

# Understanding Education Finance

2004-2005 Edition

A TAXPAYERS GUIDE TO K-12 EDUCATION IN MINNESOTA

Center for **P**ublic **F**inance **R**esearch



RESEARCH IN GOVERNMENT

Research Arm of the Minnesota Taxpayers Association

### **Minnesota Center for Public Finance Research**

The Minnesota Center for Public Finance Research, formerly known as the Minnesota Tax Foundation, incorporated in 1982 as a charitable educational organization, is a foundation created to support the [Minnesota Taxpayers Association](#). Our mission is to provide objective research and analysis on state and local tax and spending issues in support of effective, efficient, and accountable government.

### **Minnesota Taxpayers Association**

The Minnesota Taxpayers Association is a non-profit, non-partisan organization dedicated to being an independent voice for good government and sound tax policy. Its membership is statewide, open to all, and representative of every category of taxpayer. It was founded in 1926 and incorporated in 1958.

### **Acknowledgements**

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# UNDERSTANDING K-12 EDUCATION FINANCE

## *A Taxpayer's Guide to K-12 Education in Minnesota*

### Introduction

For several years, the Minnesota Taxpayers Association and its supporting research and education organization, the Minnesota Center for Public Finance Research, have produced various taxpayer guides to help citizens better understand how state tax and spending systems work.

This guide, “Understanding Education Finance,”—an update of our 1996-97 edition—discusses the basics of our state’s education finance system. Several important legislative changes along with a renewed emphasis on linking education spending with educational outcomes has prompted the Center and the MTA to revisit this timely and important topic.

In this booklet, we provide a broad overview of the K-12 education finance system, along with a discussion of several major policy issues shaping its future. We hope it helps citizens become more informed and engaged in the discussion about our schools and how they are paid for.

### Overview

Minnesota’s constitution specifically fixes responsibility for a public school system with the state legislature in Article XIII, Section 1, where it says:

**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.**

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The fact that a public school system is provided for in the constitution shows how high a priority the people of this state have put on public education. The single largest expense of Minnesota government is K-12 education, with nearly \$8 billion spent per year at the state and local levels combined, or over one-fourth of all government spending.

With the education of our children and this much money at stake, clearly it is in the best interest of Minnesotans to learn as much as possible about how our public education system works. You will not become an expert on the subject by reading this booklet, but hopefully you will learn enough in these pages to:

- develop a better understanding of the important issues we are facing in the area of education finance;
- stimulate your interest to learn more and have your voice heard; and
- be better equipped to help make K-12 education the best that it can be.

This guide is divided into three major sections:

- A question and answer portion to give you a start with the basics
- A “Hot Issues” section to give you a feel for the main points currently being debated
- Detailed Appendices containing important reference information

## **Section 1. Questions and Answers about K-12 Finance**

### **School Organization**

*Q: Before we start talking about dollars, I'd like to know more about how schools are organized. For example, what is a "school district"?*

Public school districts are local units of government created by the state as public corporations. At their most basic level, they are classified under Minnesota Laws as "Common," "Independent," and "Special." They are responsible for operating the "uniform system of public education," as the constitution says.

Even before Minnesota became a state, the territorial legislature made "every township containing not less than five families" a corporate school district<sup>1</sup>. At one time there were over 8,000 school districts in the state, but most of those consisted of a single one-room school house (see the table on the next page). By 1970, most of those so-called "common districts" had merged into 446 larger districts with usually more than one school per district. Continued consolidations have brought that number down to 343 districts for the 2002-2003 school year, plus about 77 charter schools, as the only entities to receive funding from the state directly. (See Section 2 "Hot Issues" for more on the charter school concept.) Individual school districts can be part of additional, cooperative school districts that are operated with funds from member districts.

<sup>1</sup> Laws of Minnesota Territory, 1849, Ch. 7, pp. 41-43. Quoted from Taxation in Minnesota by Roy G. Blakey, University of Minnesota Press, Minneapolis, November, 1932. p. 419.

*Q: If the legislature has given districts the authority to operate the schools, who runs the districts?*

An elected school board is responsible for the “care, management, and control” of independent districts (M.S. 123b.09) Local school boards, usually consisting of six or seven members, are elected by the voters of the district usually for terms of four years. School board meetings are open to the general public.

It’s important to note that schools are controlled by this separately elected governing body; not by city mayors, city councils or county commissioners.

**Number of School Districts and Pupils by Year**

<u>Year</u>	<u>Number of Districts</u>	<u>Number of Pupils</u>	<u>Avg. Pupils per District</u>
1900	6,896	399,207	57.9
1919	8,087	485,684	60.1
1940	7,685	514,886	67.0
1960	2,581	684,998	265.4
1970	446	934,032	2,094.2
1980	437	771,678	1,765.9
1990	432	733,338	1,697.5
2001	344	853,003	2,479.6
2002	343	835,315	2,435.3
2003	343	828,628	2,415.8

Sources: “Trends in Minnesota Education”, 1954 edition for years 1900-1919; 1977 edition for years 1940-1970. “Minnesota Education Overview, 1995”, for other years, MN Department of Education District Profiles. 1900 and 1919 include duplicate counts for transfers. Numbers through 1970 are enrollments. From 1980 on, Average Daily Membership is used.

*Q: What are some specific things school districts do?*

School boards have the authority to make decisions over a broad range of areas that relate to the operation of the district. For example, they may levy property taxes within the limits set by the legislature, hire and fire teachers and superintendents, determine curriculum, set discipline policies, provide transportation, and perform other functions necessary for operating their schools.

When it comes to accomplishing the goal of educating children, the legislature sets standards and guidelines but districts and school boards are ultimately accountable to the voters for the quality of K-12 education in their districts.

*Q: I have read about school officials complaining about mandates from the state? What are these?*

Even though districts do have discretion, they are not free to do as they please. The restrictions or requirements placed on them are referred to as mandates. Mandates are the set of laws and rules under which school boards must operate. Most mandates are set by the state, but some are set by the federal government, and some even by the cities in which the schools are located.

*Q: Are mandates good or bad?*

Whether mandates are good or bad depends on the specific circumstances and to some extent your opinion. Requirements as to how the cafeterias handle food or the establishment of fire codes for school buildings, for example, would probably be viewed by most as important and needed. However, the state's requirement that school boards allow teachers to participate in collective bargaining and go on strike are more controversial.

