



Understanding School Finance 101

MREA – Great Education Summit – November 2023

Division of School Finance, Minnesota Department of Education

Cathy Erickson | Director of School Finance

Ten Minnesota Commitments to Equity

1. Prioritize equity.
2. Start from within.
3. Measure what matters.
4. Go local.
5. **Follow the money.**
6. Start early.
7. Monitor implementation of standards.
8. Value people.
9. Improve conditions for learning.
10. Give students options.



Overview of Presentation

- Guidance and authority for school funding
- Funding calculations, timing, and distribution of revenues
- How recipients of education funding use their funds
- Accountability and reporting
- What's next?

- **Three Main Sources of Funding for School Districts:**
 - **State**
 - Examples include: General Education Funding, Categorical Funding, Special Appropriations, Grants
 - **Federal**
 - Examples include: Special Education, USDA Meal Reimbursement, Title (ESSA), Grants,
 - **Local**
 - Examples include: Tax Levies & Disbursements, Tuition, Fees, Admissions, Gifts & Donations, Interest, Grants

Minnesota Constitution:

ARTICLE XIII: MISCELLANEOUS SUBJECTS

- **Section 1. Uniform system of public schools.**

The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

- **Sec. 2. Prohibition as to aiding sectarian school.**

In no case shall any public money or property be appropriated or used for the support of schools wherein the distinctive doctrines, creeds or tenets of any particular Christian or other religious sect are promulgated or taught.

Funding: Key Components

Minnesota State Statutes:

Education Code –

Prekindergarten – Grade 12
Chapters 120-129

Other chapters may include
Education related laws

Chapters

[120A](#)

[120B](#)

[121A](#)

[122A](#)

[123A](#)

[123B](#)

[124D](#)

[124E](#)

[125A](#)

[125B](#)

[126C](#)

[127A](#)

[128](#)

[128A](#)

[128B](#)

[128C](#)

[128D](#)

[129](#)

[129C](#)

Title

EDUCATION CODE; ATTENDANCE; SCHOOL CALENDAR

CURRICULUM AND ASSESSMENT

STUDENT RIGHTS, RESPONSIBILITIES, AND BEHAVIOR

TEACHERS AND OTHER EDUCATORS

SCHOOL DISTRICTS; FORMS FOR ORGANIZING

SCHOOL DISTRICT POWERS AND DUTIES

EDUCATION PROGRAMS

CHARTER SCHOOLS

SPECIAL EDUCATION AND SPECIAL PROGRAMS

EDUCATION AND TECHNOLOGY

EDUCATION FUNDING

STATE ADMINISTRATION OF EDUCATION

COOK COUNTY SCHOOL DISTRICT

ACADEMIES FOR THE DEAF AND BLIND

PINE POINT SCHOOL

HIGH SCHOOL LEAGUE

SPECIAL SCHOOL DISTRICT NO. 1, MINNEAPOLIS

CHIPPEWA FOREST LAND EXCHANGES; BORDER AGREEMENTS

PERPICH CENTER FOR ARTS EDUCATION

Adequacy and Equity for Students:

- Ensure that all local education agencies have the resources needed to provide an adequate education for all students, regardless of geographic location:
 - Basic formula should cover the cost of providing an adequate education for students without special needs in districts with average costs.
 - Categorical formulas should provide additional funding for excess costs:
 - high-need students
 - unique district characteristics

Equity for Taxpayers:

- The tax burden to support the basic formula should be uniform throughout the state, regardless of local tax base.
- The tax burden to raise a given amount of additional revenue per student should be similar throughout the state, regardless of variations in local tax base per student. (Equalization)

Other Important Considerations:

- Revenues should be stable, predictable and sustainable over time.
- Resources should be allocated through understandable statewide formulas that are rationally related to educational need and minimize burdensome paperwork.
- Funding should be as simple as possible.
- Funding should provide incentives and flexibility for local education agencies (LEAs) to increase achievement for all and close achievement gaps in an efficient and effective manner.

Minnesota Education Funding:

- **Biennial Appropriations:**

- The Legislature must authorize spending money from the state treasury in order for the distribution of educational funding. Money is appropriated for a two-year budget cycle during the odd-numbered years.
- These are based on forecasts and estimates, but statute may require that the legislature amend appropriations if forecasts don't match funding calculations.

- **Statutory Funding:**

- Statutes will often codify funding authority but are reliant on the legislature to update or change funding amounts.
- Certain funding categories, such as basic revenue, will be amended often to reflect new funding allocations, but others, like gifted & talented funding, has not changed in several years.
- Other statutes provide authority for funding through referendum elections or meeting specific criteria.

Funding: Key Components

Pupil Counts

- **Students Matter!** The “Pupil Count” is the main component of most state education funding calculations.
 - Attendance
 - **Enrollment – Average Daily Membership (ADM)**
 - The October child count (actually finalized December 15), is used to calculate compensatory revenue.
- Pupil count tracking and forecasting is a key component for both state and local education funding budgets. The **Minnesota Automated Reporting Student System (MARSS)** is the portal in which public school students are recorded and reported to the Minnesota Department of Education (MDE) to be used in funding calculations.

Funding: Key Components

Pupil Counts related to revenue:

The characteristics of each student will drive the amount of funding for the district or program.

It's important to remember that an "average per pupil funding amount" may not be representative of all students in the district.



District A

Student A:

Served in District
Has an IEP
Eligible for Free Lunch
District has a \$500 per
APU referendum

District B

Student B:

Served in District
Eligible for EL Services
Is in Elem Sparsity District
District has a \$1,100 per
APU referendum



All students generate some revenues, but other revenues have criteria that use a different type of pupil or no pupil count at all.

Funding: Key Components

Revenue = State Aid + Levy (Local Property Tax)

- Generally, education revenue with its foundation in Minnesota statutes will fall into 3 categories:
 - **State Aid** – General Education or Categorical revenue
 - **Levy (Local Property Tax)** – calculated by statute, collected by counties and distributed to qualifying School Districts. (Charters and intermediates do not have levy authority)
 - **Equalized** – calculations created in statute that may be a mix of local property tax and state aid depending on the formula created and the tax base and pupil counts of the district. A higher equalized revenue means there is more potential state aid which creates property tax relief.

