

Minnesota PreK-12 Education Finance System Overview: Committee Overview

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Minnesota House of Representatives Research and Fiscal Departments

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Overview

1. Minnesota's General Fund Budget and Forecast Process
2. General Fund Revenue
3. General Fund Spending
4. Total School Revenue
5. State Aid Including Statewide Tracking
6. School Property Taxes Including Statewide Tracking
7. Total School District Revenue
8. General Education Revenue Including District-by-District Printout (11" by 17" handout)
9. Special Education Funding and District-by-District Printout
10. General Education with and without Baseline Inflation District-by-District

Minnesota's General Fund Budget

- Minnesota's General Fund Budget shows the state resources (primarily tax Receipts) and state spending on programs.
- Nearly all Prekindergarten through Grade 12 funding is from the General Fund.
- Past and present budget narratives and documents are on the Department of Management and Budget's (MMB) website.

Minnesota's Forecast of Budget Conditions

- Minnesota forecasts its budget conditions twice a year (November and February).
- The forecast is available at:
<https://mn.gov/mmb/forecast/forecast/>.
- The forecast estimates the fund balance, state tax revenues, and state spending.
- Minnesota is currently in Fiscal Year 2025 and the 2025 Legislature will budget for the next four fiscal years and make appropriations for fiscal years 2026 and 2027.

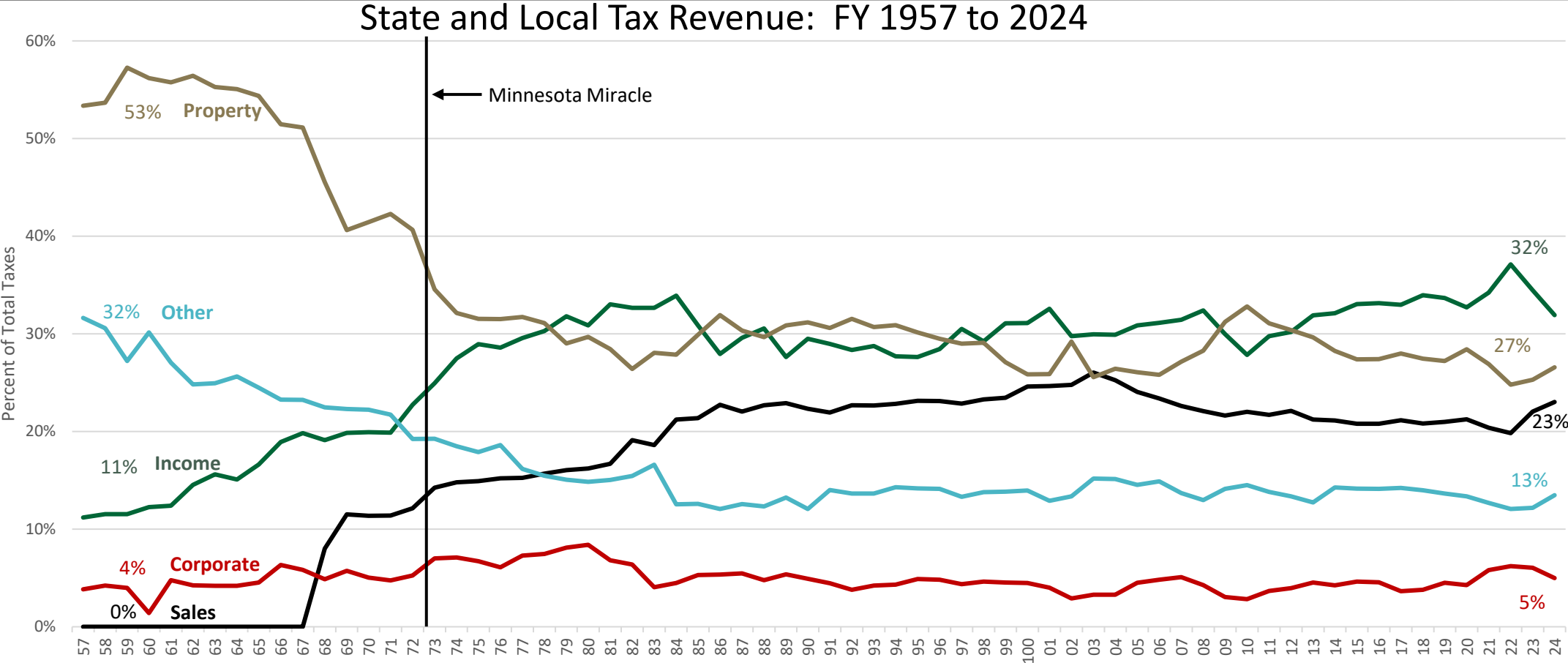
State General Fund Budget Estimates November 2024 Forecast (\$ in millions)

	FY 24/25	FY 26/27	FY 28/29
Fund Balance In	16,516	7,279	4,143
Total Tax and Nontax State Revenue	61,434	63,853	67,612
E-12 Education State Aid	23,895	25,365	26,953
All Other State Spending	46,775	41,624	46,418
Total State Spending	70,670	66,989	73,371
State Budget Reserve + Cash Flow Account	3,527	3,527	3,527
Budgetary Balance	3,752	616	-5,143

State Revenue and Spending

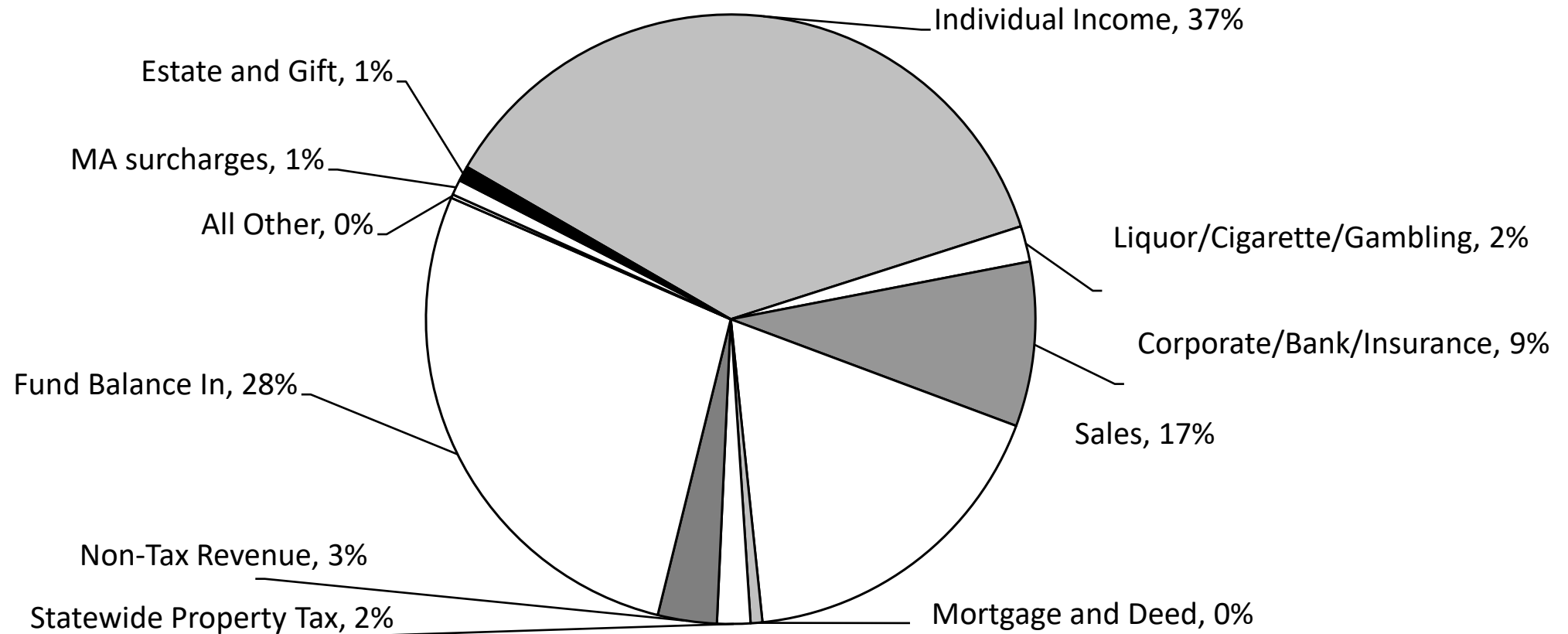
- The following charts show the state revenue and spending for the current fiscal year.
- Historical information about state spending and tax revenue is a part of the analysis by state, region, and county contained in the House Research publication, Major State Aids and Taxes:
<https://www.house.mn.gov/hrd/issinfo/msamain.aspx>