In terms of school spending, specific requirements on how grant and aid money must be spent may reduce the ability of districts to use resources in the most efficient and

effective way to achieve educational outcomes.

In general, the consensus is that the system has recently tipped somewhat out of balance and that school boards should have more flexibility to educate their students rather than less. Greater flexibility offers the additional advantage of having school boards become more accountable to the parents and citizens who elect them.

*Q: I understand there are a lot of requirements and mandates relating to special education. Can you tell me more about this?*

Special education is a widely known example of a federal mandate and one that is very controversial. In 1975 Congress passed a law which requires districts to provide a “free and appropriate education in the least restrictive environment” for any student who is disabled and between the ages of 3 and 21. The original law promised that federal aid would pay 40% of the cost by 1982, but in reality federal aid pays less than 15% of the cost today. State aid and property taxes have to make up the rest, which in 2002 was approximately \$979 million.<sup>1</sup>

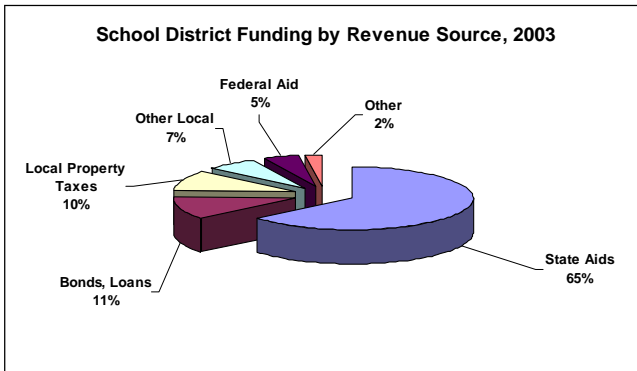
There is little disagreement that this requirement has helped many disabled young people who were not being helped before the law was passed, but there is growing concern about the tremendous cost of this requirement and how it is implemented. For additional information, see “Special Education” in the “Hot Issues” section of this guide.

<sup>1</sup> From 2002 Special Education Cross Subsidy Report, MN Department of Education

## School Finance

*Q: You have mentioned the “taxes” word a few times. Do the school districts get most of their money from property taxes?*

No, they don't, and in fact, less of the money comes from property taxes than ever before. In 2001, the legislature eliminated the general education levy—a state-required property tax levy used to support local schools—and replaced it with aid from the state general fund. If you look at all the sources of revenue for school districts for the 2003 school year, the breakout looks like this:



Source: MN Dep't. of Education School District Profiles, 2002-03

Though this pie chart is a comprehensive accounting of where school district revenues come from, it is not a commonly presented view. A more common presentation is to include only state aids and local property taxes and their respective shares. Following are the shares for the past several years:

**Trends in Total Education Revenue from State and Local Sources\***

Year	State Aids, Credits and Property Taxes	Percent State Sources
1997-98	\$5,666,901,100	62.3%
1998-99	5,911,600,000	66.5%
1999-00	6,227,649,100	68.1%
2000-01	6,459,861,400	70.3%
2001-02	6,900,984,300	72.2%
2002-03	6,689,842,700	85.9%
2003-04	7,095,012,000	83.2%
2004-05	7,619,828,200	82.1%

\* Percentages differ from the pie chart because other local sources and federal aids are excluded and spending totals in this table include early childhood and family education, the Department of Education, State Academies, and other non-district related spending. Source: "Financing Education in Minnesota" MN House of Representatives Fiscal Analysis Department.

Total state and local revenue available for education is expected to grow 34.4% from 1997 to 2005. The revenue "dip" in 2002 was not an actual reduction in revenue for school districts but rather the result of an accounting change regarding the timing of payments for state appropriations that makes the state's obligation appear lower and is used to help balance the state's budget.

Minnesota school districts have not always received such a high percentage of revenue from state aid. In the 1930's the state share was around 30%. By the late 1960's it had grown to nearly 50%. Through most of the 1990's, state share fluctuated between 60%-70%. The long term trend towards greater state reliance culminated with the takeover of the general education property tax levy which caused the large jump in the state's portion in 2002-2003.

Keep in mind that a percentage share is not the same as absolute dollars. Revenues from state sources continue to rise. The recent decline in state share reflects the fact that property tax sources of school revenue are rising a bit faster than the state aid source of school revenue because of current state budget conditions and the recent high rate of success of local school referenda.

*Q: Tell me more about the impact of our current budget problems on education spending. Has education spending been affected by this high reliance on state revenue sources?*

A good way to examine the effects of budget problems is to compare recent trends in school district general fund revenue per student (defined as “average daily membership” or ADM).

**School District General Fund Revenue: FY 1999-2005**

Fiscal Year	Revenue per ADM (current \$)	Cumulative Percentage Increase	Revenue per ADM (constant \$2003)	Cumulative Percentage Increase (\$2003)
1999	\$6,208	N/A	\$6,868	N/A
2000	6,578	6.0%	7,073	3.0%
2001	6,964	12.1%	7,238	5.4%
2002*	7,114	14.6%	7,295	6.2%
2003*	7,632	22.9%	7,632	11.1%
2004	7,799	25.6%	7,661	11.5%
2005	7,915	27.5%	7,615	10.9%

School district general fund includes transportation and capital expenditures but excludes community service, debt service, and food service funds. Source: MN Dept of Education: K-12 Education Finance Overview for 2003-04.

\* Legislative-enacted accounting changes associated with timing of payments of state appropriations reduced 2002 revenue totals while increasing 2003 totals.

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In 2000 and 2001 school districts were the beneficiaries of the Ventura administration's \$1 billion increase in education spending, but the state's fiscal crisis was beginning to emerge. Despite growing state budget problems district general fund revenue per student still increased by over 10% from 2001 to 2003 and is projected to increase 4.6% over this biennium. Adjusted for inflation general fund revenues per student have increased 5.7% since 2001 but are expected to decline slightly by 2005.

*Q: So if support for schools managed to increase during difficult budget times and is now basically keeping up with rates of inflation, what explains the concerns many have about sufficiency of education funding?*

There are a number of possible answers to this question depending on your perspective. Some see dramatically rising health care costs for schools (which are rising much faster than the consumer price index) creating a burden for districts by siphoning dollars away from educational activities. Some point to the growth in special education spending. Others point to efficiency of district spending including concerns with the structure of the compensation system for teachers. Still others see it as a distributional problem—there is sufficient money but the aids do not flow to districts in the optimal way.