General Education Revenue

- The main component of state funding for School Districts and Charter Schools is General Education Revenue. This is a grouping of revenues that will either be all state aid or equalized.
- Operating Referendums, shown on the General Education Revenue Report, require a voter approved referendum in order to qualify. This revenue is equalized.
- Charter schools may receive similar funding categories to school districts, but because they do not have levy authority, all of their revenue will be state aid, and use of funds may vary from school districts.

Funding: Basic Revenue History

Basic Revenue History

Basic Education Formula Allowance

School Year	Formula Allowance
2023-24	\$ 7,138
2022-23	\$ 6,863
2021-22	\$ 6,728
2020-21	\$ 6,567
2019-20	\$ 6,438
2018-19	\$ 6,312

Basic Revenue, also called Basic Allowance or Formula Allowance, is the baseline foundation of LEA state revenues, along with being the basis for declining enrollment, compensatory, and transportation sparsity calculations.

The annual amount is reviewed and possibly adjusted by the legislature each biennium. There has been instances of the formula being frozen, and also an additional increase in the second year in the biennium.

Since 2019, the basic revenue has increased 2% per fiscal year, except for FY22 where the increase was 2.4% and FY24 with an increase of 4%. The 5-year average increase is \$138.00 per year.

The basic allowance includes a 2% set aside for staff development and includes the roll-in of the old transportation revenue.

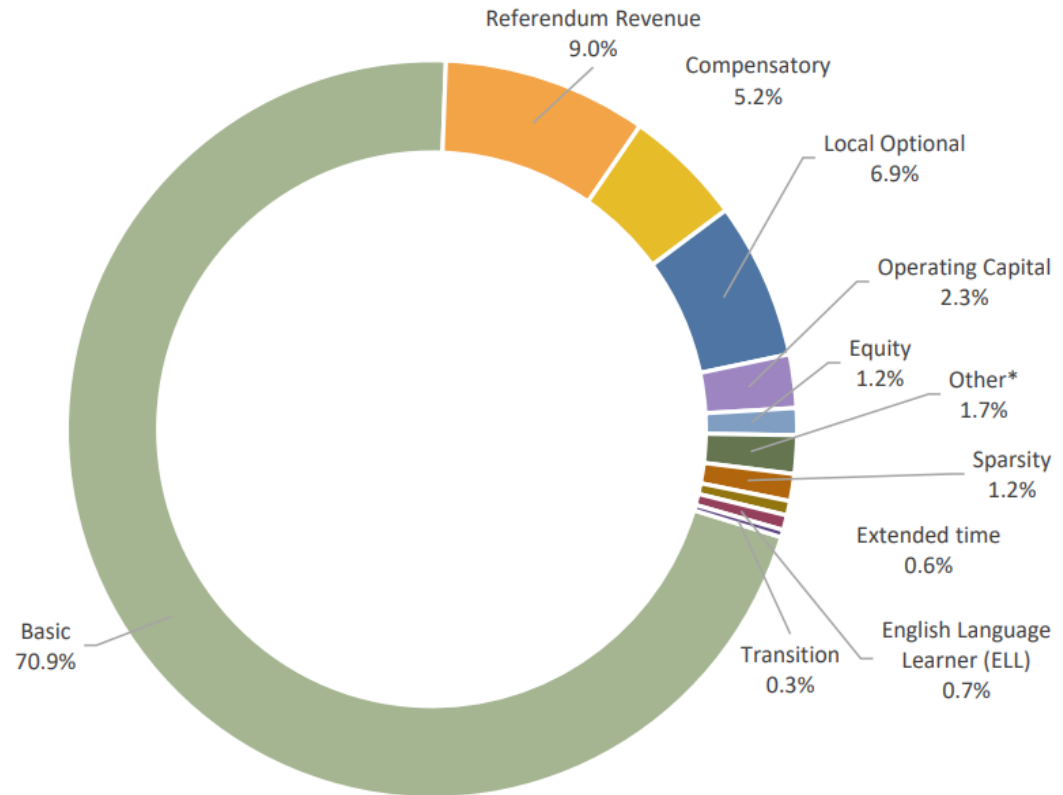
General Education Revenues

The following chart is from the annual Financing Education in Minnesota, created in July 2022 by the Minnesota House of Representatives Department of Fiscal Analysis.

This represents the state distribution of General Education Revenue to LEAs. Components may not be distributed to all LEAs if criteria is not met, such as voter approval for Referendum Revenue, eligibility for sparsity, or applicable learning year programs to generate extended time revenue.

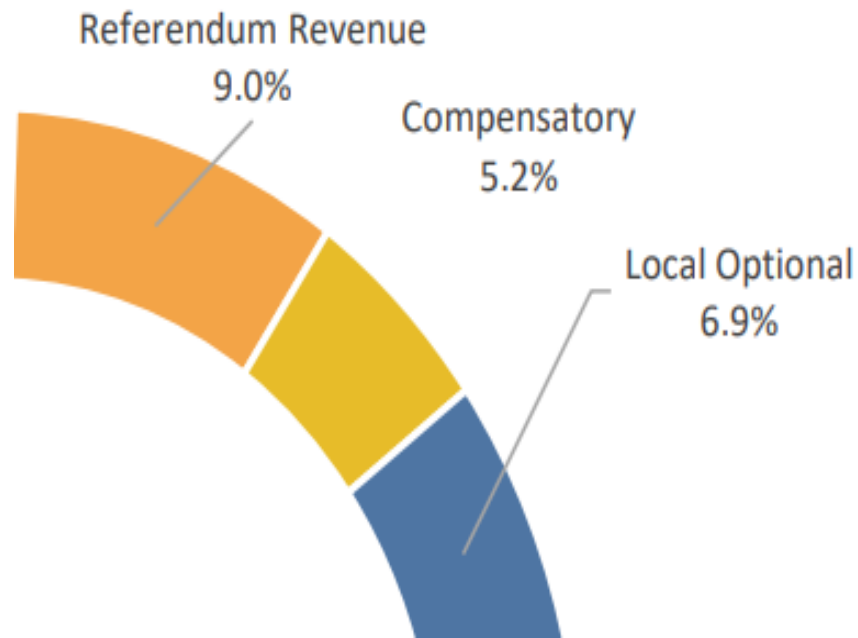
This is projected Fiscal Year 2022-23 (FY23) revenue.