State and Local Tax Revenue



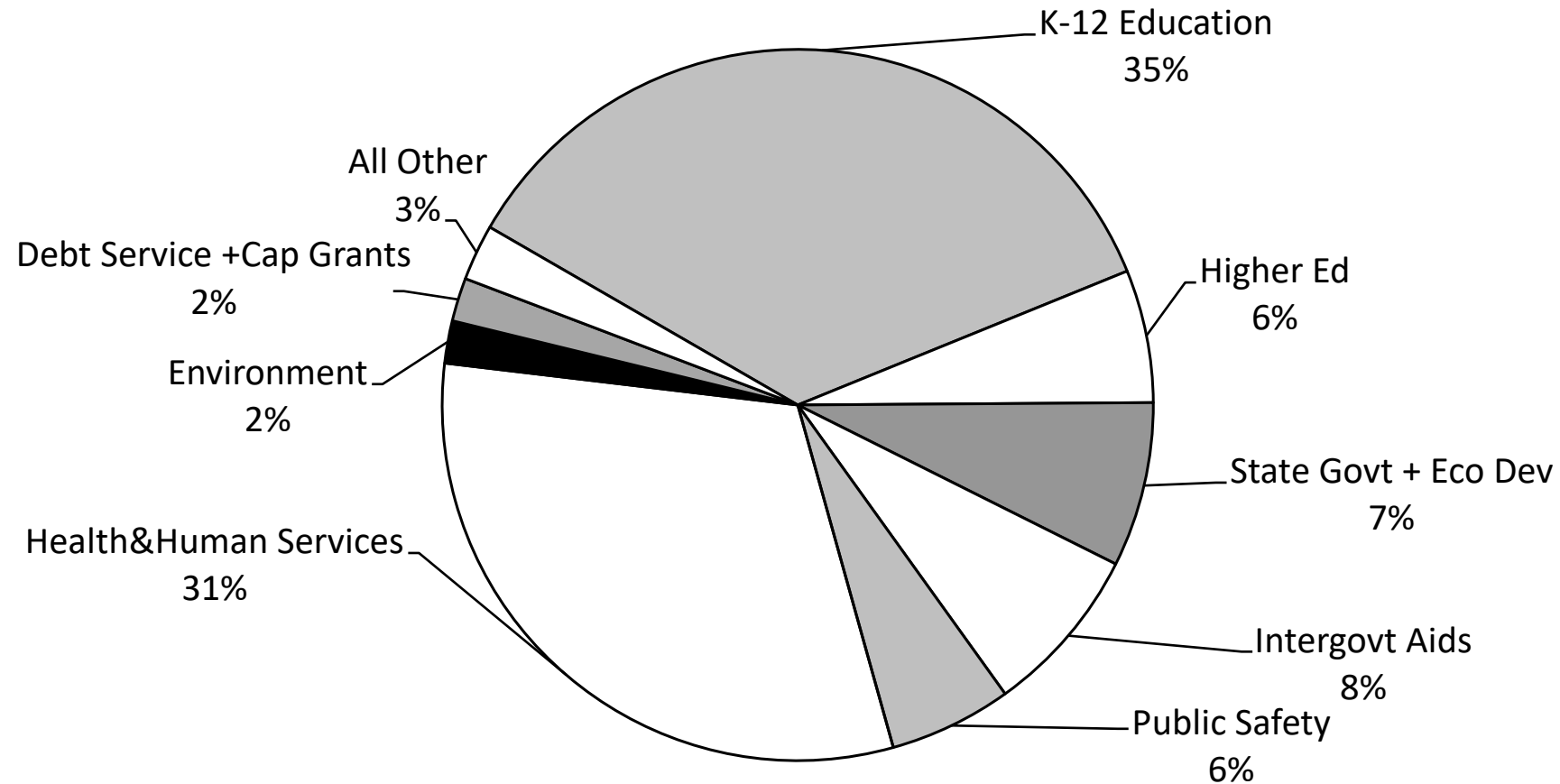
Where the Money Comes From

FY 25 State General Fund Resources \$42.667 Billion



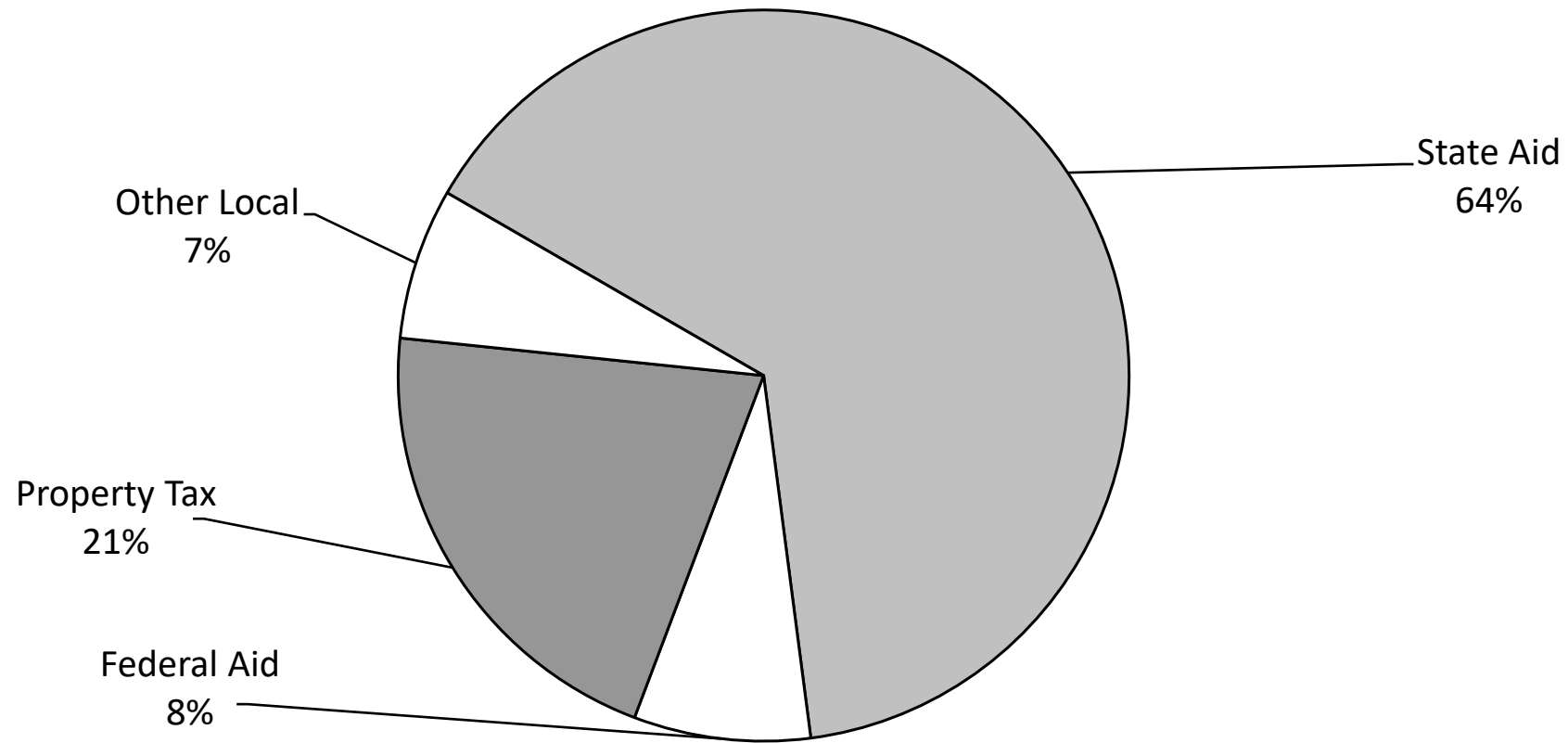
Where the Money Goes

FY 25 State General Fund Spending \$35.388 Billion



School Funding By Source Est \$18.971 Billion

State Aid, Local Property Taxes, Other Local, and Federal Aid



State Aid

About two-thirds of Minnesota's total funding comes from state aid payments.

Statewide Aid Tracking Sheet. See the statewide tracking sheet showing K12 Spending by each line item and across the budget periods.

Local Property Taxes

- Property Tax Overview
- Statewide Property Tracking Sheet. See the statewide tracking sheet showing K12 Spending by each line item and across the budget periods.

Local Property Taxes and Other Local Revenue

About 21 percent of Minnesota's school funding comes from the property tax and another 6 percent comes from other local sources including fees, sales, interest payments, and interdistrict payments.

Property tax revenue varies substantially from school district to school district.

While property taxes are a smaller source of revenue for schools, a significant share of the state's property taxes go to school districts.

Charter schools do not receive property tax revenue.