In short, there are many potential factors explaining why school budgets seem tighter than ever. See the “Hot Issues” section of this guide for a fuller discussion of these and other issues affecting K-12 education finance.

*Q: So how does all this state money get distributed?*

Through a large number of education aid programs. The largest and most significant for the general funds of school districts is the state's general education aid program. For the fiscal year 2004, approximately \$4.8 billion in general education aid will go to Minnesota's school districts. About

80% of this total (around \$4 billion) is distributed as a guaranteed minimum amount of funding per student for all 343 school districts and approximately 77 charter schools. This amount, called “basic education aid,” is currently \$4,601 per pupil unit.

*Q: Pupil Unit? What is that?*

We tend to think in terms of actual numbers of people when counting the number of students in our schools. But for distributing aid, Minnesota gives different weights to student counts to reflect differences in how much it costs to educate them. In 2004, there are four different categories of students with different weights assigned to them:

- Kindergarten .557
- Grades 1-3 1.115
- Grades 4-6 1.060
- Secondary (7-12) 1.300

So if a high school had 100 students, the state’s per pupil unit funding formula would treat this school as having 130 students and the school district would receive \$1,978,430 (130 times \$4,601) in basic education aid for that school. If this weighting system were eliminated, basic education aid would be \$5,339 per student in FY 2004.

*Q: Where do these pupil weights come from?*

They are largely a function of the political process. Conceptually, it makes sense that the cost of educating a half day kindergarten student could be less than a full-day second grader. Similarly the number and associated cost of extracurricular activities for high school students (sports, band, etc.) is likely greater than that of a fourth grader. Some analysis was conducted years ago by the state which concluded that high school students do require higher levels of spending. But there is little empirical evidence to back up

specific weights in place today. Regardless, weighted pupil counts have long been a cornerstone of our education formulas and Minnesota is not alone in using such a weighting system.

*Q: You said the \$4,601 per pupil unit of basic education aid makes up about 80% of the state's general education aid. So what makes up the rest?*

In addition to this basic education aid, the state also provides several other general education aids to school districts. Some compensate districts for having higher education costs because of the types of students they serve or district geographic characteristics. Examples include aid to districts having large student populations living in poverty, having limited English proficiency, or featuring low population density. Another aid program provides funding for facilities and equipment maintenance. Still another allows districts to increase the revenue available in their general fund with voter approval of a general operating referendum levy. Each type of aid has its own, often complex, distribution formula. These aids make up the remaining 20% of general education aid. *For a complete list and brief description of these other general education aids, see Appendix 2.*

*Q: I understand what general education aid is. Are there other types of state aids?*

There are approximately 20 other K-12 aid programs which are linked to specific purposes and programs. Unlike general education aid, these “categorical aids” are provided only to eligible school districts and schools. Categorical aids can only be spent on activities which support the program’s intended outcomes.

Special education aid is the largest example of a categorical aid. Districts are reimbursed for a percentage of the different types of expenditures created by educating special education students. Other examples of categorical

aids include integration aids to foster desegregation, aids to districts that serve nonpublic school students, school breakfast and lunch aids, and aids to fix health, safety, or environmental problems at schools.

Some categorical aids are distributed on a per eligible pupil basis while others have quite complicated formulas to distribute the pool of available aid across eligible districts.. *See Appendix 3 for a list and brief description of state categorical aids.*

*Q: So how much money do districts receive from the State in categorical aids?*

In 2003-2004, the State has appropriated approximately \$822 million for various categorical aid programs targeting K-12 students. This total does not include support for community education programs, family and early childhood programs, and libraries which the state also categorizes as education aids.

*Q: OK, I think I'm beginning to get the picture as far as state support is concerned but I'm still in the dark about the local property tax piece. If the state has taken over such a major responsibility for school funding, then what exactly is the school district line item on my property tax bill?*

School districts still levy local taxpayers. As a matter of fact, there are some 29 separate levies that school districts may choose to assess against their taxpayers. These levies cover all kinds of activities from general fund expenditures in special programs to transportation, community service, equipment purchases, and debt service for buildings. For the 2003-2004 school year, education property tax levies will generate almost \$1.2 billion in revenue for school districts in Minnesota although about \$100 million of this total levy is offset by property tax relief aids paid by the state to school districts.

Importantly, many of these levies are necessary in order to receive categorical aids offered by the state and some general education aids as well. If the districts don't use the levy, they lose state aid that comes with the levy. This is done to make sure that those who benefit from new or improved educational programs and services also share in their costs. Only one, the debt service levy, is absolutely required by the legislature if a district has bonds it must pay off. The amount of total school property taxes paid by the taxpayers of the district will depend partly on which levies the districts chooses to use and how much is levied.

*For a complete list and brief description of the different levies available to school districts, their totals, and the number of district using them, see Appendix 4.*

***Q: Do the voters decide on whether these levies are approved?***

Besides the debt service levy used to pay off those district bonds approved by voters, two other levies are required to be approved by the voters. One of those is for putting up new school buildings and happens only in districts where the school age population is growing or old buildings need to be replaced.

The other is for general school district operations. The legislature recognizes that districts are different and that some communities may choose to spend more on education than others. To allow for this, the legislature authorizes a general operating referendum levy. A referendum just means that the levy is subject to a vote. This "general operating referendum levy" is the levy most homeowners are familiar with and is the one that typically generates a lot of debate around election time.

The remaining levies can be approved by the school board without voter approval. Recognizing the accountability problems this may create, the legislature has placed caps on the allowable size of these levies. Some must be approved by the Commissioner of the Department of

Education before they can be adopted. On a per pupil basis these levies are typically very small.

*Q: I understand the logic of requiring some local taxes to receive state aid but doesn't that still give districts with more property wealth an advantage?*

The state uses two primary strategies to mitigate the advantages of high property wealth and reduce disparities across districts.