General Education Program Components (FY 2023)



*Other includes Declining Enrollment, Small Schools, Gifted & Talented, PSEO and various other Adjustments.

Funding: Calculations



Referendum Revenue is equalized in a 2-tier formula that uses Referendum Market Value (RMV) and APU to determine state aid/property tax totals. Not all districts have operating referendums, and amounts per APU vary by district.

Compensatory Revenue is calculated on a prior year fall child count compared to students eligible for free or reduced lunch. Revenue is calculated by site and is all state aid.

Local Optional Revenue is up to \$724 per APU by board action and is equalized in a 2-tier formula using RMV and APU to determine state aid/property tax totals.

Other Categorical Revenue

- There are several other state revenue funding formulas outside of the General Education Revenue group of funds.
 - Main categorial revenues include, but are not limited to:
 - State Special Education Revenue
 - Long-Term Facilities Maintenance (LTFM) Revenue
 - Achievement & Integration (A&I) Revenue
 - American Indian Education Aid
 - Alternative Compensation (Q-Comp) Revenue
 - Community Education, Food Service & Debt Service Revenue

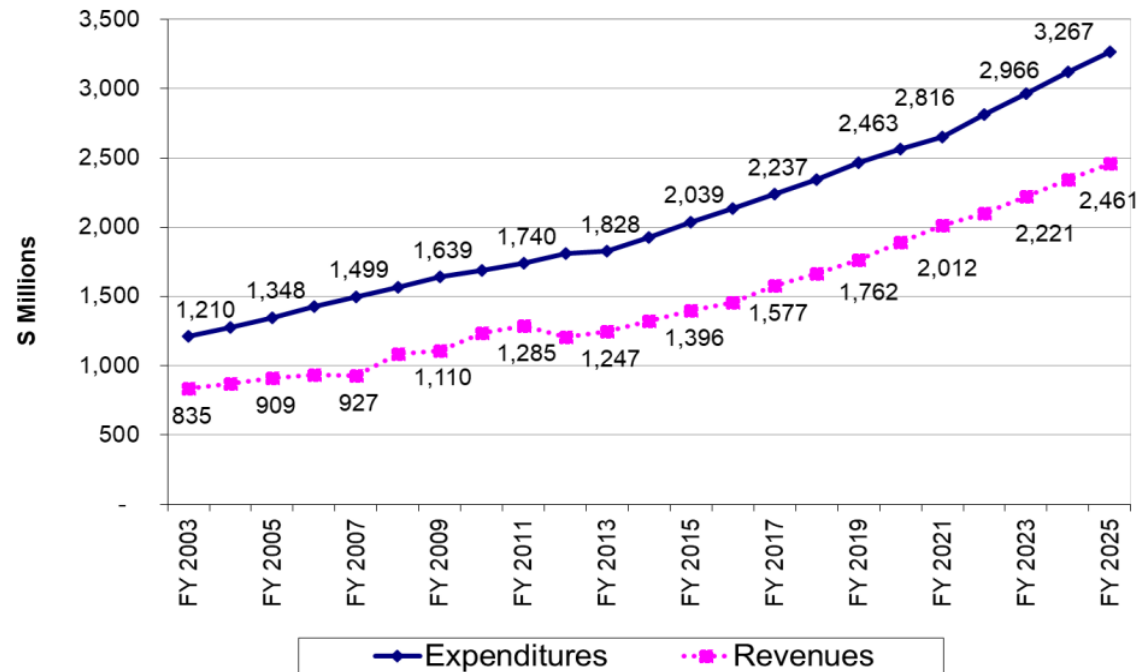
Funding Formula Consideration Examples

- State Special Education Revenue
 - Part based in prior year expenses, another component includes current year tuition adjusts
- Long-Term Facilities Maintenance (LTFM) Revenue
 - Per pupil initial calculation for most districts
- Compensatory Revenue
 - Uses prior year fall child count eligible for free & reduced lunches by school site
- American Indian Education Aid
 - Must have a minimum of 20 identified American Indian identified students and approved budget

