

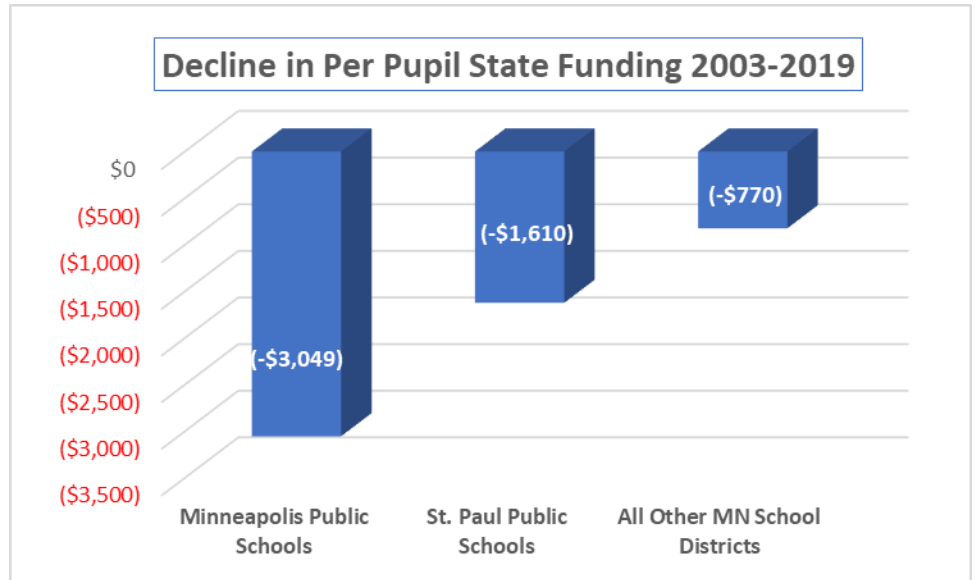
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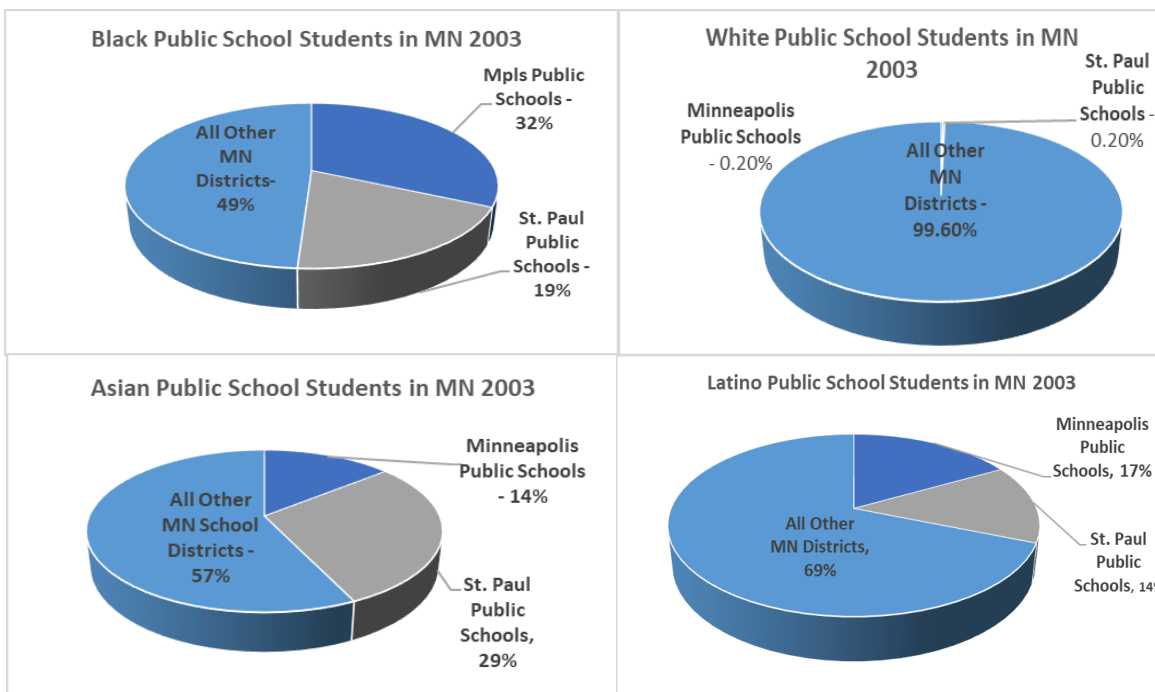
Introduction and Summary of Findings

Despite recent increases, real state aid to public schools in Minnesota is much less than it was in 2003. In its analysis of data from the Minnesota Department of Education, the North Star Policy Institute found that almost all Minnesota school districts experienced a significant decline in real per pupil operating aid, but the Minneapolis and Saint Paul districts were hit much harder than the rest of the state. North Star reported that since 2003, real per pupil state aid has decreased an average of \$770 in all other Minnesota school districts, while the per pupil reduction in Saint Paul was more than double that --\$1,610, and the decrease in Minneapolis was \$3,049, nearly four times greater than the rest of the state.¹

Much of these decreases can be attributed to program funding cuts that were made in 2003 under Governor Tim Pawlenty, and to the state's failure to keep up with inflation in its education aid, especially between 2003 and 2012.