First, the state often places limits on revenue differences. This is done by placing dollar caps on local referendum revenue and limiting the size of local levies -- both of which effectively limit the amount of money that can be raised. The state also provides something called "equity revenue" which reduces the disparity between districts on a regional basis. Equity revenue is also part of the state's general education aid program described earlier and is distributed on a sliding scale basis.

Second, for programs that require a local levy in order to receive state aid, the state uses equalization formulas to distribute the aid portion. Equalization factors are incorporated into aid formulas with the result being that the state effectively guarantees that a certain tax rate will generate a certain amount of revenue for a school district regardless of the district's property tax value.

The effect of equalization is that in a district with high per pupil property wealth, most of the revenue will come from the property tax levy and the district will receive little, if any, accompanying aid. Conversely, in poorer districts, more of the revenue will come from state aid rather than the local property tax. "Referendum revenue" -- the state aid program that allows districts to increase the revenue available in their general fund with voter approval of a general operating referendum levy -- uses equalized formulas to distribute the state aid.

As a general trend, more state aid programs are being

replaced with programs that combine state aid with equalized levies. In 2005, three general education aid programs (equity revenue, transition revenue, and operating capital revenue—see Appendix 2) which are currently funded entirely by state aid will require a new local levy effort in order to receive the aid. This was done to increase local accountability and ease state budget pressures without sacrificing equity objectives. The price of greater equity is greater complexity. As you might imagine, distribution formulas based on levy equalization are very complicated and difficult to understand.

*Q: Do these attempts at creating equity work?*

Not perfectly. For example, operating referendum levies are not fully equalized. Even before accounting for any new school referenda voted on in the 2004 elections, the state's average operating referendum levy for 2005 is projected to be \$539 per pupil. State referendum aid only equalizes the first \$405 per pupil.

But beyond these technical issues, there is the fact that concepts of “local control” and “equalizing revenue” are fundamentally at odds with each other. Regardless of how sophisticated state aid formulas become, some school districts will always have, and spend, more money than others as long as the legislature gives local voters the option to spend more.

In 2004, school districts comprising the top 5% in terms of general education revenue will have approximately 20% more revenue to spend than the districts comprising the bottom 5%. (This figure excludes district revenue from compensatory aids designed to help offset higher education costs in some districts). In 1992, the difference was approximately 37%, so progress has been made in greater district equity over the past decade.

*Q: OK, so school district revenues are made up of state general aids, state categorical aids, and local property tax levies. Anything else?*

Federal aid and fees are the remaining primary sources of school revenue. Federal aid primarily goes to federally mandated programs like special education and school lunches and is typically provided to districts through categorical aids. The new federal “No Child Left Behind” program targeting disadvantaged children has increased federal aid to the state by approximately \$55 million. Fees are used by districts to supplement revenues and typically have a “pay for participating” orientation to them. The state has passed laws describing types of activities for which districts may and may not charge fees.

*Q: So how much money are we talking about in total?*

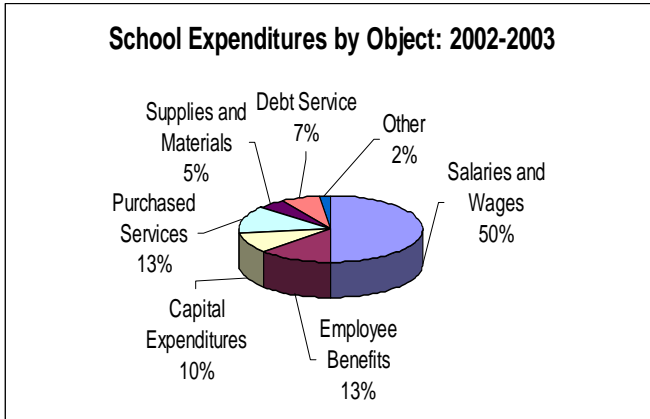
For the 2002-2003 school year, all the school districts in the state averaged \$9,996 per PK-12 pupil (not weighted pupil unit) of revenue from all sources, excluding bonds and debt (\$11,304 with those included). That amount includes all local property taxes including referendum (voter-approved) levies, all state and federal aid, and any other grants, fees, or fund raising moneys. On average, districts received \$7,265 of that amount from state aid (mostly from income and sales taxes you help pay for), \$526 from federal aid, and about \$1,180 from local property taxes. The remaining \$1,025 per pupil is the average amount raised through other sources such as fees, tuition charges, food sales, interest earnings, gifts, and rental charges.

*Q: That sounds like a lot of money. Where does it all go?*

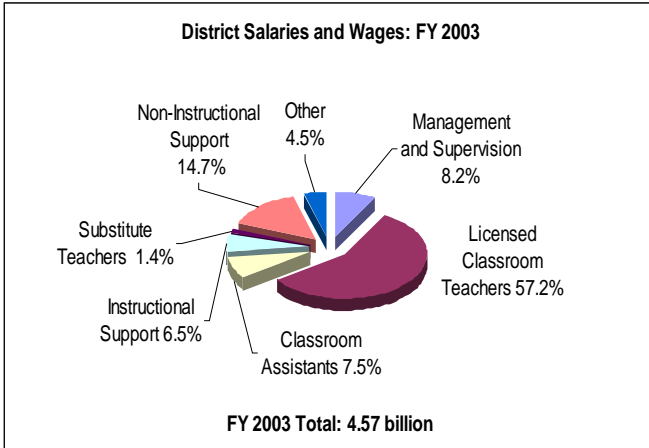
There are several ways of answering that question. If you said simply to pay people, you wouldn’t be too far wrong. Data for the 2003 school year shows that about 76% of the money school districts spent went for salaries and wages, employer benefits (such as health insurance, social security, etc.), and “purchased services” or contracting.

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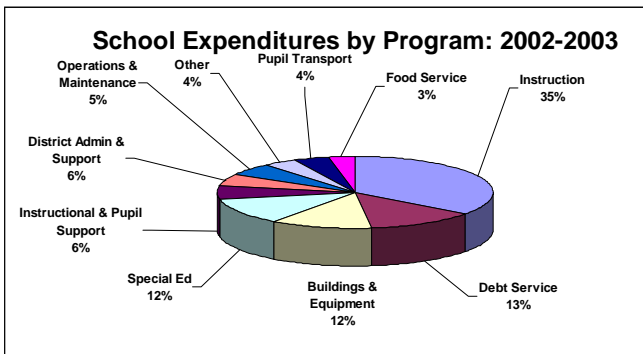
About 5% was spent for supplies, materials, and equipment and 7% for debt service. These kinds of spending categories are known as object categories.