Items to consider: Special Education Cross Subsidy

Special Education Cross Subsidy

FIGURE 1
SPECIAL EDUCATION EXPENDITURES AND REVENUES
INCLUDING GEN EDUC REVENUE ATTRIBUTABLE TO SPECIAL EDUCATION



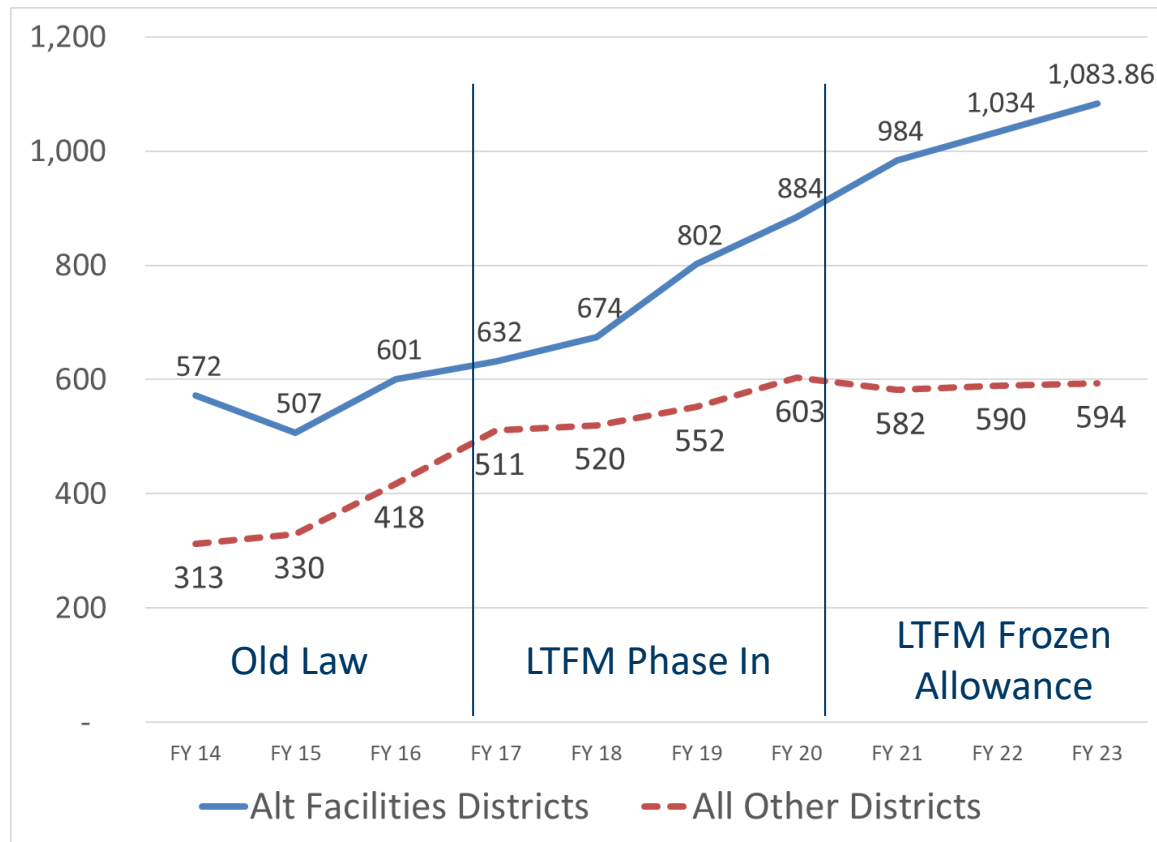
The calculation of state special education cross subsidy represents the funding gap between expenses and revenues attributed to state special education.

Cross subsidy reports were considered “unfunded” until the legislature included cross subsidy aid beginning in FY20 through MN Statute 125A.76 Subd. 2e.

In 2022-23 the calculation of aid is 6.43% of a LEA’s prior year special education cross subsidy. **In 2023-24 it is 44%.**

Items to consider: Long-Term Facilities Maintenance

Long-Term Facilities Maintenance (LTFM)



The Long-Term Facilities Maintenance (LTFM) program combined old deferred maintenance, health & safety, and alternative facilities, with options to use “old law” options to fund applicable costs if current allocations are less than old law.

LEA’s not in the old alternative facilities program are limited to \$380 per PU in revenue and eligible health and safety projects over \$100,000. Lower building ages also lowers the per pupil revenue.

Districts may bond against their LTFM revenue to complete projects ahead of annual revenue.

Equalization makes this a higher levy revenue.

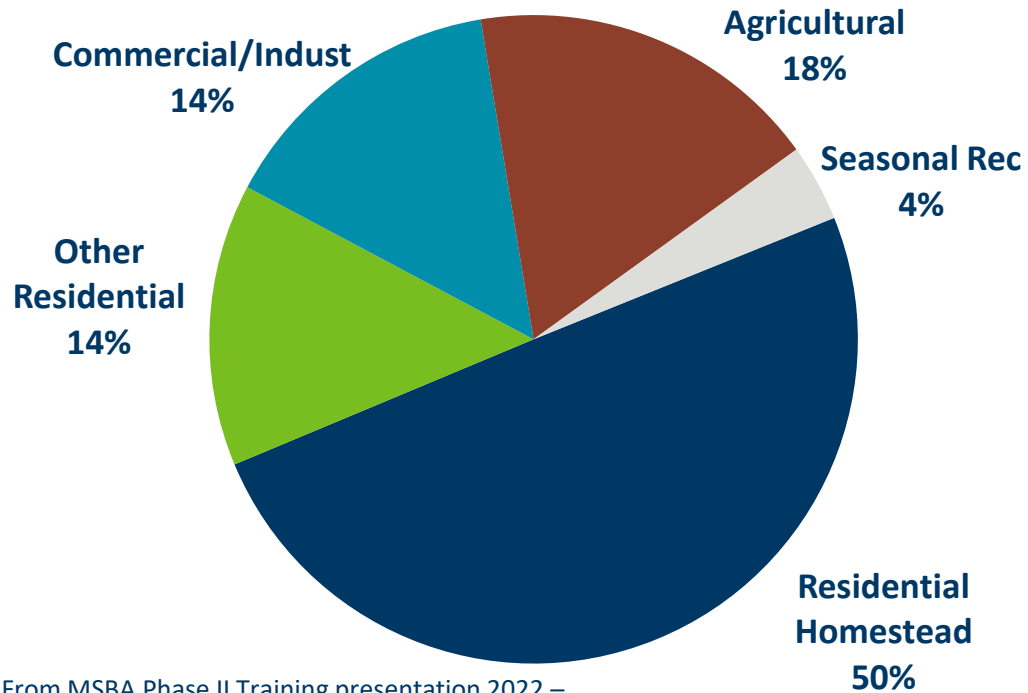
Funding: Timing & Distribution

Funding Distributions – Aid & Levy Payments

- Each biennium the legislature appropriates funds to be distributed on the aid side of formulas.
 - School Districts are given an entitlement amount for each applicable school year, but the revenues are metered where some of the funding will come in the next year as a “final payment or cleanup” in order to tie out to actual funding based on final pupil counts or adjustments based on legislative changes. **This is commonly referred to as the “90/10 Payment Schedule”.** A district will record revenues as if entitled but set up a receivable to note the actual final payments have not yet been paid.
 - Appropriations and Entitlements won’t match because appropriations take 10% of the prior year and 90% of the current year, where entitlements calculate 100% of what is funded in the current year.
- Counties are responsible for distributing the property tax portion of revenues (levy), and those distributions happen related to the property tax collection timelines. School Districts use accrual accounting to record revenues in the right year even if payments are in different fiscal years.

