Funding in 1998–99: $43.0 million (Including estimates for tax deductions).

Percentage of Total State Aid: 1%.

Description: Nonpublic pupils receive services under 8 state programs:
Nonpublic Pupil Aid
(Minn. Stat. §§ 123B.40 – 123B.48)

Under this program, school districts are reimbursed for the costs incurred in obtaining the educational materials that are loaned to the nonpublic pupil or for the costs incurred in providing pupil support services to the nonpublic pupil. The maximum reimbursement is limited to an amount equal to the statewide average expenditure per public pupil in the second prior school year multiplied by the number of nonpublic pupils served. Districts are provided an additional 5% of the reimbursed amount to offset the cost of administering the program.

Shared Time Program
(Minn. Stat. § 126C.19)

Nonpublic pupils may be admitted by school districts to public school programs for part of the school day. These pupils earn a shared-time portion of the general education aid for the district.

Transportation Program
(Minn. Stat. §§ 123B.84 – 123B.87; 123B.92, subd. 9)

School districts are required to provide "equal transportation" to nonpublic school pupils. Public schools are also permitted to transport nonpublic school pupils to regular shared-time programs and must transport nonpublic pupils with disabilities to and from the facility where special education is provided. (See Section VI).

School Lunch Program
(Minn. Stat. § 124D.111).

State funds are used to meet matching requirements of the United States Department of Agriculture National School Lunch Program.

School Milk Program
(Minn. Stat. § 124D.118)

State funds are provided to pay, in part or in total, the cost of serving 1/2 pint of milk per day to kindergarten students. Eligibility is coordinated with the federal school milk program.
School Breakfast Program
(Minn. Stat. § 124D.117)

State funds are provided to schools to pay, in whole or in part, the cost of serving breakfast to students.

State Income Tax Deductions
(Minn. Stat. § 290.01, subd. 19b)

Taxpayers who itemize deductions may deduct from gross income the amounts they spend for tuition, secular textbooks, and transportation of dependents attending public or nonpublic elementary or secondary schools in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin. The maximum deductions are $1,625 per dependent in Grades K-6 and $2,500 per dependent in Grades 7–12. Families with children attending public as well as nonpublic schools are eligible for this program. The total deductions for FY1999 are estimated at $8.7 million.

State Income Tax Credit
(Minn. Stat. § 290.0674)

Beginning with 1998 taxes, families with school age children and income at or below $33,500 per year may qualify for a tax credit of up to $1,000 per child, not to exceed $2,000 per family, to reimburse them for certain educational expenses (Minn. Stat. § 290.0674). Nonpublic school tuition is not an eligible expense under this program. Credits are paid to families with children attending public as well as nonpublic schools. The total credit for FY1999 is estimated at $3.9 million.

State Share: Varies with program.

Local Share: None.

Extent of Participation: 94,000 students.

XX. RECENT/PENDING LITIGATION

In August 1993, the Minnesota Supreme Court upheld the state school finance system in Skeen v. State, 505 N.W.2d 299 (Minn. 1993) which focused primarily on the operating referendum and debt service levies.

Three school finance lawsuits are currently pending in Minnesota:
The three suits allege that the state is denying students in Minneapolis and St. Paul the right to an adequate education in violation of the Education Clause of the Minnesota Constitution. Two of the cases, Xiong and NAACP, have been combined into one suit. Both cases went in mediation as of 3/15/99.

XXI. SPECIAL TOPICS

None.