A closer look at the salaries and wages share of districts spending shows that nearly 2/3<sup>rd</sup>s of total salaries and wages are dedicated to in-classroom activities (licensed teachers, classroom assistants, and substitute teachers). Non instructional support—which includes clerical support, janitorial services, transportation, and food service positions—constitutes 14.7% of all wages, followed by management and supervisory positions, and instructional support. Instructional support includes a wide range of licensed and unlicensed positions such as counselors, librarians, nurses, and social workers. “Other” includes such items as hourly employees, severance pay, and sabbatical pay.



Another way of looking at spending is by program category. For 2003, about 47% of the money was actually spent on “instruction”, or teaching in its various forms including special education. School district administration and district support services accounted for about 6% of spending. About 13% was spent on pupil and instructional support services (e.g. food service, transportation, libraries, audio-visual support, health and counseling services, etc.). Building costs, maintenance and equipment accounted for about 17% of spending. Debt service was another large item, at 13%.



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The table below shows specific amounts spent per Average Daily Membership Served for the 2002-2003 school year, the numbers used for the graph on the previous page.

**2002-2003 Expenditures Per ADM\* Served by Program Category**

Category	\$/ADM	Category	\$/ADM	Category	\$/ADM
Admin & Support	\$ 633	Oper. & Maint.	\$ 602	Debt Serv.	\$1,416
Instruction	3,943	Bldg. & Equip.	1,320	Other	456
Special Education	1,308	Pupil Transport.	441	<b>Total**</b>	<b>\$11,134</b>
Support Services	667	Food Service	348		

\* ADM—Average Daily Membership

\*\* The Total of \$11,134 does not match the revenue total of \$9,996 on page 21 because that revenue figure excludes bonds, loans, and transfers, while the expenditure total shown in this table includes debt service. When bonds, loans, and transfers are included, the revenue total is \$11,304 per ADM. The \$170 per ADM in revenue that is not accounted for in spending is largely used for reserves.

## Student Performance

*Q: With all that money being spent, what kind of results are we getting for our education dollars?*

Minnesota has historically ranked very high compared to other states on most standard measures of student achievement, while spending only slightly higher than the national average per pupil. The set of tables beginning on the next page provide some perspective on Minnesota educational spending and performance and how we compare nationally. Minnesota has consistently ranked in the top ten nationally on math and reading tests for 4<sup>th</sup> and 8<sup>th</sup> graders and on college entry tests. Also noteworthy is the significant improvement in Minnesota Comprehensive Assessment test scores over the past five years. For example, in 5<sup>th</sup> grade reading and math, the percentage of students scoring below

basic skills level has been cut in half while the percentage of students achieving proficiency or advanced levels has increased significantly.

One area of major concern for Minnesota, however, is the size of the achievement gap between students from low-income families and those who are better off and between students of color and Caucasian students. For example, African-American students passed the 2003 math test at a rate that was 45 points below that of white students—and this gap is only 5 points less than it was 5 years ago. Only a couple of states in the country have a larger achievement gap.

No one measure or even combination of measures gives a complete indication of school performance. These are simply those most readily available for comparison over time.

### MN Current Expenditures Per Pupil

Year	Amount	National Rank	National Average	Percent Above National Average
82-83	\$2,902	21	\$2,736	6.1%
92-93	5,383	17	5,192	3.7%
98-99	7,159	21	7,013	2.1%
99-00	7,499	20	7,392	1.5%
00-01	7,645	16	7,376	3.6%

Source: National Center for Education Statistics

## Measures of Student Performance

<b>National Assessment of Educational Progress – MN National Rankings</b>			
Topic	Year	Grade	National Rank / # of states testing
Mathematics	2003	8	1 / 50
Mathematics	2003	4	Tied 2 / 50
Reading	2003	8	Tied 7 / 50
Reading	2003	4	Tied 9 / 50
Mathematics	2000	4	Tied 1 / 47
Mathematics	2000	8	1 / 38
Science	2000	8	Tied 6 / 36
Reading	1998	4	10 / 43
Reading	1998	8	7 / 40
Writing	1998	8	15 / 33

Sources: MN Department of Education, National Center for Education Statistics

<b>MN Comprehensive Assessment Test</b>				
	Year	State Avg Score	% Below Basic Skills	% Proficient or Advanced
3 <sup>rd</sup> grade math	97-98	1401.4	17.8	35.2
	98-99	1460.4	12.2	42.1
	99-00	1478.3	10.5	46.4
	00-01	1494.3	9.5	52.6
	01-02	1486.0	9.6	47.9
3 <sup>rd</sup> grade reading	97-98	1410.0	22.7	35.3
	98-99	1427.9	20.7	39.9
	99-00	1460.7	17.8	44.6
	00-01	1486.6	16.0	49.0
	01-02	1486.2	16.1	48.8
5 <sup>th</sup> grade math	97-98	1395.1	20.5	31.1
	98-99	1416.8	18.4	36.4
	99-00	1469.8	13.5	45.6
	00-01	1492.4	11.2	50.5
	01-02	1502.6	10.2	52.7
5 <sup>th</sup> grade reading	97-98	1419.3	20.9	38.2
	98-99	1451.4	18.1	44.6
	99-00	1493.2	14.5	51.7
	00-01	1545.2	11.1	62.9
	01-02	1552.4	10.5	64.0

Sources: MN Department of Education

**MN College Test Scores and National Rank**

<u>Year</u>	<u>SAT Score</u>	<u>Rank</u>	<u>ACT Score</u>	<u>Rank</u>
1982 MN	1028	7	20.2	3
<i>US</i>	893	-	18.4	-
1992 MN	1053	3	21.5	4
<i>US</i>	899	-	20.6	-
2001 MN	1169	4	22.1	7
<i>US</i>	1020	-	20.6	-
2002 MN	1172	5	22.1	7
<i>US</i>	1020	-	20.8	-
2003 MN	1173	6	22.0	Tied 10
<i>US</i>	1026	-	20.8	-

Note: Many more Minnesota students have taken the ACT test than the SAT over the years. Most states ranked higher on ACT scores are those with small percentages of their students taking ACT test. Among states with over 40% of high school students taking the ACT test, Minnesota ranked second in 2003.