The Minneapolis and Saint Paul school districts were the most impacted by the 2003 cuts. Given the demographics of the Minneapolis and Saint Paul districts, this means that Black and Latino students were especially affected by the cuts. In 2003, more than half the Black public-school students in Minnesota (51%) were concentrated in the Minneapolis and Saint Paul schools, as were 43 percent of Asian students and almost a third of Latino students (31%). In contrast, less than one percent of white students in Minnesota (0.4%) attended school in the two districts.²



¹ "Put Your Money Where Your Mouth Is," North Star Policy Institute, Jeff Van Wychen, September 20, 2017

² "2002-2003 Enrollment by Gender/Ethnicity by District," Minnesota Department of Education

Many of the 2003 funding cuts were in programs aimed at helping those who faced the largest obstacles: low-income students and students of color.³

- English Learners: The state of Minnesota provides additional funding to school districts with English Learning (EL) students (formerly Limited English Proficiency) due to the additional costs of educating these students. In 2003, schools could receive funding for up to seven years for an individual EL student - if the student continued to require EL services. The legislature cut this to a maximum of 5 years for a single student starting in 2004.
 - This policy change resulted in a decrease from 2003 to 2004 of \$11 million in funding to Minnesota school districts, with St. Paul bearing a loss of \$5 million (45% of the total), and Minneapolis losing \$3 million (27% of the total).
- Compensatory Funding: School districts receive additional funding for students eligible to receive free and reduced-price lunches. The legislature and Pawlenty cut the amount used in the Compensatory Revenue formula by \$415 per student.
 - The impact of the cuts was experienced almost entirely by students in the Minneapolis and St Paul school districts, which received \$13.4 million less in 2004, while all other districts in the state saw a total reduction of \$1.7 million.
- Extended Time: Governor Pawlenty and the legislature eliminated the provision that gave additional “weight,” up to 0.5 pupil units per at risk student who received extra help, in the Basic Funding program. This was replaced with new “Extended Time” funding, which was capped at 0.2 additional units per student. Because of the decrease in pupil weighting, the newly created Extended Time category only partially offset the losses incurred under the Basic category.
 - As a result, Minnesota school districts experienced a net loss of \$49 million in 2004. Minneapolis Public Schools bore 25% -- \$12 million – of this loss and St. Paul schools saw 12% of the loss -- \$6 million.

On top of these cuts, the state has failed to keep up with inflation in the funding formula for these programs.⁴

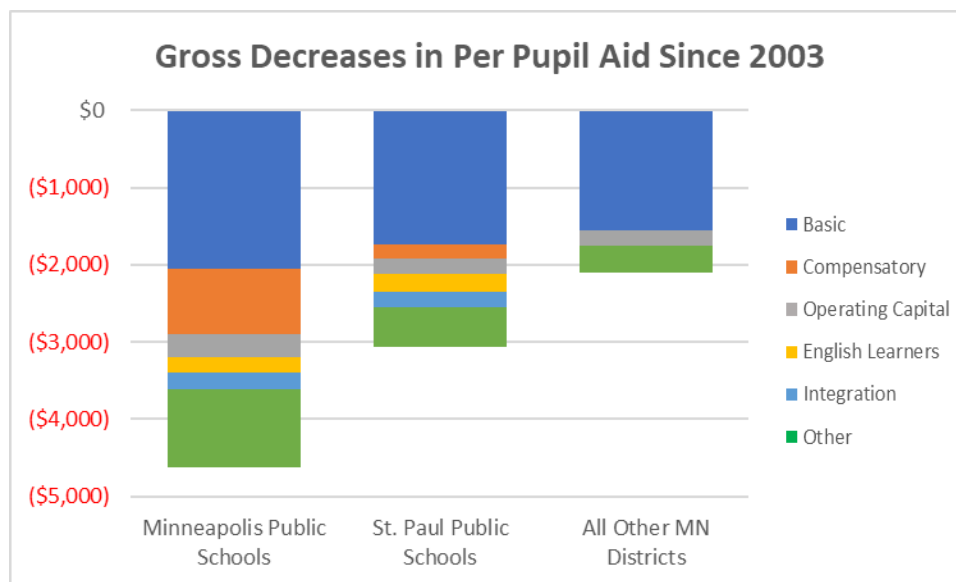
- English Learners: In 2003, the state increased the amount it gave school districts per EL student from \$584 to \$700. It has only been increased by \$4 in the fifteen years since then. If the state had maintained funding at the same level as in 2003, adjusted for inflation, it would be \$919 per EL student.
- Compensatory Funding: To remain at its real 2003 level, the Compensatory formula allowance should have increased to \$7,243 for FY 2019. However, it is almost \$2,000 less -- just \$5,473.
- Extended Time: Similarly, if the legislature had kept up with inflation in Extended Time revenue funding since its 2004 inception, the dollar allowance would be \$6,986 per pupil – over \$1,800 greater than its actual value of \$5,117.

³ Unless otherwise noted, all information about the 2003 policy changes and the financial impact comes from the Minnesota Department of Education’s July 2018 “Minnesota School Finance History 1849-2018” and its “Estimated General Fund State Aid and Levy Results, FY 2003 to FY 2017.”

⁴ Adjustments for Inflation are based on the Implicit Price Deflator for State and Local Government Purchases.

The 2003 cuts and the state’s failure to keep up with inflation in its education funding formulas has resulted in serious decreases in several categories of state aid.