Property Tax Terminology

Property Tax Base

Two tax bases used for school levy calculations:

Referendum Market Value = Estimated market value, excluding:

- Ag Land & Buildings (Note: house, garage, and one acre are not exempt)
- Seasonal Recreational Residential

Used only for operating referendum, local optional, transition and equity levy calculations

Adjusted Net Tax Capacity (ANTC) = (Taxable market value for all types of property x Statutory class rate)/Sales ratio

Used for all other school levies, including debt service levies'

Note: For long-term facilities maintenance revenue, a variation of ANTC excluding ½ of the value of agricultural land is used to calculate the state and local shares of the revenue

Property Tax Terminology cont'd

Property Tax Base (continued)

Taxable Market Value = Estimated Market Value – Market Value Exclusion

- Market value exclusion for Pay 24 = 40% of first \$76,000 of value, less 9% of value over \$76,000 (no exclusion for homes valued at \$413,800 or above)
- Market Value exclusion for Pay 25 and later = 40% of first \$95,000, less 9% of value over \$95,000 (no exclusion for homes valued above \$517,200)

Net Tax Capacity = Taxable Market Value x Class Rate

- Class Rates are statutory percentages applied to taxable market value

Sales Ratio = Estimated Market Value/Actual Sales Price

- (Computed by State Revenue Department based on comparison of assessor's estimates of market values with actual sales prices)

Adjusted Net Tax Capacity = Net Tax Capacity/Sales Ratio

Property Tax Class Rates

Residential Homestead	First \$500,000	1.00%
	Remainder	1.25%

Agricultural Land and Buildings

First \$2,150,000	0.50% (changes annually, this is FY25's class rate)
Over \$2,150,000	1.00%

Commercial and Industrial	First \$150,000	1.50%
	Remainder	2.00%

Seasonal Rec. Residential	First \$500,000	1.00%
	Remainder	1.25%

Property Tax Relief

There are three major ways state helps reduce tax burden on property owners:

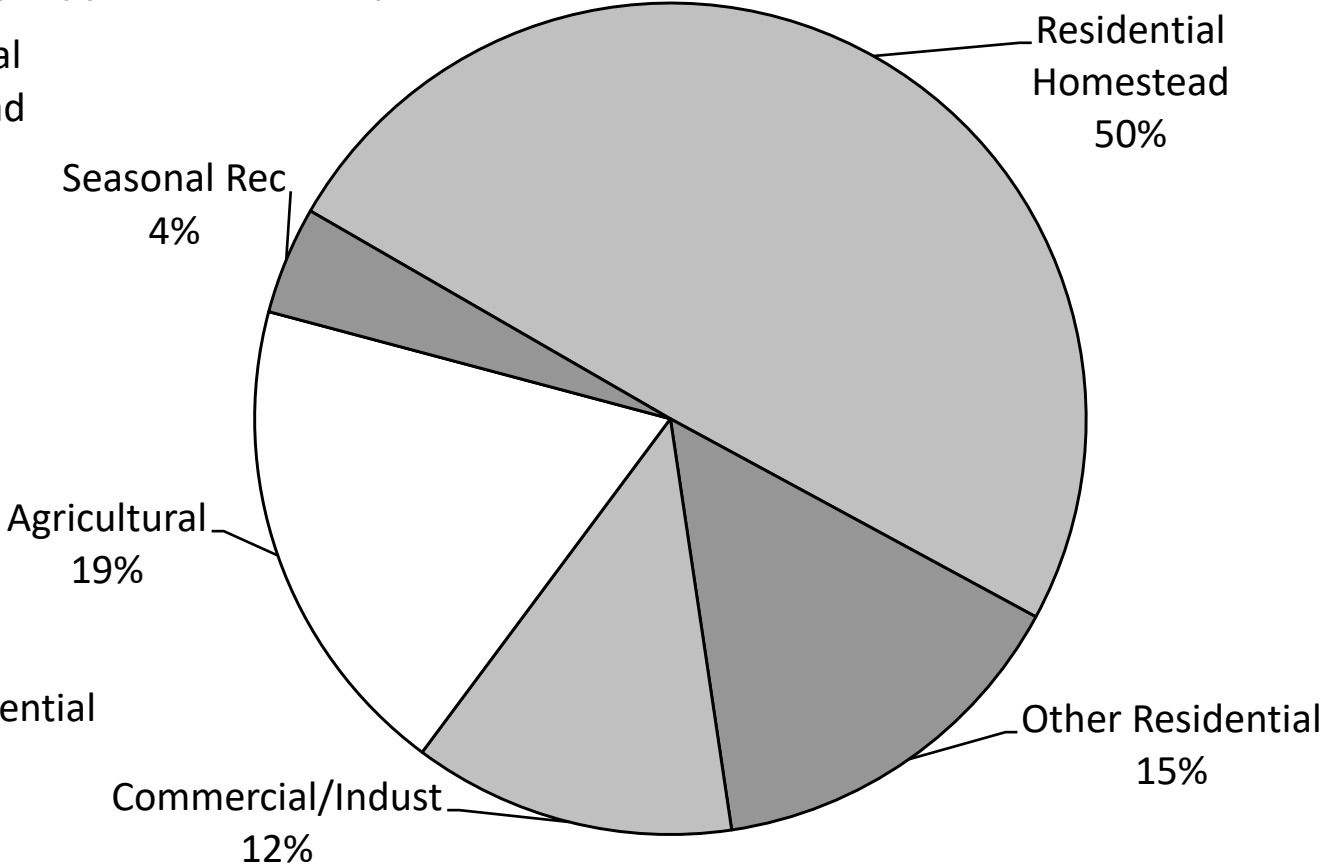
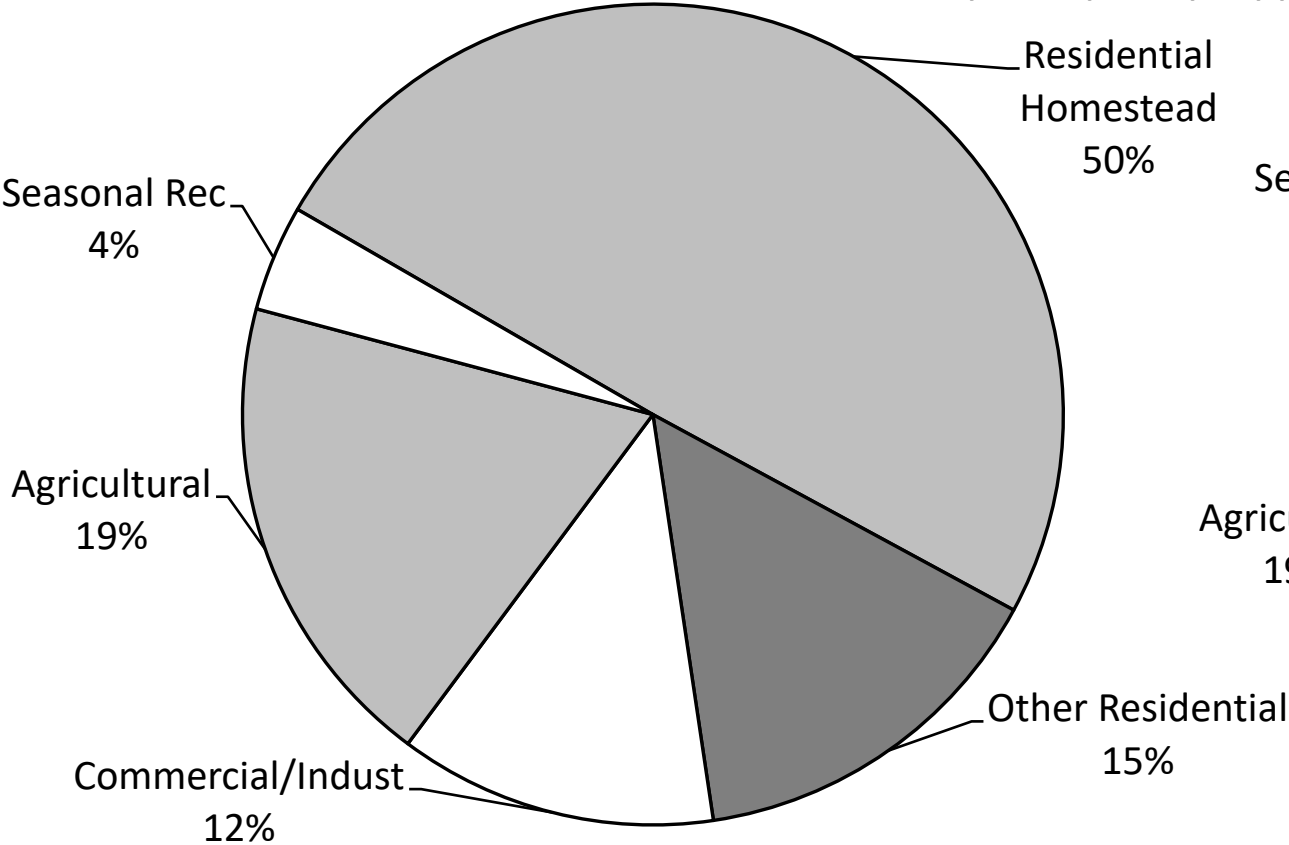
- Providing programs with **Direct State Aid**;
- **Equalization** – where the state pays for a portion of levy program based on certain criteria. Most equalization calculations are a ratio between residential pupil units against ANTC valuation.
- **Tax Credits** – State will pay portion of property tax of homeowner after levy is spread. An example is the School Building Bond Agricultural Credit.