Source: MN Department of Education

## **Section 2. “Hot Issues” in the K-12 Education System**

The listing of issues is not exhaustive, but are generally those most visible to the public and appropriate to be covered in a booklet such as this. The issues are presented under the same groupings as the question and answer section and in the same order; namely, issues related to “School Management and Organization,” “School Finance,” and “Student Performance.”

### **School Management and Organization**

There are several organizational issues regarding school districts that can be grouped under the idea of improving school efficiency and performance. Four main issues presented here are charter schools, school vouchers, expansion of site-based management authority, and alternative teacher compensation and hiring strategies.

Arguments for each of the four issues are similar, with proponents pointing out that greater competition and decentralized decision-making will improve school accountability and performance. Proponents feel that without increased competition, we are reduced to relying on the good intentions of educators to improve the schools, because there is little or no risk to those involved with public education if they fail to deliver the results the public wants.

Arguments against these changes also have shared themes. Defenders of the historic pattern of public education note that it is important to invest in traditional public education rather than support alternatives which siphon needed resources away from public schools, tend to concentrate disadvantaged students even further, and saddle individual schools with new responsibilities which take time and energy away from educational delivery.

It is worth noting that Minnesota already scores quite high nationally in terms of existing educational choice. Minnesota is ranked 5<sup>th</sup> nationally in the 2001 “Education Freedom Index” developed by the Manhattan Institute which measures the amount of government-subsidized or government-regulated educational choices offered to families in each state.

## Charter Schools<sup>1</sup>

**The issue:** In 1991, the Minnesota Legislature enacted a bill authorizing school districts to sponsor a limited number of charter schools. A charter school is one formed by a group of individuals that operates within the public school system but has more autonomy than other schools in the district regarding its mission, funding, teaching methods, and administration. As of this writing, 77 charter schools have been approved for operation and should be open for the 2003-2004 school year. A group that wants to form a charter school must have a sponsor, either the district itself, the State Board of Education, or a postsecondary institution. The school is defined by a contract between the group and the sponsor. Money for the school comes from the state in the form of general education aid, transportation aid, capital equipment aid, and other sources. The law requires each school to be:

- a legally autonomous entity, organized as a cooperative or non-profit, and unaffiliated with any religious group or denomination
- operated primarily by licensed teachers
- sponsored by a local school board, the State Board of Education, a postsecondary institution, or a 501(c)(3) charitable organization with a minimum end of year fund balance of \$2 million

<sup>1</sup>Suggested reading: “Charter Schools, Will They Improve or Hurt Public Education?” Congressional Quarterly available at [http://www.uscharterschools.org/pdf/cq\\_charterschools.pdf](http://www.uscharterschools.org/pdf/cq_charterschools.pdf)

- funded as a separate entity
- free from most state laws and rules by which traditional schools and districts are bound
- designed to meet or exceed educational outcomes the state adopts for other public school students

**Arguments for:** Charter schools provide more choice for students and parents than a system without such schools. Teachers can be freed from rules and regulations which hinder them from doing what they want to do anyway—teach students. The schools are important laboratories for innovation, and successful strategies can be adopted by traditional public schools. Because a group of individuals must form the school, allowing charter schools promotes community involvement. As in all of the measures allowing greater choice in public education, the charter school concept gives school districts additional incentives to improve in order to keep students enrolled within traditional schools. Charter schools can target special needs students who aren't being served well in the traditional public education system.

**Arguments against:** Charter schools require the state to direct scarce resources away from traditional schools and thereby distract the state and communities from the important task of reforming and improving mainstream public schools. When the students leave to attend a charter school, the revenue leaves with them, but overhead costs remain, making traditional schools worse off financially. When charters fail, public schools must fix the problem they did not create. The absence of district administrative and management support requires charter school leaders to invest significantly more time and effort on infrastructure related issues like facility management, transportation and other things not directly related to teaching and learning that are going on in the school. Charter schools create unfair competition since traditional schools are bound by numerous regulations that charters are not.

## School Vouchers<sup>1</sup>

**The Issue:** There has been a lot of interest nationally in the idea of giving parents of students a certain amount of money (usually less than the per pupil general education allowance) to be used in the private school of their choice. Several states have enacted experimental school voucher programs, including Ohio and Wisconsin, whose programs have survived state supreme court challenges. Florida's program has been ruled unconstitutional and is under appeal.

The heart of any voucher system is to give parents a certain amount of money redeemable only for tuition at a private school (a "voucher") so that they may choose a private school for their children if they so desire. If the voucher is less than is spent on average for the public school students, the district where the child would have attended gets to keep the difference.

**Arguments for:** If parents have the power and resources to choose private schools, public schools will feel the pressure to improve so they can retain students and the money that goes with them. Since taxpayers are paying for the schools anyway, they should be given more say in how the money is spent. Vouchers would be especially helpful for those students doing the poorest in the public school system by giving them a well-established education alternative and access to opportunities enjoyed by wealthier families. Market forces such as vouchers are much better at promoting school accountability than state regulations.

**Arguments against:** Vouchers are subsidies for private schools that economically harm public schools by siphoning off resources and leaving them unable to fund

<sup>1</sup>Much of the material on school vouchers was taken from "School Vouchers" Minnesota House Research Information Brief.

educational programs. Vouchers programs will draw good students away from poorer districts resulting in public schools with even higher concentrations of disadvantaged or difficult-to-teach students. Even if voucher programs were sized to attempt to accommodate every student that wanted to take advantage of them, rationing of available space by “desirable” schools would result in the same effect of concentrating difficult-to-teach students. State support of religious schools is probably unconstitutional. Vouchers would result in increased segregation, and the common educational experience for Minnesota students would be lost. If private schools receive money from the state through vouchers, it could threaten their freedom to conduct school the way they think best. Increased regulation typically follows government money.

## Expansion of School Based Management

**The Issue:** During the 1980’s many states and school districts began experimenting with decentralized decision-making structures known collectively as school-based or site-based management. It aims to give school constituents—administrators, teachers, parents, and other community members—more control over what happens in schools in order to enhance school performance and the quality of education provided to students. Minnesota passed permissive legislation in 1987 allowing school boards to enter into agreement with a “school site decision making team.”