- **Basic Funding:** All districts have been impacted by the state’s failure to keep up with inflation in its Basic Funding, but Minneapolis and St. Paul were hit harder because of the change to Extended Time, which used to be part of the Basic Funding program. Minneapolis schools are receiving \$2,055 less in real per pupil Basic Funding than in 2003. St. Paul schools are getting \$1,734 less. All other districts in the state are receiving on average \$1,556 less.
- **Compensatory Funding:** Minneapolis Public Schools are getting \$849 less in real per pupil Compensatory funding than in 2003, and St. Paul schools are receiving \$181 less. In contrast, all other districts in the state are getting an average of \$228 more per pupil than they were in 2003.
- **English Learners:** Minneapolis schools are getting \$204 less in real per pupil funding from the English Learner program than in 2003, and St. Paul schools are getting \$232 less. Other Minnesota districts are getting \$4 less per pupil than in 2003.
- **Operating Capital:** Minneapolis is receiving \$293 less in real per pupil funding from state’s Operating Capital program. St. Paul is getting \$208 less, and the other districts are getting \$203 less.
- **Integration:** Minneapolis is receiving \$101 less in real per pupil funding from the state’s Integration program. St. Paul is receiving \$70 less, and other districts are getting \$7 more per pupil than they were in 2003.

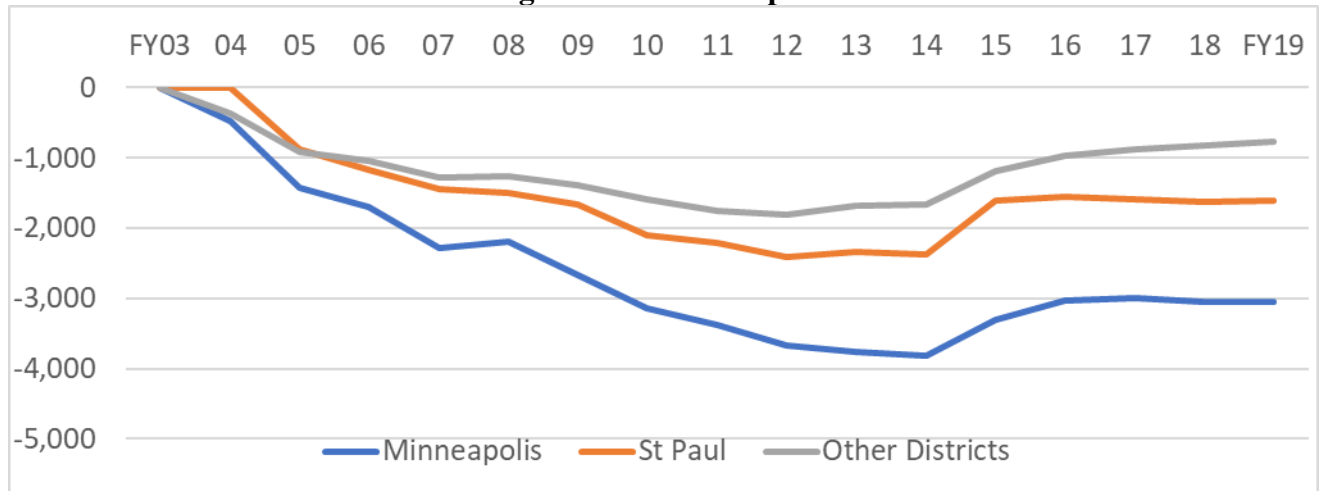


There were also increases in other funding categories, however these did not come close to making up for the losses.

- Minneapolis Public Schools experienced a gross decrease (the combined decrease of all categories where the district lost aid), totaling \$4,624 per pupil since 2003, and an increase in other areas of \$1,575 per pupil, for a net loss of \$3,049 in real per pupil funding.

- St. Paul schools experienced a gross decrease totaling \$3,060 per pupil - and a gross increase in other areas of \$1,450 per pupil, for a net loss of \$1,610 in real per pupil funding compared to 2003.
- All other districts in the state experienced an average gross decrease of \$2,095 per pupil, and a gross increase of \$1,325 per pupil for a net loss of \$770 per pupil.

Changes in Real Per Pupil Aid 2003 - 2019



Basic Funding

Overview

The Basic General Education Aid formula establishes the minimum level of funding for school districts. It is calculated by multiplying the “formula allowance,” which is the amount of per-pupil funding, by the total number of “adjusted pupil units,” which is the number of students a district serves, weighted by the grade level of each student.

$$\text{Basic Aid} = \text{formula allowance} \times \text{adjusted pupil units}$$

Cuts

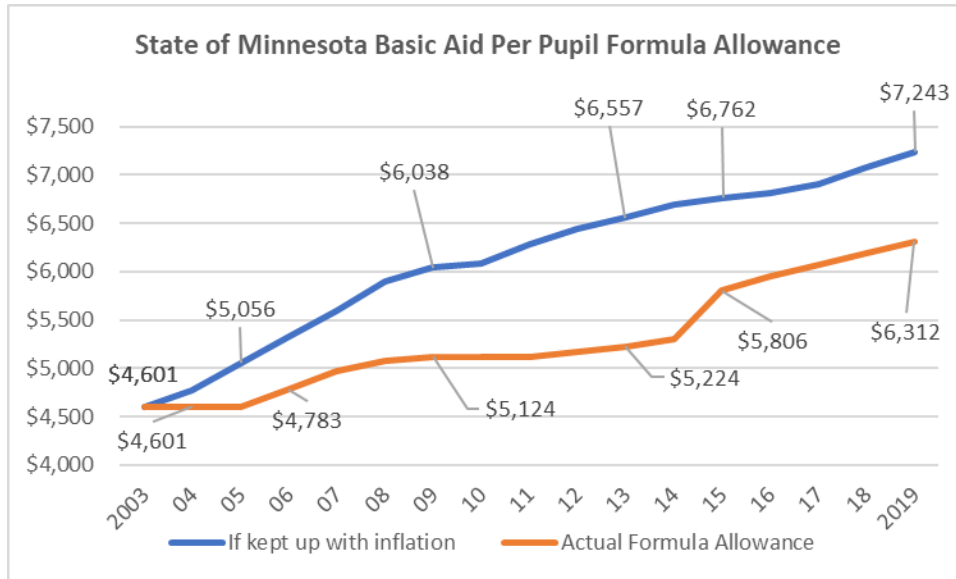
In the 2002-2003 school year, at-risk students who participated in a learning program outside normal school hours (after school, on weekends, or during the summer) were given additional “pupil unit” weighting of up to 0.5 per student. In 2003, the state legislature eliminated this provision and created a separate category to account for these students, called “Extended Time revenue,” which was capped at an additional weight of 0.2 per student. Because of this lower weighting, the increased revenue from the newly created Extended Time program was not enough to make up for the losses in Basic funding. Extended Time revenue offset just 41% of the nominal⁵ losses in Basic funding sustained by Minneapolis schools from 2003 to 2004, 60% of the losses in Saint Paul, and 55% in all other districts.