Property Taxes Market Value and Taxes Paid

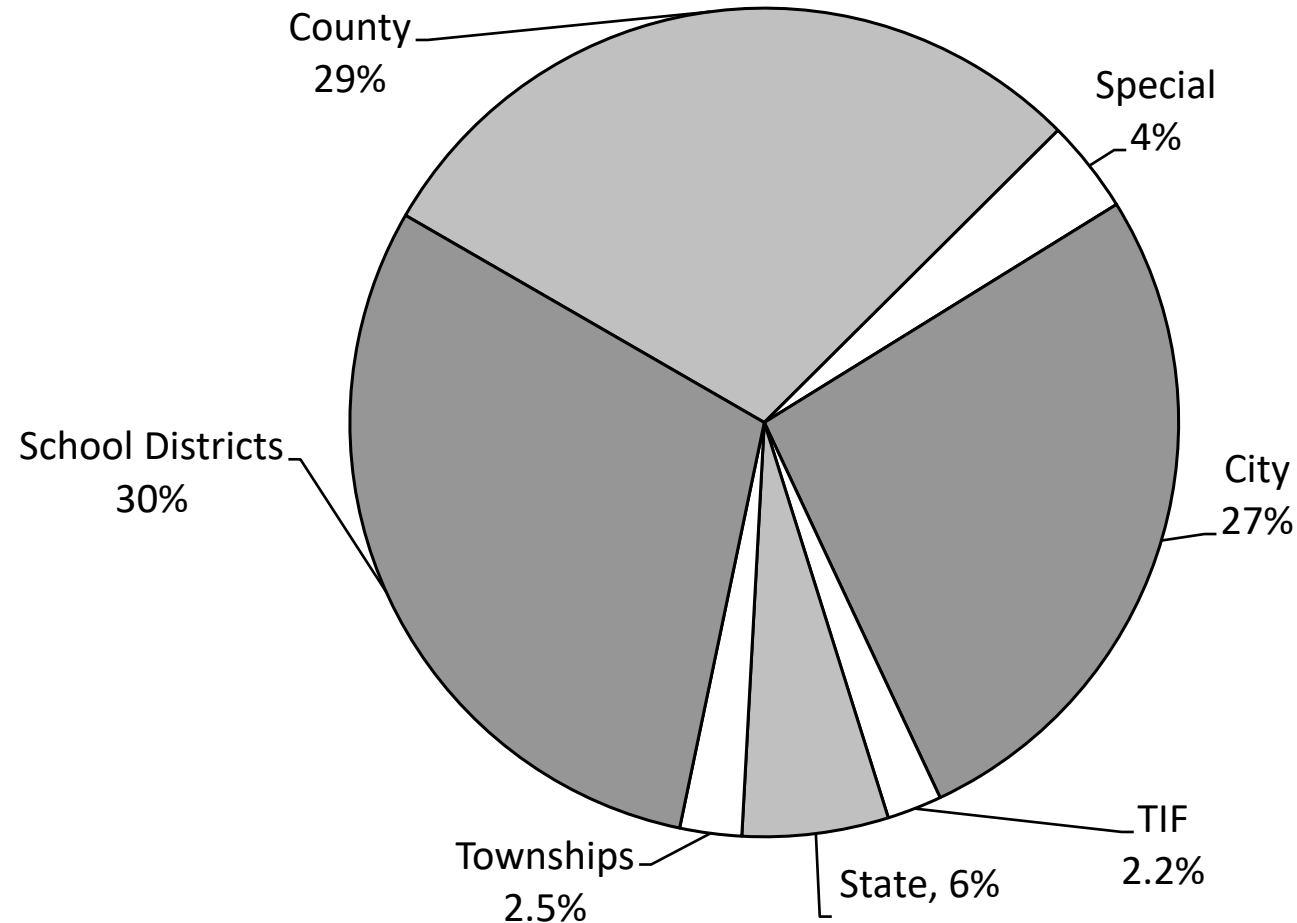
Market Value
(\$1.082 Billion)

Taxes Paid
(\$13.013 Billion)

by Property Type, Taxes Payable in 2024



Property Taxes by Type of Government Payable in 2024: \$13.013 Billion (includes Credits and TIF)



Goals of a School Funding System

Stability, transparency, efficiency, and effectiveness:

- Provides stable, predictable and sustainable revenues over time;
- Allocates resources through understandable statewide formulas that are rationally related to educational need and minimize burdensome paperwork;
- Provides incentives and flexibility for local education agencies to increase achievement for all and close achievement gaps in an efficient and effective manner.

Education Funding Principles

1. Goals of a School Funding System
2. Adequacy of Education
3. Equity for Students
4. Equity for Taxpayers

Equity for Students

Equity for Students:

- Equity for students with different challenges
- Equity for students located in different areas
- Equity for students regardless of choice of program

Equity for Taxpayers

Equity for Taxpayers:

Tax burden to provide adequate basic funding is uniform throughout the state, regardless of local tax base. This can be accomplished with either:

- full state funding; or
- a mix of state funding and a uniform local property tax levy.

Additional revenue to supplement basic programs is equally available to all districts, regardless of geographic location (state aid or equalized levy).

Equalizing factors are indexed to state average tax base/student to maintain stable state share of funding.

Adequacy of Education

- Ensures that all local education agencies have the resources needed to provide an adequate basic education for all students, regardless of geographic location or student demographics
- Basic formula covers the cost of providing an adequate basic education for students without special needs
- Additional funding for excess costs including for high-need students, students with special education needs, and school organizations facing higher costs due to unique school district characteristics

Legal Context for School Finance

School Finance is governed by:

- The Minnesota Constitution;
- State Laws (Legislation and Rules);
- Federal Laws; and
- Agency Guidance

Minnesota Constitution Article 13, Section 1

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

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

Courts Interpret the Constitution and Statutes

- The Minnesota Supreme Court decided the *Skeen* Decision in 1993.
- The State of Minnesota is currently being sued in an action known as the *Cruz-Guzman* lawsuit and portions of the suit are before various levels of Minnesota's court system.

Legal Context: Laws and Rules

Session Laws:

Education Omnibus Bill and other legislation includes amendments to statutes, uncodified (one-time) laws, and appropriations.

Statutes & Session Laws available online at:

<https://www.revisor.mn.gov/pubs>

MDE Guidance:

Superintendent E-mails

School Business Bulletins

UFARS Manual

MARSS Manual

SERVS Webinars

Fiscal Context for School Finance

Education funding in Minnesota is mainly based on the number of pupils the school serves and depends on:

- state aid payments from the state general fund budget;
- local funding from the property tax system; and
- federal funds including permanent moneys and one-time federal funding for things like the COVID response.

Funding Based on Pupils

Minnesota's schools are primarily funded based on the number of pupils actually served at that school district (or charter school's schools). Funding is generally provided at the school district (charter) level, although some formulas are calculated at the school site.

The greater the number of students served, the more money the school receives.

Some formulas, such as compensatory revenue and English Learner revenue are dependent on student demographic information or some subset of total district enrollment.

Counting Pupils

To count students in Minnesota, an FTE style measurement of students called “average daily membership (ADM)” is the starting place.