In areas of curriculum design and educational delivery, many Minnesota schools have already adopted site based management practices. In these schools “site councils” comprised of parents, teachers, staff and community members advise principals and help create school improvement plans. In terms of school finances, little has historically changed under site-based management because the site councils typically have only a very small portion of the school’s budget under their direct control.

A more controversial restructuring idea is to expand this decision-making authority to include all areas of school budgets, staffing, and operations management. This would allow individual schools to have far greater authority and flexibility over spending decisions, staffing, and alternative, cost-reducing ways of delivering non-educational support services such as outsourcing school lunch programs and janitorial services. As an essential part of this restructuring, a site-based approach to school funding would be established in which dollars follow students and schools would try to attract as many students as they could.

**Arguments for:** School-based management is a crucial strategy for empowering teachers, increasing school efficiency and accountability, and creating greater energy at the school level for change and improvement. Those closest to the student are most capable of making important decisions that will lead to better educational outcomes. Schools are best positioned to identify strategies to achieve desired educational standards or outcomes and develop budgets which achieve educational outcomes at lower costs.

**Arguments against:** While appealing in theory, school based management would replace a highly functional and coordinated management system with one full of new expense, risk, and uncertainty. There is only a vague understanding of what the parameters are for the new roles and responsibilities school administrators and teachers would have. Few individual schools have the expertise, time, and resources to invest in the type of quality control and management oversight site-based management requires. Especially in areas such as budget, staffing, and operations management, sites themselves frequently may lack the skills to do these well. At a minimum, these responsibilities would redirect resources and energy away from the primary purpose of educating students.

## Alternative Teacher Compensation and Hiring Strategies

**The Issue:** Compensation for public school teachers is based on a system called “steps and lanes.” The salary of a teacher is based both on length of tenure with the school district (steps) and the amount of education the teacher has received (lanes). Compensation increases by length of tenure (more steps), by receiving credits from continuing education courses or getting advanced degrees (moving to new lanes), or by a combination of both actions. Individual districts negotiate what level of compensation each step and lane combination receives.

Recently the Governor has proposed to pilot alternative compensation systems that tie salary more closely with educational performance and that feature changes to teacher hiring practices. One pilot program would compensate teachers for improvement in student performance. Another pilot program would allow schools serving large numbers of disadvantaged students to hire “super teachers” from either conventional or unconventional backgrounds. These teachers would be paid up to \$100,000 per year, including bonuses, based on their performance, and could be hired, assigned, and dismissed without regard to tenure.

**Arguments for:** Overhaul of the compensation and tenure system is necessary to improve teacher quality and educational accountability. The current system fails to adequately connect educational performance with compensation and heavily favors established teachers over those entering the profession, resulting in very high turnover rates among new teachers. Creating greater compensation system flexibility and alternative hiring strategies is crucial for dealing with teacher shortages in areas like math and science where private sector competition for these skill sets is so great. Schools with large numbers of disadvantaged students are especially hurt by a system that so heavily rewards longevity. Experienced teachers with higher salaries

are able to move to less challenging schools within a district leaving the challenging schools with less experienced teachers.

**Arguments against:** Pay for performance will not work because it is impossible to develop fair and reasonable criteria. Merit pay assumes poor performance happens because something is wrong with the teacher when poor performance is usually the result of many other factors—many of which are centered in the home. Teachers within and across grades must collaborate to successfully educate students but cooperation would be undercut by a compensation system which creates incentives for teachers to withhold successful strategies from other educators. Large scale adoption of teachers with “non-educational” backgrounds is not a solution because knowledge of child learning and cognitive development, classroom management skills, communication skills, and curriculum planning skills, are equally crucial to being a successful teacher.

## School Finance Reform

### Linking School Funding to Performance

**The issue:** Historically the concept of “equity”—treating all students more or less the same—has been the primary factor in determining whether general education aids were being fairly allocated in the state. It has also been the standard by which the courts have evaluated the constitutionality of state education finance systems. The state has won high marks for meeting equity goals through a largely state-financed system that neutralizes the effect of local property wealth on the ability to provide a quality education. It combines basic education aid (a flat \$4,601 per pupil unit for all districts) with some aid adjustments for necessary cost differences which exist across districts.

In recent years, both states and the courts have begun to examine the actual results achieved by education spending and have begun to consider educational results in evaluating school finance systems. The concept of “adequacy”—having enough resources to achieve certain educational outcomes—has joined “equity” as overarching goals of education finance. The increasing use of standardized tests that enable states to identify test scores and quantify what an “adequate education” is has facilitated this trend. A shift in school funding based on the amount of money needed to achieve education standards defined by test scores has potentially profound implications for both the amount of money dedicated to general education and how this money gets distributed.

**Arguments for:** Linking school finance to outcomes is essential for improving school accountability, especially since the state takeover of the general education levy weakened the most powerful accountability measure that had been in place—the impact of school spending on local property taxes. It is essential that we finally examine the fundamental issue how much it really costs to provide an

adequate education for our children as defined by test scores and related measures rather than simply adjust education funding year after year based on the political process.

**Arguments against:** There are simply too many non-school variables affecting student performance that make linking finance to outcomes an ill-advised approach. Without knowing how efficient existing school spending currently is or thoroughly investigating alternative education delivery systems, it would be dangerous to estimate how much funding is needed to achieve certain performance targets. It would be politically impossible to pass school finance reforms that would result in highly disadvantaged districts receiving many times more the amount of state aid than highly advantaged districts.

## Special Education Finance Reform

**The issue:** Minnesota's longstanding commitment to public education for all children is perhaps best exemplified by our history with special education. Minnesota enacted a special education program twenty years before the U.S. Congress enacted the Individuals with Disabilities Education Act which mandated a free and appropriate education for every child.

Like many states, Minnesota provides districts with base special education revenue distributed on a reimbursement basis to cover the additional costs of providing required services to students with a disability. In 2002, approximately 47% of all district special education expenditures were reimbursed through this base aid. Since school districts' general revenue must make up the difference (federal support, although recently increased, is relatively small), the state makes additional aid available to qualifying districts which have significant non-reimbursed special education costs relative to the district's general fund revenue (called

“excess cost aid”).