In total, there was a decrease in nominal Basic revenue of \$30 million for Minneapolis Public Schools in the 2003-2004 school year, which was only partially offset by \$12 million in Extended Time revenue, resulting in a net loss of \$18 million. St. Paul experienced a decrease of \$15 million in nominal Basic revenue and an increase of \$9 million in Extended Time revenue, for a net loss of \$6 million. All other Minnesota districts received \$53 million less in Basic revenue and \$28 million more in Extended Time revenue, for a net loss of \$25 million.

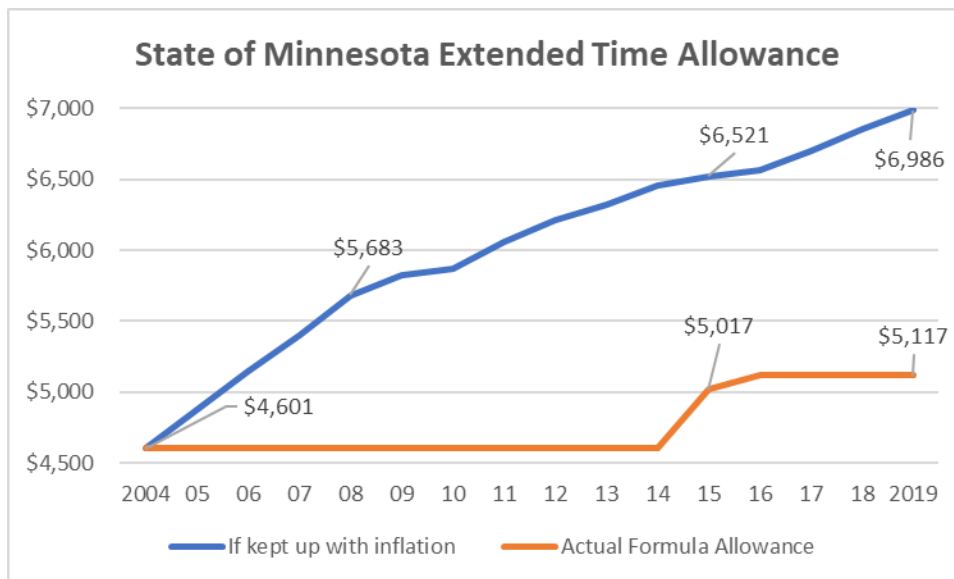
Current Status

The formula allowance (per pupil dollar amount) has not kept up with inflation since the state reworked the funding structure in 2003. For the 2002-2003 school year, Basic revenue was calculated as \$4,601 times the number of pupil units. This amount remained the same in 2003-2004 and 2004-2005, then increased minimally over the next few years. The allowance stagnated at \$5,124 from 2008-2009 until 2011-12, when it was raised by less than 1% each of the next two years. The state increased the amount by \$765 (14%) from 2014 to 2017, which went along with a decrease in pupil weightings. However, the current figure is still about 900 real dollars less than it was in 2003.

⁵ “Nominal” refers to an amount that has not been adjusted for inflation, in contrast to “real” figures that do make such adjustments.



Extended Time revenue is calculated by multiplying pupil units times a different dollar allowance, which in 2004 was also \$4,601. This amount did not increase until FY 2015, when it was raised to \$5,017, and then to \$5,117 the following year. If the Minnesota legislature had kept up with inflation in its Extended Time program funding, the figure would currently be \$6,986 – over \$1,800 more than what its actual value.