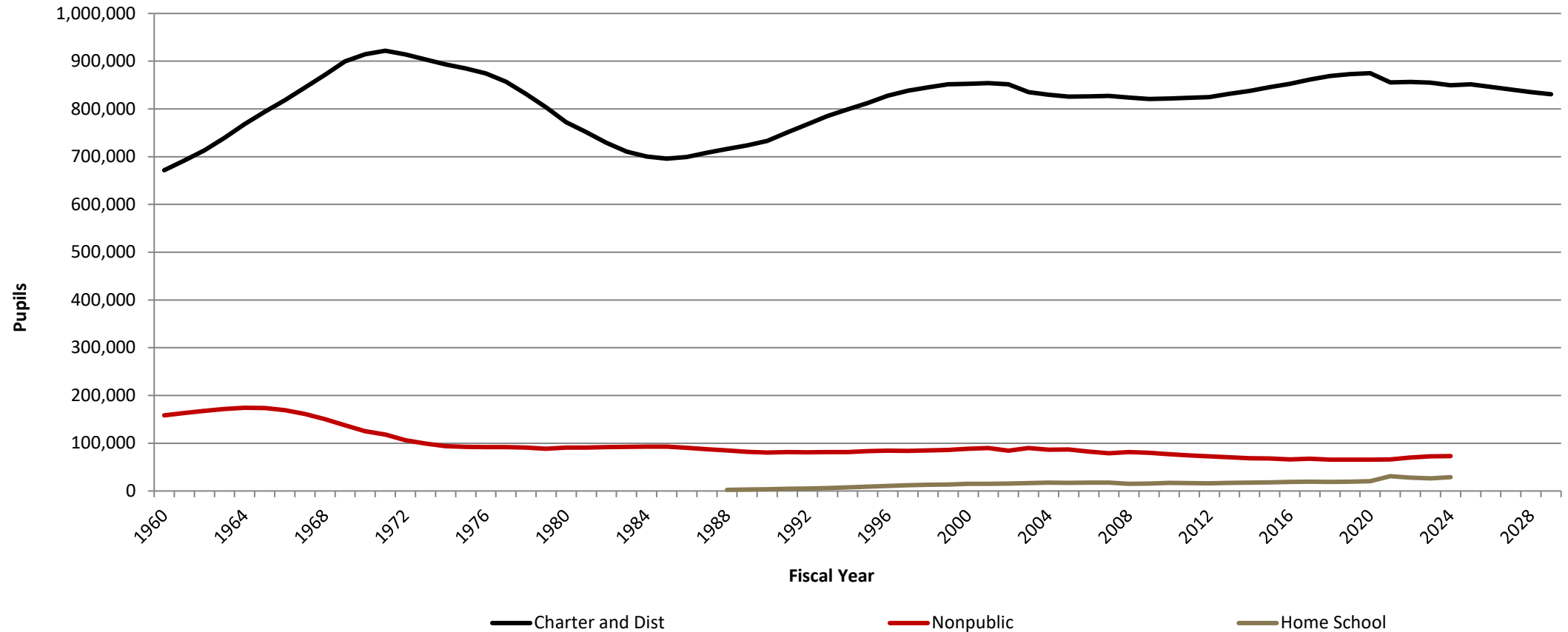
- **Resident ADM** are the public school students who live within the district’s boundaries.
- **Adjusted ADM** counts the students actually attending each school district or charter school.
- For funding purposes pupils are weighted by grade level with full-time kindergarten and elementary pupils weighted at 1.0 and secondary pupils weighted at 1.2. This count of pupils is called weighted average daily membership or **Resident Pupil Units** for the resident pupil count and **adjusted pupil units** for the weighted count of pupils served.
- **Adjusted pupil units** is the student count used for most of Minnesota’s school funding formulas.

Enrollment

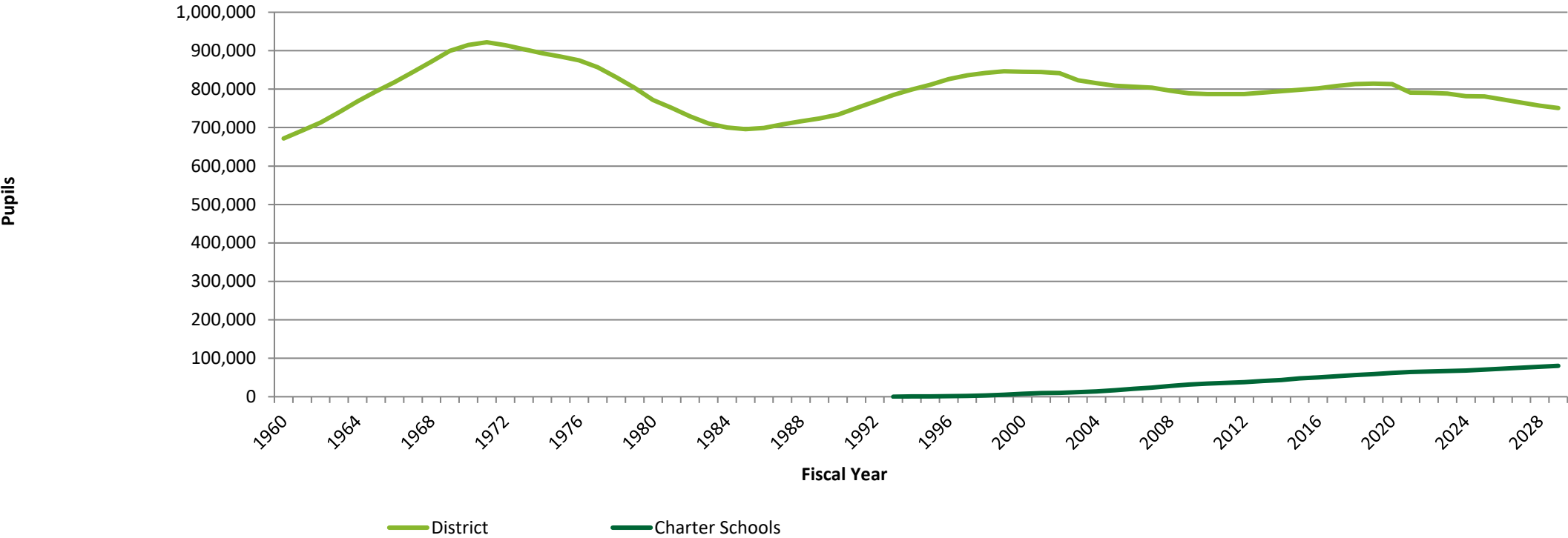
Minnesota's families may choose a variety of options for their students when it comes to K-12 education. Students may:

- Enroll in the resident school district;
- Open enroll in a different school district;
- Enroll in charter school;
- Enroll in traditional nonpublic school; or
- Choose to be home-schooled.