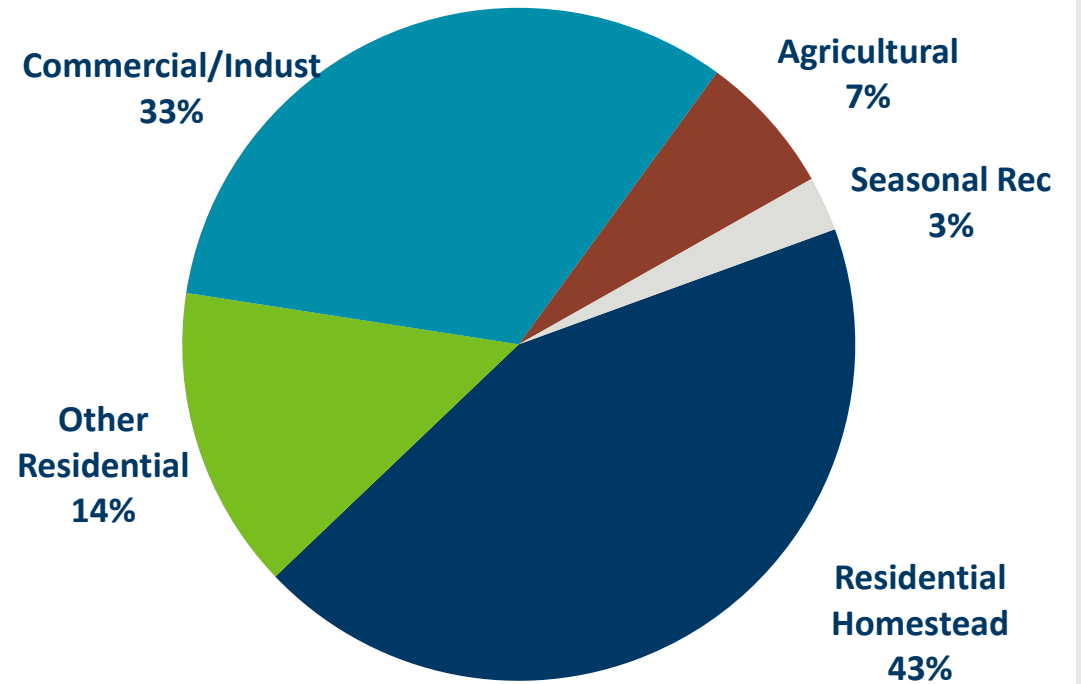
Other statistics: state tax base & taxes paid

Payable 2021 (FY22) Market Value by property category - \$802 billion



From MSBA Phase II Training presentation 2022 – correlates closely to MN Dept of Rev current calculations

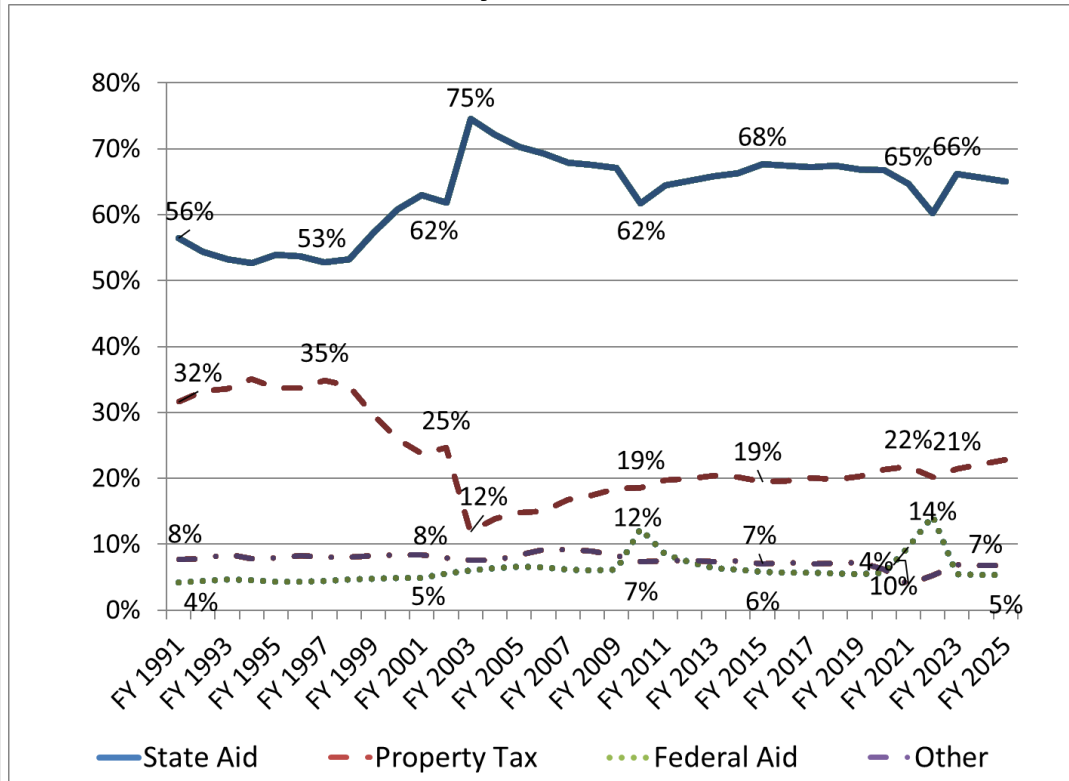
Payable 2021 (FY22) Taxes Paid by property category - \$11.256 billion