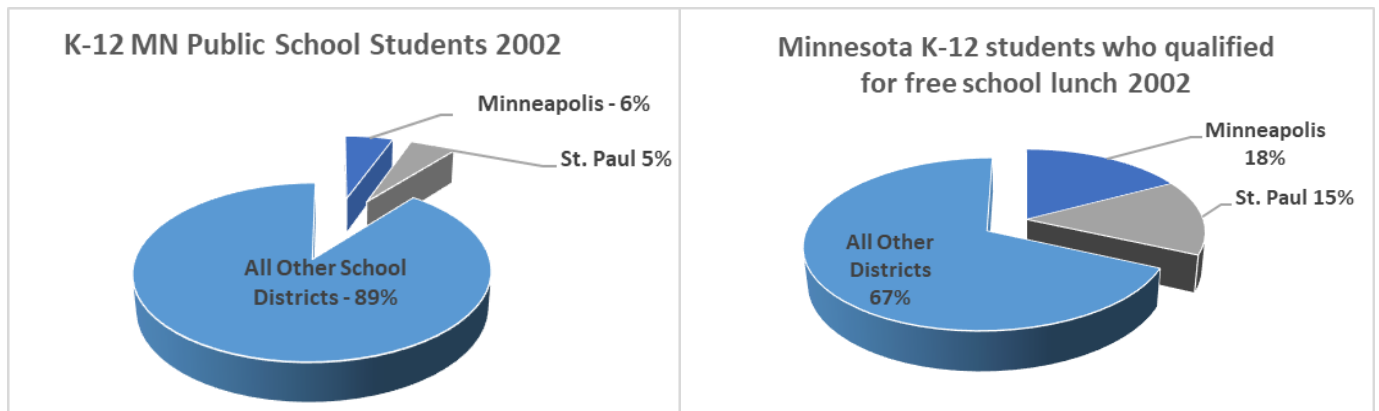
We can combine these changes to find the net loss of real per pupil aid between Basic and Extended Time revenue. In 2003, Minneapolis started with \$8,705 FY18 dollars per pupil, all in Basic aid, and now gets \$6,651 in Basic aid and \$255 in Extended Time aid, leaving a net loss of \$1,800. In the same time frame, St Paul saw a net loss of \$1,429 per pupil while all other districts saw a combined net loss of \$1,500.

Compensatory Funding

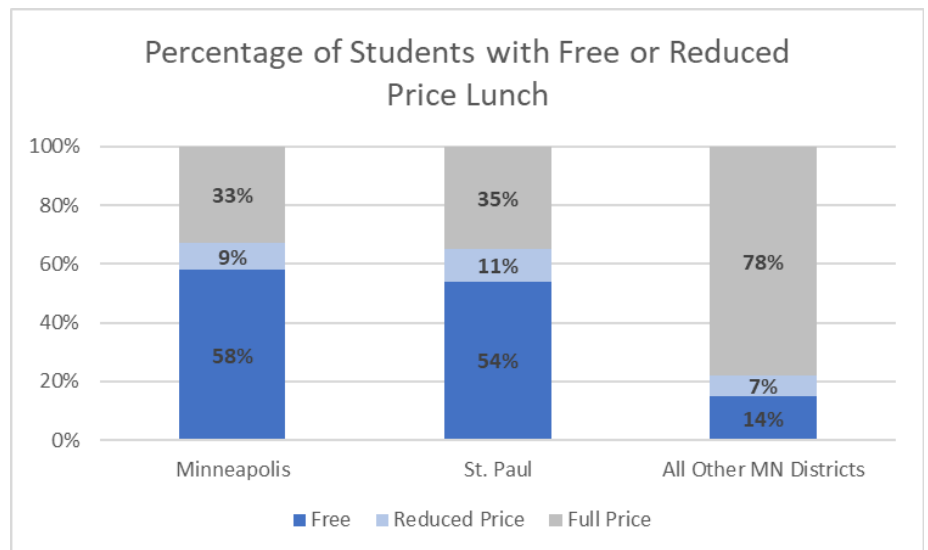
Overview

School districts receive additional funding, called Compensatory revenue, for students eligible to receive free and reduced-price lunches. The revenue “must be used to meet the educational needs of pupils whose progress toward meeting state or local content or performance standards is below the level that is appropriate for learners of their age.”⁶ This includes funding remedial programs, adding more teachers or teacher aides for individualized instruction, and lengthening instruction time, including summer school.

Compensatory revenue is calculated by multiplying the Basic formula allowance (used to calculate Basic revenue) by Compensatory pupil units, which are based on the concentration of free and reduced lunch students in each school. Students in the Minneapolis and St. Paul Public Schools were the largest beneficiaries of this program. In 2002, the year used to calculate Compensatory funding for FY03, students in these two districts made up just 11% of the total students in Minnesota but accounted for 33% of students eligible to receive free lunch.⁷



Additionally, about 2/3 of the students in the Minneapolis and St. Paul Public Schools qualified for free or reduced lunch, compared to just 21% of the students in other Minnesota districts.



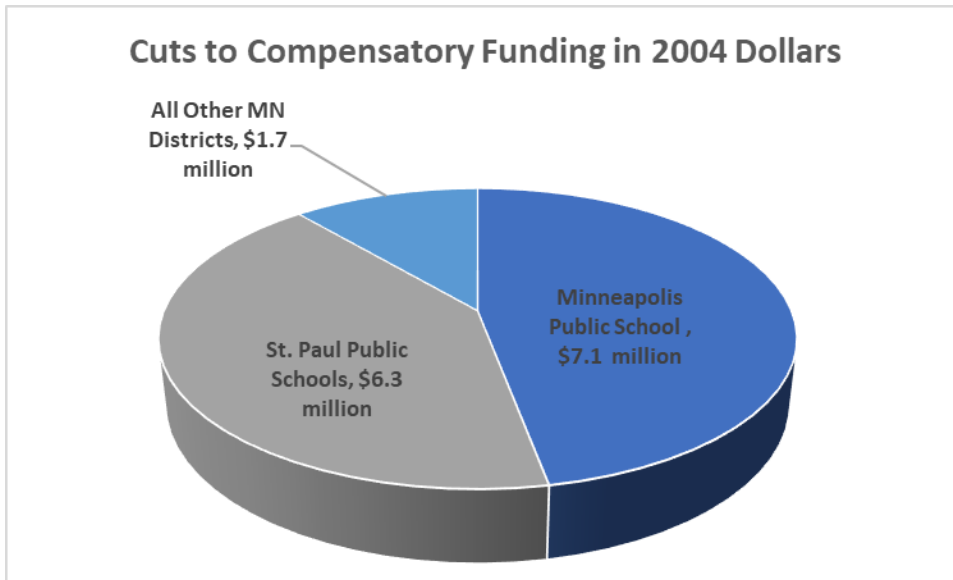
⁶ Minnesota Statutes 2017 Section 126C.15, “Basic Skills Revenue, Compensatory Education Revenue”

