January 16, 2017

To: Minnesota Legislators

From: Kirk Schneidawind, MN School Boards Association

 Gary Amoroso, MN Association of School Administrators

 Scott Croonquist, Association of Metropolitan School Districts

 Fred Nolan, MN Rural Education Associaion

 Brad Lundell, Schools for Equity in Education

Re: Biennial Growth in E-12 Education Spending

**Comparing Biennial E-12 Education Spending: The Real Story Behind the Numbers**

The complicated nature of the education funding system often leads to an inaccurate picture of the state of funding for school districts. A prime example is comparing education spending from one biennium to the next biennium rather than comparing year-to-year spending. Case in point, the November 2016 Budget and Economic Forecast shows that education spending is projected to grow by **$774 million (4%)** from the 2016-17 biennium to the 2018-19 biennium. However, biennium to biennium comparisons can provide a greatly distorted picture of school funding that is not reflective of the actual funding increases received by school districts. Below is an explanation of the biennium to biennium cost increases. It is important that state policymakers understand the real story behind the numbers.

**Special Education. ($292 million)**

The projected increase in special education expenditures is the result of more students receiving special education services and the new special education funding formula that was adopted in the 2013 session. While state special education aid is projected to grow significantly, mandated special education expenditures are projected to **grow even faster**. In fact, the Minnesota Department of Education projects that the special education cross-subsidy - the amount by which school district special education expenditures exceed special education revenue – is projected to grow. **The increased number of students receiving special education services and the new formula accounts for $292 million of the biennial increase.**

**Pupil Growth. ($223 million)**

Since general education spending is largely driven by the number of students served by our public schools, faster than projected pupil growth accounts for a large share of the projected increase in education spending. While pupil growth results in a significant cost increase for the State, it does not provide additional per pupil funding for school districts. The latest forecast shows that pupil growth in the 2018-19 biennium is projected to exceed previous forecasts by 26,000 pupils. **The increased number of pupils accounts for almost $223 million of the projected biennial increase in education spending.**

**Second Year Effect**

A third factor arises when the Legislature enacts a new program or increases funding for an existing program effective in the second year of the biennium. In this case, the program only requires one year of funding in the current biennium but must be funded for BOTH years in the subsequent biennium. There are two significant examples of this from the 2016-17 biennium.

* **Long-term Facilities and Maintenance Revenue Program. ($131 million)**

This important new program, recommended in 2014 by the School Facilities Financing Working Group, was adopted in 2015 effective for the FY 2017. It only required funding in the second year of the 2016-17 biennium but will need to be funded for both years of the 2018-19 biennium. **This accounts for $131 million of the biennial increase from 2016-17 to 2018-19**.

* **Formula Increase ($110 million)**

The 2015 Legislature approved an increase in the basic formula of 2% per year for the 2016-17 biennium. Here again, the increase that took effect in the second year of the 2016-17 biennium only had to be paid for once in that biennium but will have to be paid for in both years of the 2018-19 biennium.

Additional cost drivers include an increase in the compensatory education program due to a higher number of students eligible for free or reduced price lunch and some changes to the mix of state aid vs. property tax levies. The 2015 education bill lowered some property tax levies and replaced the revenue with state aid. While such changes result in increased spending for the State, they are revenue neutral for school districts.

**Why is this important?** State policymakers may be led to believe that school districts are scheduled to receive significant new funding over the next two years if they look only at the biennium to biennium spending comparison. It is important that legislators understand that the vast majority of increased state spending described above does not represent new operating revenue for school districts and in no way negates the need for investments in the basic formula allowance, special education and other important education programs during the 2017 session.

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| **Major Drivers of School Funding: More Students, New Facitlities Funding, Second Year Funding Effect** | **18-19 Biennium****(millions)** |
| New special education formula and increase special education costs  | $292 |
| Growth in pupils served | $223 |
| New Long Term Facility Maintenance (LTFM) Scheduled Implementation | $131 |
| Second year formula increase | $110 |
| Total | $737 |