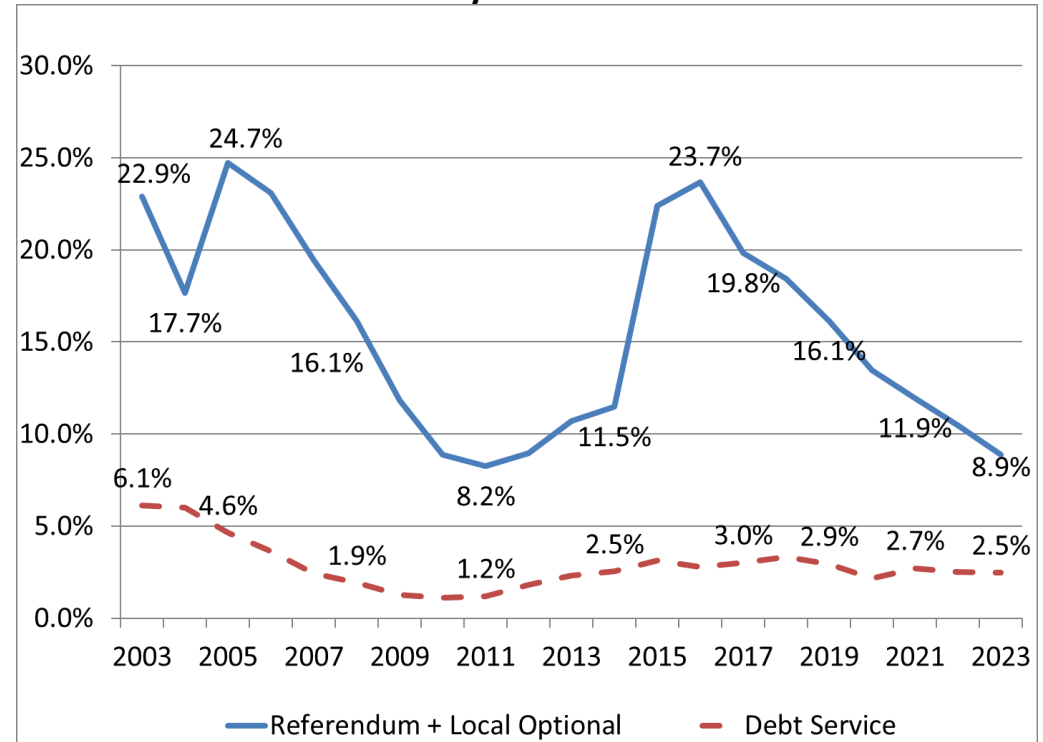
From MSBA Phase II Training presentation 2022 – correlates closely to MN Dept of Rev current calculations

Other statistics: revenues by source & state aid trend

PK-12 Education Revenue by Source February 2022 Forecast



State Aid share Referendum/Local Optional + Debt Revenue February 2022 Forecast



Items to consider: Equalization

Equalization Rates

Table 18: Referendum Revenue Amounts

Fiscal Year	Referendum Aid Entitlement	Referendum Levy
2023*	\$27,888,000	\$812,591,000
2022	30,525,000	721,413,000
2021	36,909,000	710,963,000
2020	132,269,000	800,990,000
2019	145,074,000	701,554,000
2018	149,545,000	625,149,000

* Estimated

House Research Department

Several state aid revenues have an equalization formula that determines the amount of aid and levy for each district. The district's property wealth per pupil is compared to the property wealth per pupil limit created in legislation to determine aid, if any.

In some cases, equalization rates have not adjusted at the same rate at property values and pupil counts which has led to more property tax levy and less aid. Two examples would be operating referendums and debt service.

In FY18, debt service certified levies totaled \$916 million with \$22.9 million in debt service aid, in FY22, certified levies increased to \$1.12 billion, with \$21.3 million in debt service aid. In FY22, state aid only accounted for 1.9% of all eligible debt service revenues.

Funding Uses: Statewide

Fiscal Year 2020-21 (FY21) – Statewide Average Expense per Student by Program Category



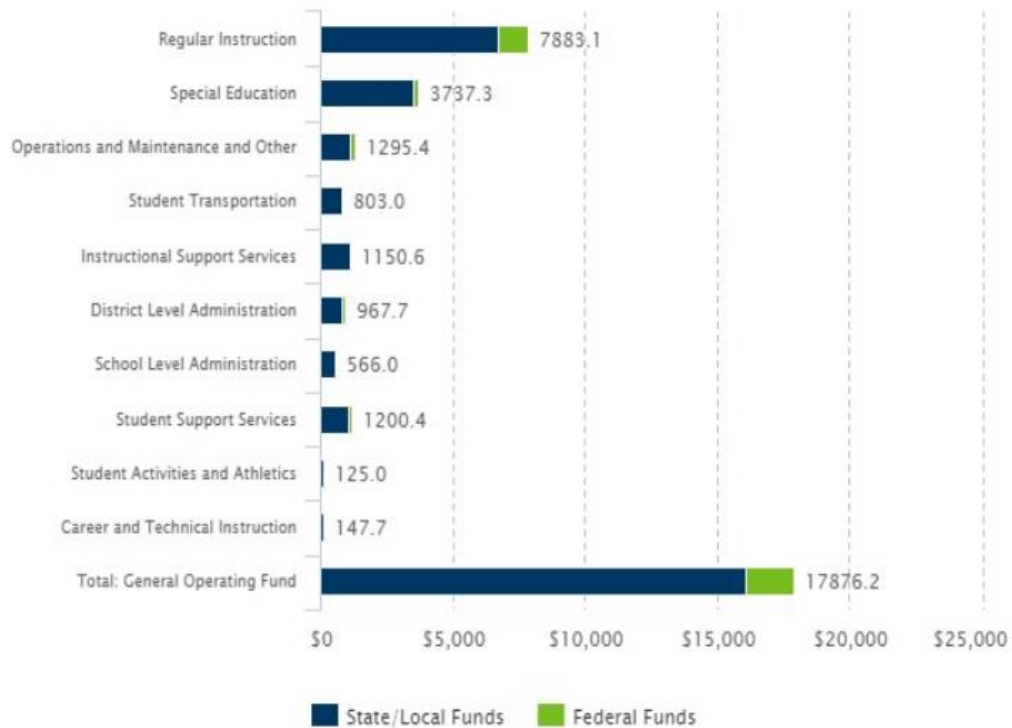
Fiscal Year 2020-21 (FY21) – Statewide Average Expense per Student by Program Category