⁷ “2002-2003 Enrollment by Special Population by School” Minnesota Department of Education

Cuts

In 2003, the legislature cut the per-pupil Compensatory formula allowance by \$415. This resulted in a 10% decrease in 2004 Compensatory funding in both the Minneapolis and St. Paul school districts, but just a 1.5% drop in all other Minnesota districts.

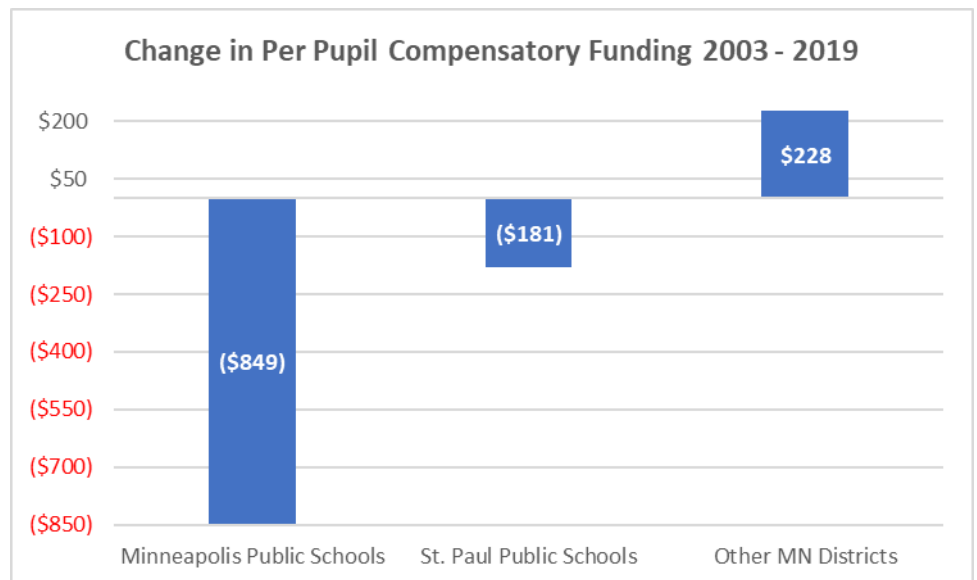
The impact of the cuts was experienced almost entirely by students in the Minneapolis and St Paul school districts, which absorbed almost 90% of the decrease.



In 2018 dollars, these cuts translated into a \$199 drop in real per pupil funding for Minneapolis schools, a \$231 drop for Saint Paul schools, and just a \$10 drop for all other districts between 2003 and 2004.

Current Status

To keep up with inflation, the Compensatory funding formula allowance (per pupil dollar amount) should have increased to \$7,243 for FY 2019 – but it currently sits at only \$5,473. Since Minneapolis and Saint Paul school districts have such a higher concentration of free and reduced lunch students, they have been disproportionately impacted by this. From 2003 to 2019, Minneapolis saw real per pupil losses in the Compensatory category totaling \$849, and St. Paul dropped by \$181. During the same time, the average real per pupil aid in all other Minnesota districts went up by \$228.



English Learner

Overview

The state of Minnesota provides additional funding to school districts with English Learning (EL) students because there are additional costs of educating these students. For funding purposes, students are considered English Learning students if:

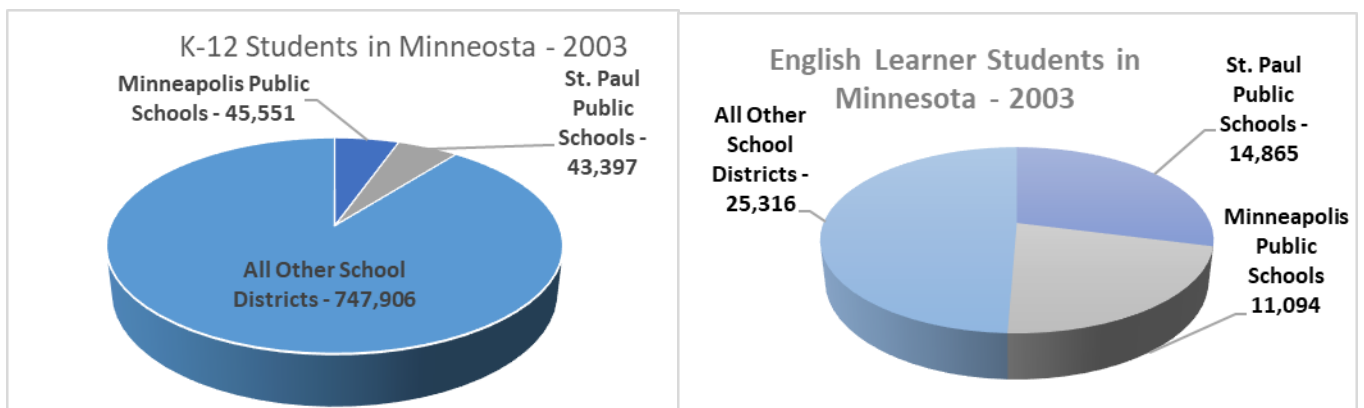
- English is not their primary language,
- their English skills do not allow full classroom participation, and
- their English test score is below the cutoff.