Enrollment in Minnesota's Schools: 1960 to 2029



Enrollment in Minnesota's Public Schools: 1960 to 2029

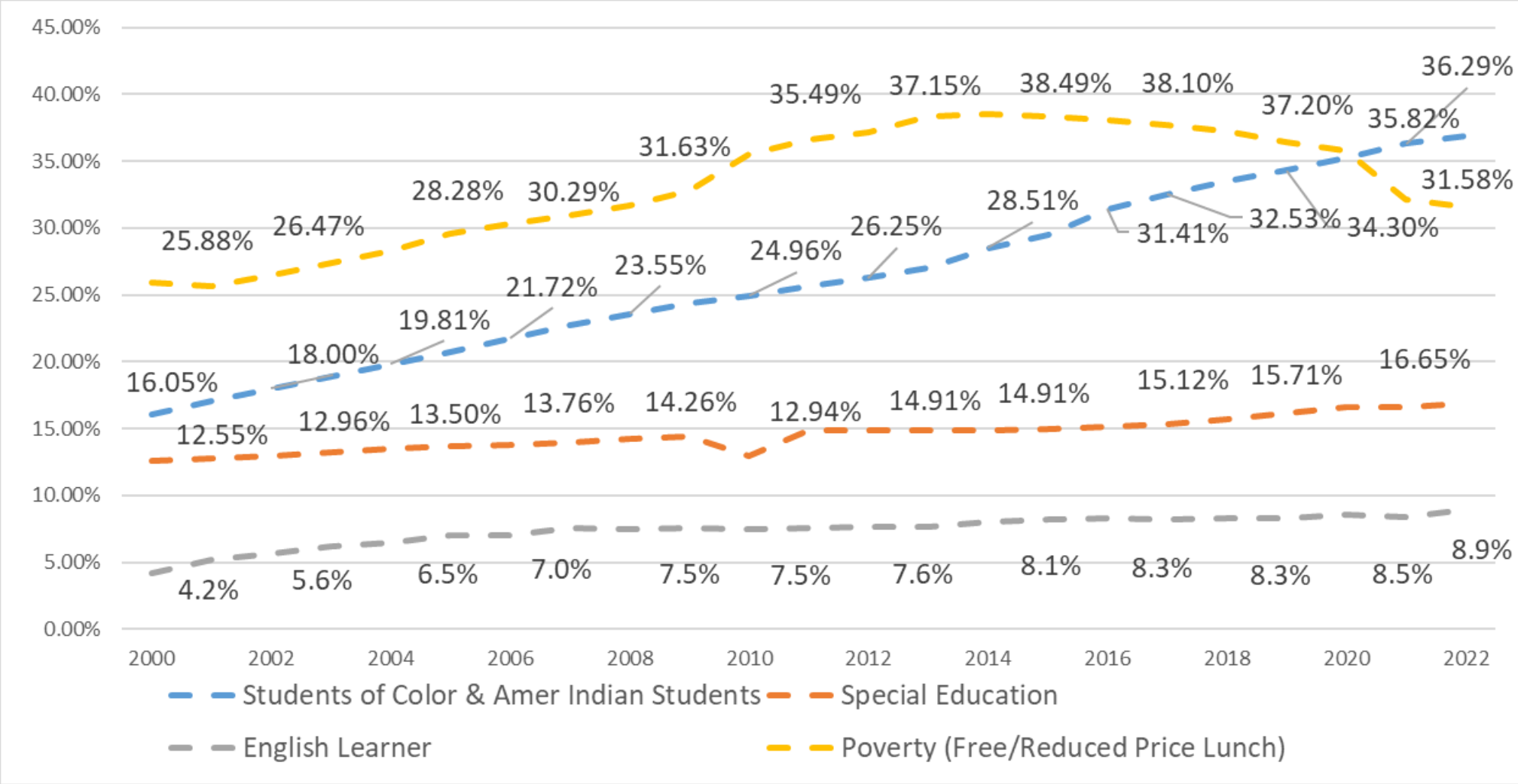


Demographic Changes in Minnesota's Schools

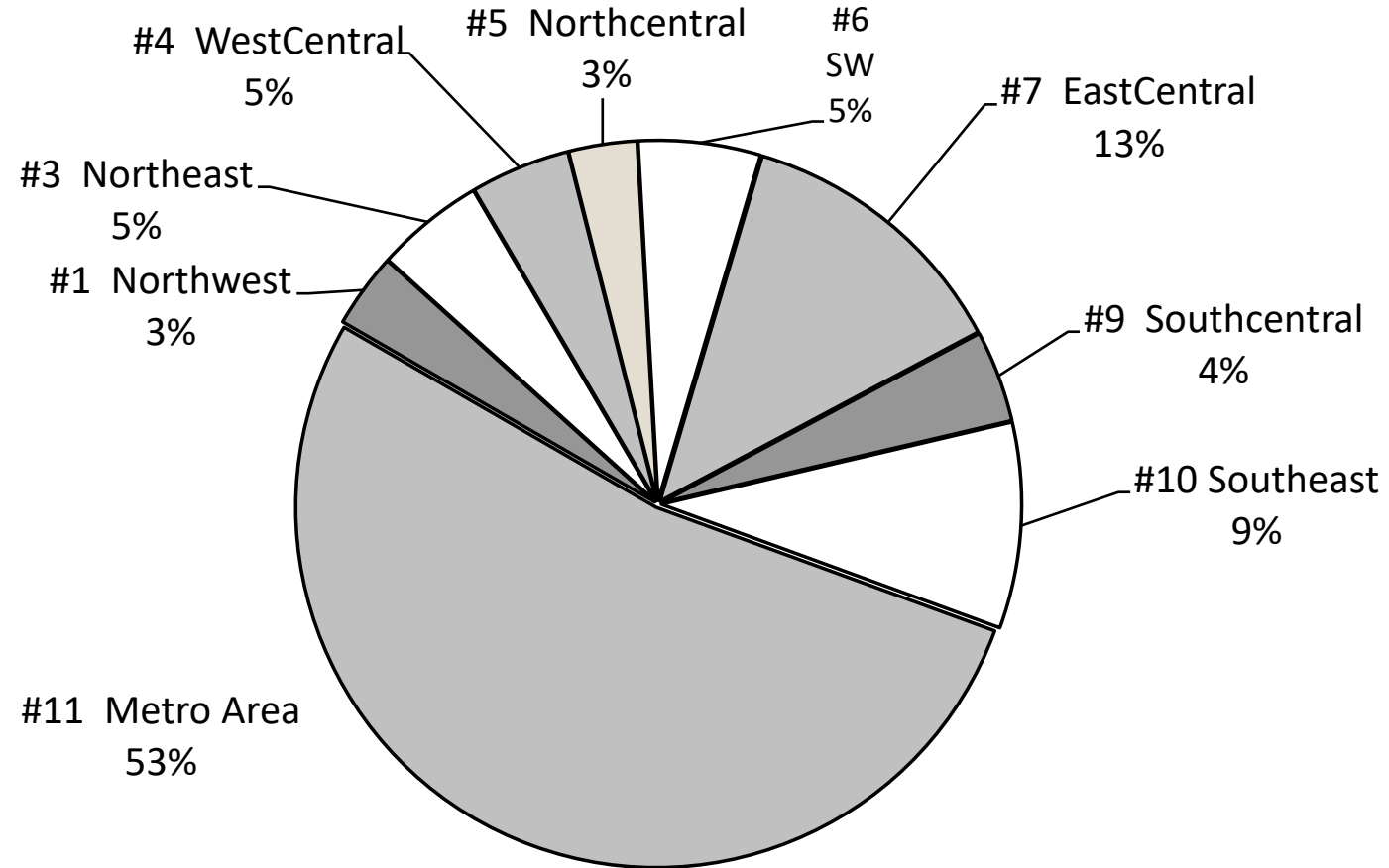
Overall Enrollment in Minnesota's schools is projected to decline for the foreseeable future and a greater share of students is likely to live in the Twin Cities metropolitan area. Student demographics continue to change for:

- Low-income students;
- English learner students;
- Special education students; and
- Students of color.

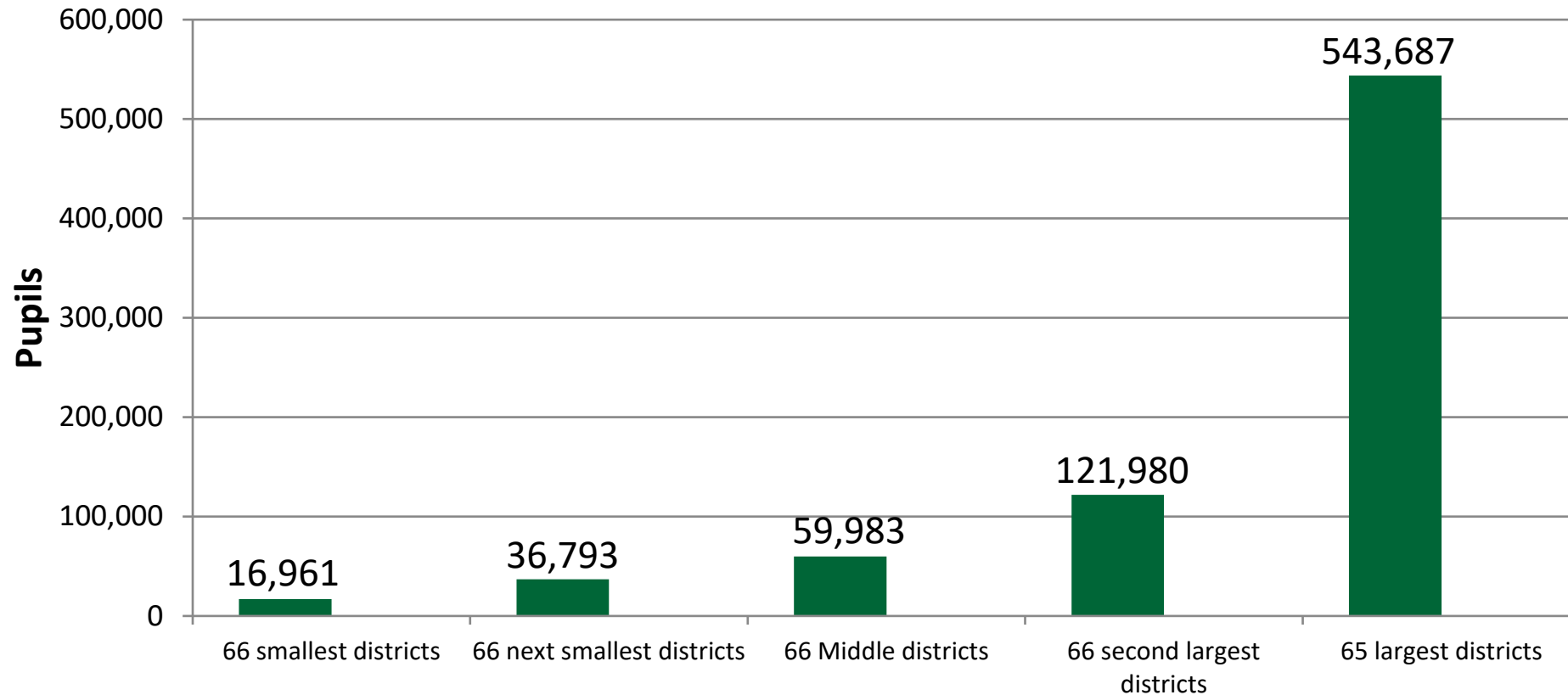
Special Populations as Percent of Public School Enrollment 2000 to 2024



School Enrollment (District and Charter) by Service Cooperative Region FY 2025



Percent of Students Enrolled by School District Size Quintile FY 2025



Funding Based on Costs

While most of the money provided to Minnesota's schools is through a per pupil formula, some programs, like special education, are funded on a partial cost reimbursement basis, where the district receives a percentage of their total spending for that program.