Program Category	State/Local Funds	Federal Funds	Total
Regular Instruction	\$5,369.76	\$471.90	\$5,841.66
Special Education	\$2,463.58	\$177.69	\$2,641.27
Operations and Maintenance and Other	\$988.30	\$73.03	\$1,061.33
Student Transportation	\$722.75	\$15.89	\$738.64
Instructional Support Services	\$665.97	\$120.93	\$786.90
District Level Administration	\$655.99	\$46.72	\$702.71
School Level Administration	\$535.97	\$5.96	\$541.93
Student Support Services	\$437.51	\$33.60	\$471.11
Student Activities and Athletics	\$297.02	\$1.02	\$298.04
Career and Technical Instruction	\$177.37	\$5.27	\$182.64
Total: General Operating Fund	\$12,314.22	\$952.01	\$13,266.23

Source: Minnesota Report Card (MDE Website)

Funding Uses: Minneapolis Public Schools 0001-03

**Fiscal Year 2020-21 (FY21) – Minneapolis Public Schools
Expense per Student by Program Category**



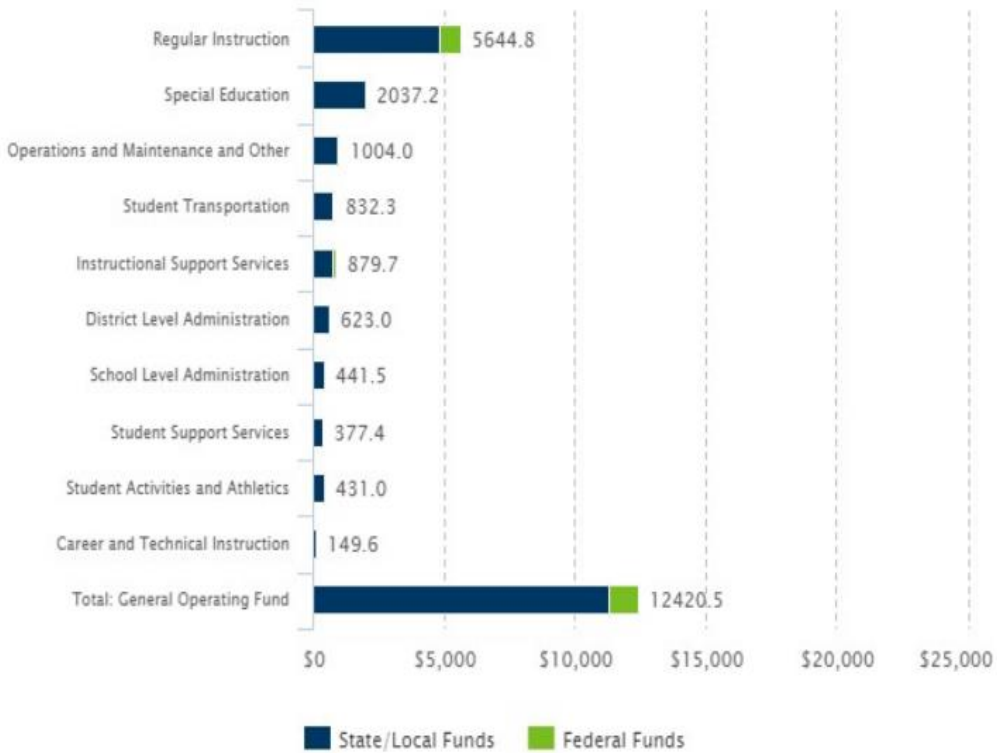
**Fiscal Year 2020-21 (FY21) – Minneapolis Public Schools
Expense per Student by Program Category**

Program Category	State/Local Funds	Federal Funds	Total
Regular Instruction	\$6,750.12	\$1,132.98	\$7,883.10
Special Education	\$3,509.53	\$227.75	\$3,737.28
Operations and Maintenance and Other	\$1,158.27	\$137.16	\$1,295.43
Student Transportation	\$801.21	\$1.79	\$803.00
Instructional Support Services	\$1,137.47	\$13.14	\$1,150.61
District Level Administration	\$801.45	\$166.24	\$967.69
School Level Administration	\$564.24	\$1.76	\$566.00
Student Support Services	\$1,088.90	\$111.52	\$1,200.42
Student Activities and Athletics	\$124.99	\$0.00	\$124.99
Career and Technical Instruction	\$132.40	\$15.27	\$147.67
Total: General Operating Fund	\$16,068.58	\$1,807.61	\$17,876.19

Source: Minnesota Report Card (MDE Website)