In the 2002-2003 school year, the state gave school districts \$584 per EL student, plus \$190 per EL concentration pupil unit, which is calculated based on the concentration of EL students in a district. Schools could receive funding for up to seven years for an individual EL student, if the student required EL services.

Cuts

When Tim Pawlenty took office as governor in 2003, he stated that under the current EL funding system, there was no incentive for districts to ensure that EL students were learning the language.⁸ That year, Pawlenty and the legislature cut the funding from a maximum of 7 years per student to a maximum of 5 years. Although they also increased the per-EL student funding to \$700 and the EL concentration revenue to \$250 per EL pupil unit, the losses stemming from the decrease in eligible students far outweighed the increase in formula values.

Minneapolis and St. Paul were by far the districts most impacted by this change since about half of the EL students in the state attended school in those two cities. Minneapolis and St. Paul Public Schools accounted for 11% of all k-12 public school students in the state, but 51% of the state's EL students – 29% in St. Paul and 22% in Minneapolis.⁹

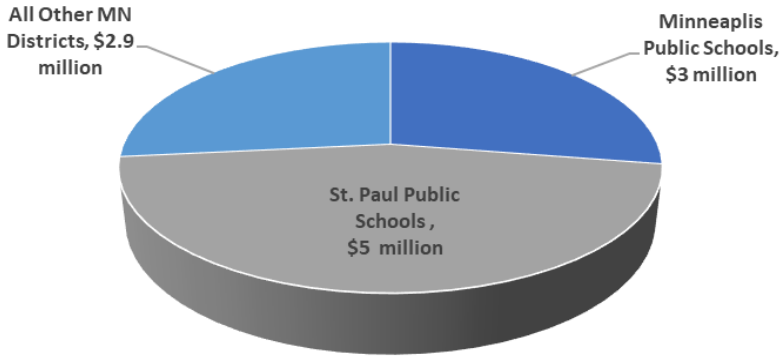


This policy change resulted in an immediate decrease from 2003 to 2004 in nominal dollars of 11 million nominal dollars, with Saint Paul and Minneapolis schools bearing most of the cuts. Saint Paul's funding fell \$5 million – 45% of the total reduction, and Minneapolis had \$3 million – 27% of the total.

⁸ Minnesota Department of Education 2004-05 Biennial Budget

⁹ 2002-2003 Enrollment by Gender/Ethnicity by District," Minnesota Department of Education

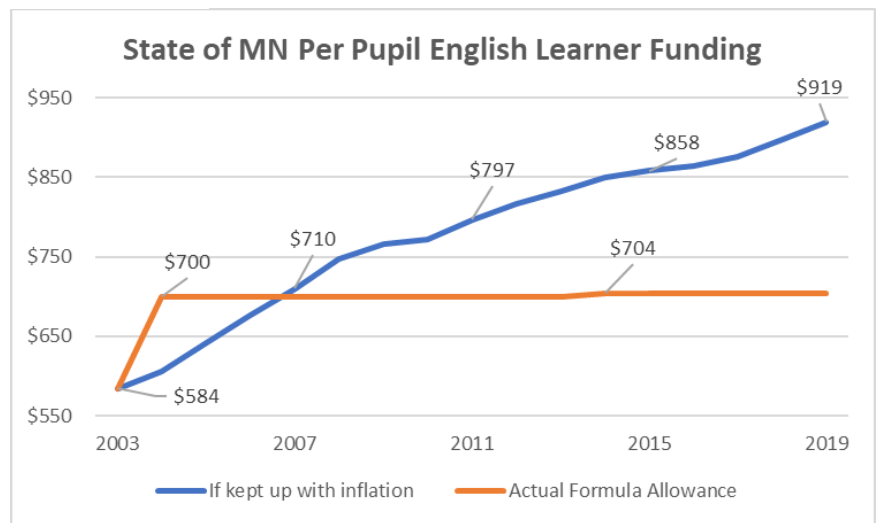
State of Minnesota 2004 Cuts to English Learner Program



This policy change remained in place until the 2014-2015 school year when the state provided funding for up to a maximum of 6 years for EL students, and then for the 2016-2017 school year, the maximum limit of 7 years was restored.¹⁰

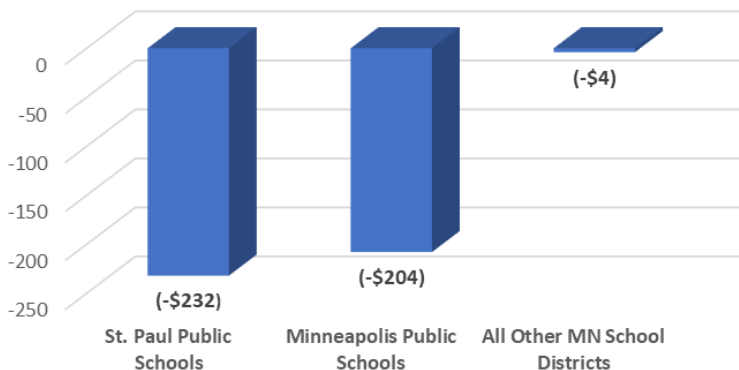
Current Status

In the 2002-2003 school year, the state gave school districts \$585 per EL student, plus \$190 per EL pupil unit. This was increased to \$700 per EL student, where it remained until the 2013 legislative session when it was increased to \$704, where it still currently sits.