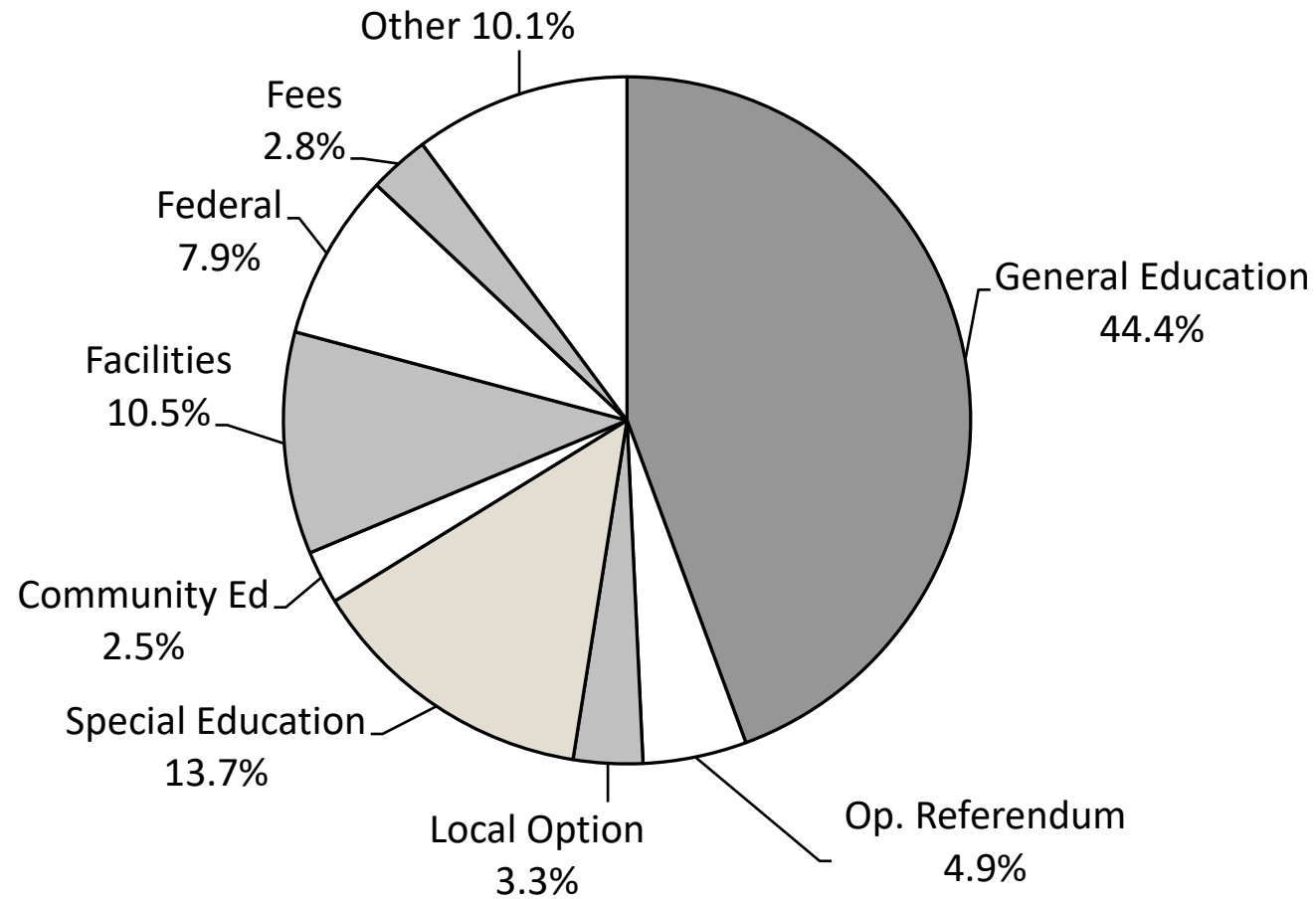
Major Components of the School Finance System

Minnesota's school finance system consists of more than 40 aid and levy programs. The biggest programs are:

- General Education Revenue
- Special Education Revenue
- Voter-approved Operating Revenue
- Voter-approved Revenue for Building Projects

Major Components of the School Finance System

Estimated Total Revenue for Schools FY 25: \$18.971 Billion



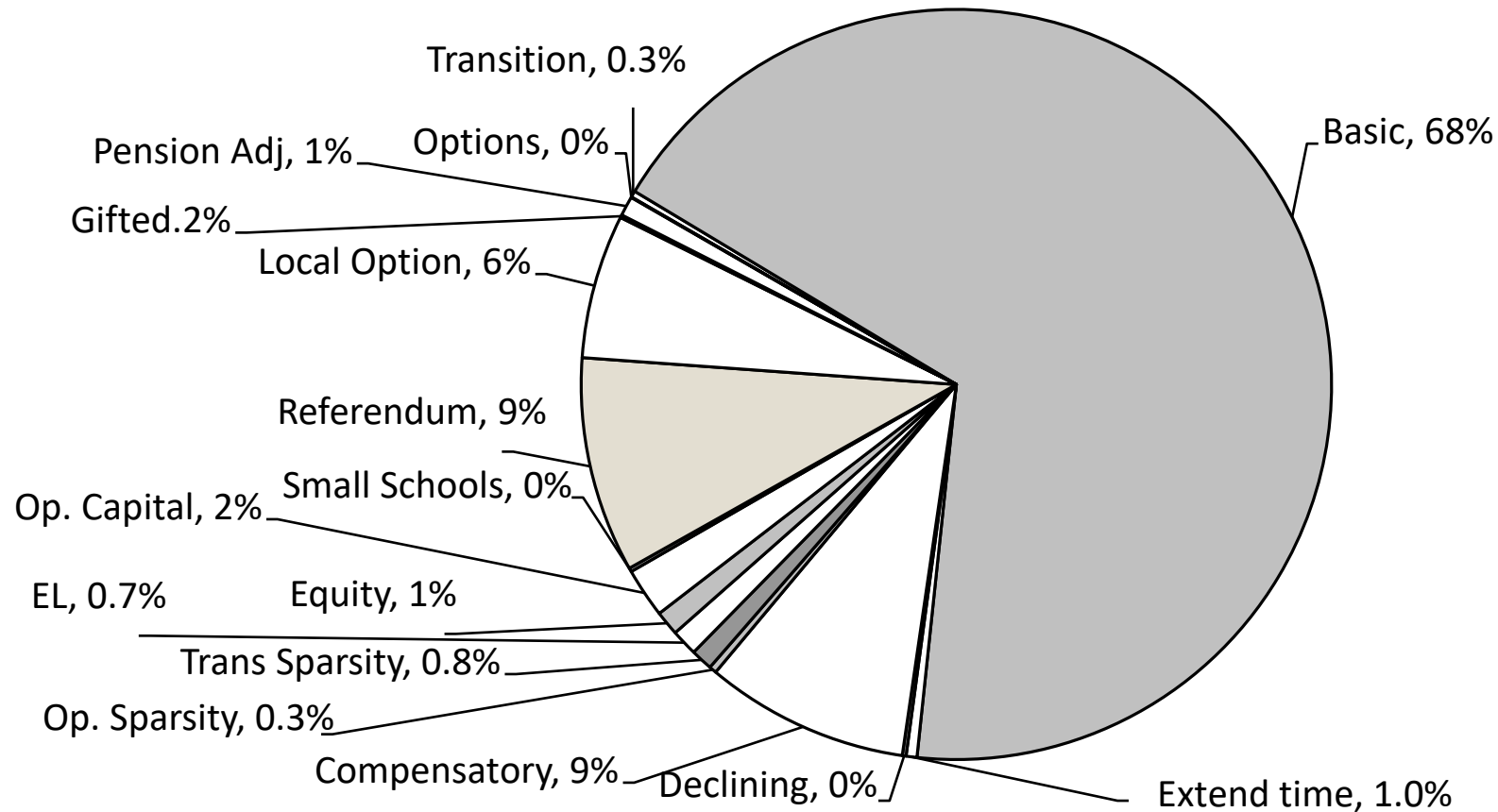
General Education Revenue

General Education Revenue is the state's main vehicle for funding school district operating needs. General Education Revenue consists of:

- Basic Revenue (often called the formula allowance);
- Compensatory Revenue;
- English Learner Revenue;
- Local Optional Revenue (LOR);
- Sparsity Revenue; and
- A series of smaller revenue components.

General Education Revenue by Component

\$9.963 Billion FY 2025



General Education Printouts

General Education is often displayed on a district-by-district printout that shows each component of general education revenue for a particular year by school district and charter school.

School districts are often shown in numerical order which generally groups schools by county.

Charter schools are generally shown on a printout in ascending district number order.

Special Education Revenue

Special Education revenue is funded primarily through state aid with a relatively modest amount of special education aid coming from the federal government.

A significant share of special education costs is unfunded and must be paid for by the school district with its other general fund money.