Funding Uses: Aitkin Public Schools 0001-01

**Fiscal Year 2020-21 (FY21) – Aitkin Public Schools
Expense per Student by Program Category**



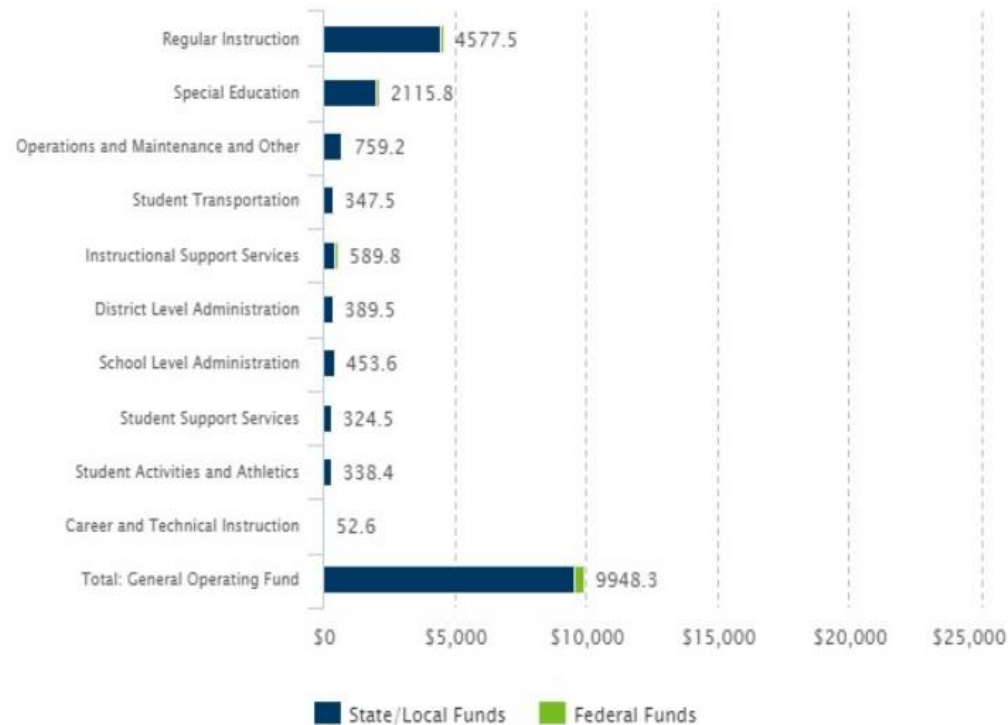
**Fiscal Year 2020-21 (FY21) – Aitkin Public Schools
Expense per Student by Program Category**

Program Category	State/Local Funds	Federal Funds	Total
Regular Instruction	\$4,830.36	\$814.42	\$5,644.78
Special Education	\$1,990.42	\$46.77	\$2,037.19
Operations and Maintenance and Other	\$929.91	\$74.12	\$1,004.03
Student Transportation	\$782.31	\$49.97	\$832.28
Instructional Support Services	\$767.78	\$111.93	\$879.71
District Level Administration	\$622.86	\$0.11	\$622.97
School Level Administration	\$440.03	\$1.48	\$441.51
Student Support Services	\$370.29	\$7.10	\$377.39
Student Activities and Athletics	\$431.00	\$0.00	\$431.00
Career and Technical Instruction	\$146.93	\$2.68	\$149.61
Total: General Operating Fund	\$11,311.89	\$1,108.58	\$12,420.47

Source: Minnesota Report Card (MDE Website)

Funding Uses: Hermantown Public Schools 0700-01

**Fiscal Year 2020-21 (FY21) – Hermantown Public Schools
Expense per Student by Program Category**



**Fiscal Year 2020-21 (FY21) – Hermantown Public Schools
Expense per Student by Program Category**

Program Category	State/Local Funds	Federal Funds	Total
Regular Instruction	\$4,482.36	\$95.10	\$4,577.46
Special Education	\$2,013.89	\$101.95	\$2,115.84
Operations and Maintenance and Other	\$704.03	\$55.15	\$759.18
Student Transportation	\$345.97	\$1.52	\$347.49
Instructional Support Services	\$459.79	\$129.97	\$589.76
District Level Administration	\$389.50	\$0.00	\$389.50
School Level Administration	\$453.55	\$0.00	\$453.55
Student Support Services	\$321.69	\$2.80	\$324.49
Student Activities and Athletics	\$338.44	\$0.00	\$338.44
Career and Technical Instruction	\$49.63	\$2.93	\$52.56
Total: General Operating Fund	\$9,558.85	\$389.42	\$9,948.27

Source: Minnesota Report Card (MDE Website)

School Districts are required to provide data submissions to the Department of Education through several portals.

- Uniform Finance Accounting and Reporting Standards (UFARS) to collect financial data from school districts.
- Other portals include, but are not limited to:
 - Student Data Collections
 - Federal and State Special Education
 - Grants and Federal Funding

School Districts Budgets and Audits

- Subd. 4. **Budget approval.**

Prior to July 1 of each year, the board of each district must approve and adopt its revenue and expenditure budgets for the next school year. The budget document so adopted must be considered an expenditure-authorizing or appropriations document.

School Districts Budgets and Audits

- Subd. 3. **Statement for comparison and correction.**

(a) By November 30 of the calendar year of the submission of the unaudited financial data, the district must provide to the commissioner audited financial data for the preceding fiscal year.

The audit must be conducted in compliance with generally accepted governmental auditing standards, the federal Single Audit Act, and the Minnesota legal compliance guide issued by the Office of the State Auditor.

An audited financial statement prepared in a form which will allow comparison with and correction of material differences in the unaudited financial data shall be submitted to the commissioner and the state auditor by December 31.

The audited financial statement must also provide a statement of assurance pertaining to uniform financial accounting and reporting standards compliance and a copy of the management letter submitted to the district by the school district's auditor.

Items to consider: More resources

Additional School Finance Resources:

- [Minnesota School Finance: A Guide For Legislators](#)
 - MN House Research, Tim Strom, Legislative Analyst
- [Financing Education in Minnesota 22-23](#) (download)
 - Minnesota House of Representatives, Fiscal Analysis Department
- [Minnesota Department of Education, School Finance](#)
 - A great starting point for areas of finance support

Big Takeaways:

Funding comes from 3 main sources – State, Federal, Local

Pupil counts play a big part in funding, but there is more than one way to count pupils

Each district will have their own unique funding calculation based on eligibility, need, and board or voter approval

Districts must report revenues and expenses and provide accountability and validation through audit

Any questions?

Thank You!

School Finance is here to help!

Cathy Erickson, Director of School Finance

catherine.erickson@state.mn.us 651-582-8391

Daley Lehmann, Asst. Director of School Finance

daley.lehmann@state.mn.us 651-582-8817

Patty Hand, Chief Operating Officer

patty.hand@state.mn.us