The additional revenue based on the concentration of English Learner students in a district was \$190 per pupil unit in 2003. It was increased to \$250 in 2004, and it has continued at that same amount up to FY 2019.

Decline in Per Pupil State Aid 2003-2019 From English Language Funding



If the state of Minnesota had maintained funding for the English Learner program at the same level as in 2003 (\$584 allowance and \$190 per concentration pupil unit), adjusted for inflation it would be \$919 per EL student – over \$200 more than the current funding - and it would be \$299 per concentration pupil unit.

Overall, in FY 2018 dollars, the Saint Paul Public Schools are receiving \$232 less in state aid per pupil than in 2003, and the Minneapolis schools are receiving \$204 less, while all other districts are getting \$4 less.

¹⁰ "Financing Education in Minnesota 2017-18," Minnesota House of Representatives, December 2017

Achievement & Integration

Overview

According to the Minnesota Department of Education, the purpose of Achievement and Integration revenue is to “pursue racial and economic integration, increase student achievement, create equitable educational opportunities, and reduce academic disparities based on students' diverse racial, ethnic, and economic backgrounds in Minnesota public schools.”¹¹

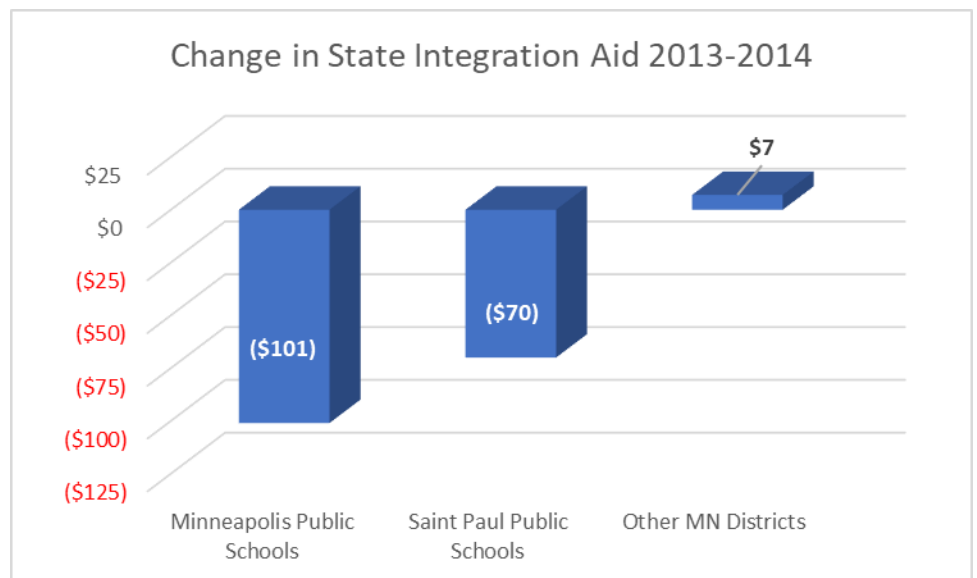
In order to be eligible to receive funding, districts must submit a detailed integration plan, including a proposed budget, to a state commissioner, as well as hold a public hearing to discuss the district’s progress in meeting the goals outlined above.

In 2003, the maximum possible Integration revenue was calculated by multiplying a formula allowance by the total adjusted pupil units for a district. This allowance varied and in some cases was district-specific: Minneapolis and St Paul had an allowance of \$446 per pupil, Duluth had an allowance of \$207, other districts had an allowance between \$93 and \$130.

Current Status

The amount used for Integration revenue remained at the same amount in nominal dollars used in 2003 for eleven years. After a 2012 task force examined and submitted a report on this integration funding structure, the 2013 legislature decided to rework integration revenue into a new category, known as Integration and Achievement. This category, which went into effect in fiscal year 2014, changed the maximum revenue formula to only \$350 per pupil. There was also a transition clause aimed at helping districts that would lose funding from the change to maintain revenue closer to 2013 levels.

This new policy immediately created large discrepancies between funding changes for Minneapolis/St Paul and for the rest of the state. Between 2013 and 2014, Minneapolis and St Paul saw total nominal decreases in state integration aid of \$2.8



¹¹ Minnesota Statutes 2017 Section 124D.861, “Achievement and Integration for Minnesota”

Operating Capital

Overview

Operating capital is revenue for repairing and improving district equipment and facilities. Operating capital revenue is calculated based on the number of pupil units and the average building age in the district.

Cuts

In 2003, state aid covered all operating capital revenue. However, the 2003 legislature changed this, imposing a levy which went into effect in 2005. The change was felt immediately. Between 2004 and 2005, real per pupil state aid dropped by \$126 in Minneapolis, \$91 in Saint Paul, and \$86 in all other districts.

Current Status

Although it was not a relatively significant contributor to the gap in funding changes between Minneapolis/St Paul and other Minnesota districts, this category was one of the main contributors to the decline of real funding in districts across the state. In 2003, the dollar allowances used in operating capital revenue were \$100 and \$73. In 2019, those figures are just barely above their original amounts -- \$109 and \$79. If those numbers had kept up with inflation, they would be \$157 and \$115.

As a result of the failure to keep the formula allowances at the same level as in 2003 in real dollars, as well as the operating capital levy imposed in 2005, Minneapolis lost \$293 in real per pupil aid, St Paul lost \$208 per pupil, and the remaining districts dropped by \$203 per pupil.