Resident school districts are responsible for most unfunded special education costs of open-enrolled and charter school students. This is often referred to as the special education tuition bill-back.

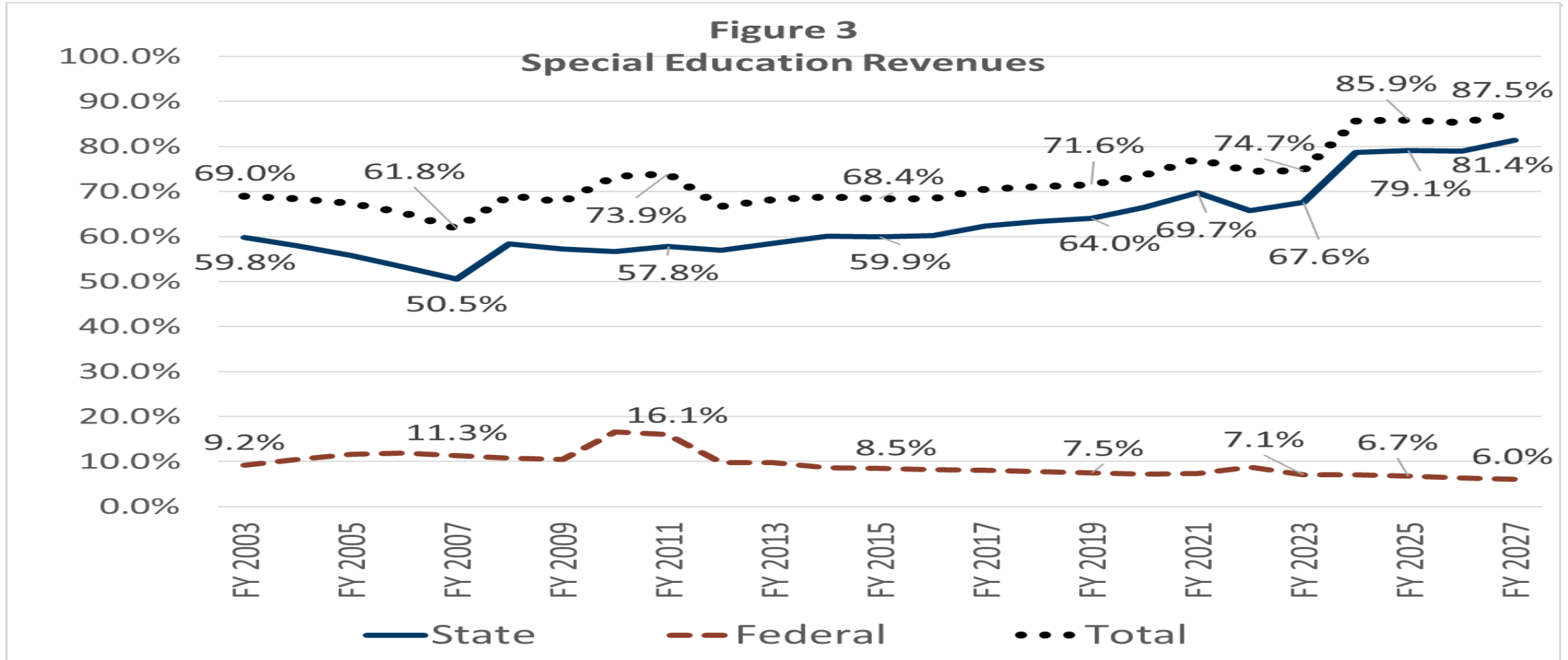
Special Education Cost & Revenue

Fiscal Year 2025 (from 2023 Special Education Cross Subsidy Report)

Special Education Estimated Total Costs Federal and State	\$3,240,700,000
State Special Education Aid Less ADSIS and Non-Special Education Transportation	\$2,375,100,000
Federal Aid	\$218,700,000
Third Party/Medical Assistance Revenue (health systems payments)	\$72,000,000
Total Categorical Revenue	\$2,665,800,000
Unadjusted Gap between Costs and Revenue (Unadjusted Cross Subsidy)	\$574,900,000
Adjusted Cross Subsidy (allocates some general education revenue)	\$457,300,000

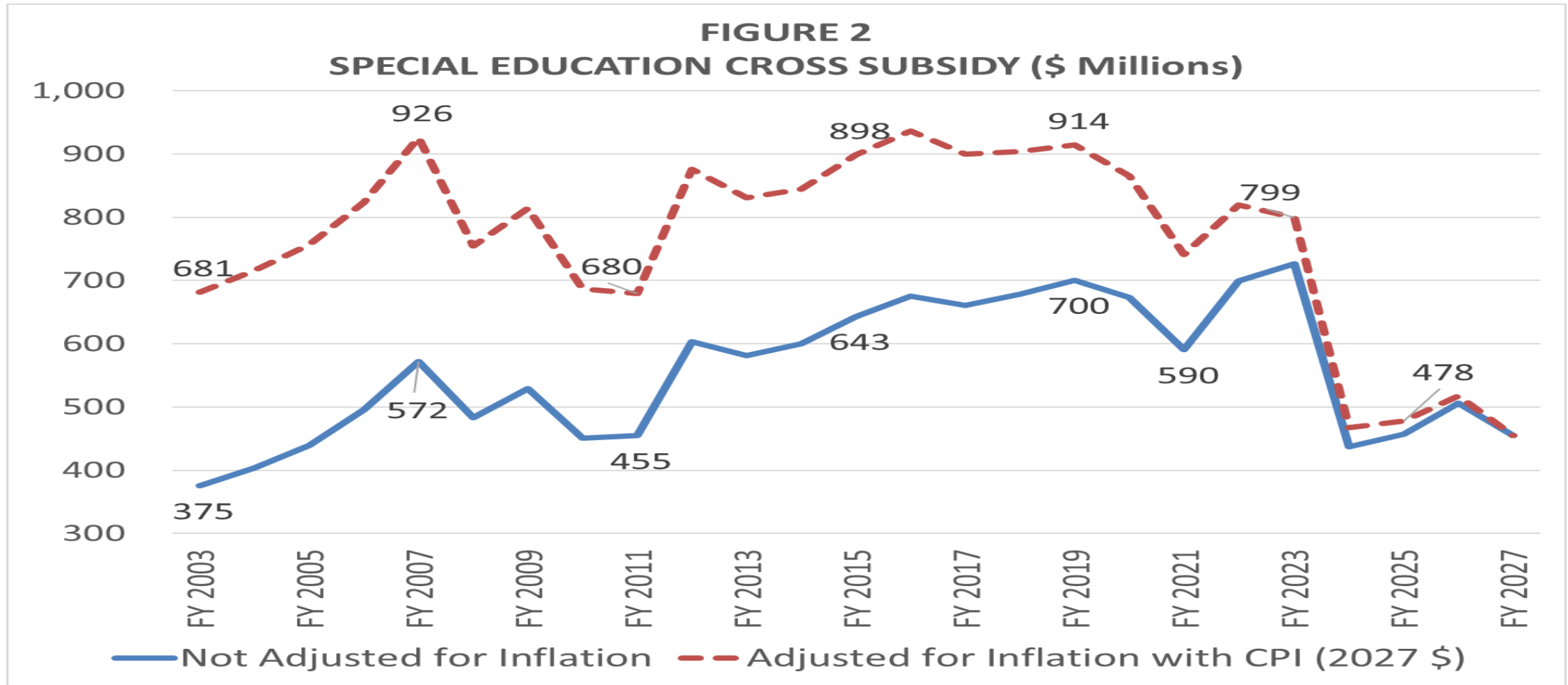
State Special Education Revenue Over Time

2023 Special Education Cross Subsidy Report



Special Education Cross Subsidy per ADM

2023 Special Education Cross Subsidy Report



Special Education Revenue cont'd

Special education revenue comes primarily from state aid, but a small portion comes from the federal government.

Special education revenue is based on district costs and is harder to estimate and has a wider estimation error than general education revenue.

Special Education Revenue can be shown on a district-by-district basis. See special education printout for details.

School Finance Info on the Web

MN House of Representatives website

School finance overviews on: <http://www.house.leg.state.mn.us/>

- [Minnesota School Finance: A Guide for Legislators](#)
 - (Long version – 147 pages)
- [Financing Education in Minnesota, 2024-25](#)
(Short version – 77 pages)
- Forecast Documents: <https://mn.gov/mmb/forecast/>

School Finance Info on the Web

MDE Web Site

Data Center/Data Reports and Analytics:

- Minnesota Funding Reports (MFR)
 - Aid entitlement reports
 - Levy limitation reports
 - IDEAS aid payment reports
- School Finance Spreadsheets
 - What-If (general education revenue calculations)
 - Financial Profiles

School Support/School Finance

- UFARS and MARSS Manuals
- School Business Bulletins
- Memos/guidance
- One-Time Reports (e.g., Governor's budget runs)