Concerns, however, have been raised about the rate of growth in special education spending, how these programs are financed, and incentives created by the financing system. A 1997 report by the Office of the Legislative Auditor found that special education expenditures were growing twice as fast as total district expenditures.

Critics of the current special education finance system advocate for either lump sum funding to school districts or the creation of scholarships for special education students—either of which would prevent more money from automatically going into a school district’s budget with increased special education enrollment.

**Arguments for:** Even with only partial reimbursement a district can still financially benefit by placing more students in special education because more incremental revenue can be obtained to cover fixed costs the district already has to pay anyway. For example if a school has a full-time special education reading teacher, it will pay the same cost whether the teacher handles three students a day or ten. But the school collects a lot more money for teaching ten special education students than it does teaching only three. Scholarships for disabled students would offer the extra advantage of allowing families to choose for themselves which school will provide the best education for their children. Absent this type of reform, growth in special education spending will continue to draw dollars away that could otherwise be spent on better education for all students.

**Arguments against:** The current system is the best way to ensure that if a child needs special attention, they can get the help they need regardless of the district they live in. Funding for special education cannot create perverse incentives because placing a student in special education creates costs at least equal to the new funding it generates. In addition, the number of restrictions and limitations placed

on spending from special education revenues makes it difficult for districts to use special education revenue as a revenue enhancement strategy. High stakes performance testing, not supplemental revenue, is the primary factor driving special education spending. Schools are under enormous pressure to keep test scores up, and enrolling more-challenged students in special education improves the pool of test-takers.

## **Student Performance**

### **Minnesota Academic Standards**

**The issue:** How to improve Minnesota public schools has been a topic of debate and discussion for decades. Initial reforms tended to take a traditional approach—that of proscribing new course offerings, curricula, upgraded facilities, better pay for teachers, etc. By the end of the 1980s, a “second wave” of reform began to take hold focusing on the results, or “outcomes” of education rather than focusing exclusively on the “inputs.”

The idea that educational outcomes should be defined by a set of academic standards has been generally accepted by everyone, but the question of what the academic standards should look like is a much more controversial issue. In the early 1990’s Minnesota State Board of Education (abolished in 1998), and the Minnesota Department of Children, Families & Learning, (now the Department of Education) began working together to develop a more rigorous K-12 education system. The resulting graduation rule had two distinct components: Basic Skills and the Profile of Learning. Basic skills tests in reading, writing, and math were developed to ensure that students acquired the basic level of knowledge needed to function in a literate society. The Profile of Learning proved to be much more controversial. It included 10 learning areas, plus a requirement for vocational education.

Developing and implementing the Profile of Learning

generated much debate. Concerns with the content of the standards and with how the standards were taught led to a compromise giving local school boards the authority to decide which content standards students had to complete and how many standards were required for graduation.

In 2003, the Profile of Learning was replaced with the Minnesota Academic Standards. The new law defines five core academic content standards areas: language arts, math, science, social studies (which includes history and citizenship), and arts. In addition to the core academic standards areas, there are several elective subject areas. The new law requires students to complete a specified number of course credits covering both core and elective subject areas.

Content standards have been passed by the legislature. In order to graduate, students must satisfy both parts of the graduation rule; they must pass the Basic Skills Tests and must successfully complete the course credits mandated by the Minnesota Academic Standards. There is a transition process giving districts flexibility while the standards are being implemented and the Profile of Learning is phased-out, but beginning with the 2007-2008 school year the new Minnesota academic Standards will be the only acceptable standards.

**Arguments for and against:** Unlike the other “hot issues”, there are very few disagreements about a focus on educational results. However, there have been disagreements about the standards themselves and how they were developed. The commissioner of education is charged with reviewing them on a four-year cycle, but may not change them without specific legislative authorization.

Supporters of the new standards herald them as a much needed return to fact-based, objective assessments of student learning. They believe that previous standards placed too great an emphasis on how kids learn and the development of critical thinking skills at the expense of subject content.

While many education professionals and teachers agree

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that standard reforms were needed, the new standards have generated controversy as well. Critics have expressed concern that new standards have discounted the contributions of experienced education professionals. Some critics also argue that the new standards go too far in emphasizing the memorization of facts at the expense of more holistic measures which evaluate students' cognitive development and problem-solving capabilities. They claim the highly accelerated development schedule has made it difficult for a broader cross section of Minnesota education professionals to contribute or review the new standards.

## **Appendix 1: Essential Education Websites**

### **GOVERNMENT LINKS**

#### **Minnesota Department of Education**

[www.education.state.mn.us](http://www.education.state.mn.us)

Here is where you can find the latest information on Minnesota education initiatives, policies and school performance. Be sure to check out the “Schools and Districts” link which provides the information on enrollment, teaching staff, funding, test results and contact information. Compare and contrast school data from different parts of the state by clicking on the links to school test results or student demographics. You can also view the Department of Education’s new School Report Card and Adequate Yearly Progress (AYP) Status.

#### **Financing Education in Minnesota: 2003-2004 – MN House Fiscal Analysis**

[www.house.leg.state.mn.us/fiscal/files/03fined.pdf](http://www.house.leg.state.mn.us/fiscal/files/03fined.pdf)

For those who really want to dive into the design and mechanics of state education aid programs, this publication provides all the detail you need.

#### **Basic Information on K-12 Education – MN House Research**

[www.house.leg.state.mn.us/hrd/issinfo/ed\\_k12.htm](http://www.house.leg.state.mn.us/hrd/issinfo/ed_k12.htm)

The Research Department of the Minnesota House of Representatives has prepared a series of issue briefs on timely topics pertaining to K-12 education. Also provides

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useful background information on Minnesota education requirements, students, teachers, and legal issues in education.

**U.S. Department of Education – National Center for  
Education Statistics**  
<http://nces.ed.gov>

A data clearinghouse on public education in the United States. Includes The Nation's Report Card – the only nationally representative and continuing assessment of what America's students know and can do in various subject areas.

**ADVOCACY, POLICY, AND RESEARCH LINKS**

**Education Minnesota**  
[www.educationminnesota.org](http://www.educationminnesota.org)

Website of the Minnesota teachers' union

**MN Association of School Administrators**  
[www.mnasa.org](http://www.mnasa.org)

Website of Minnesota school superintendents

**MN School Board Association**  
[www.mnmsba.org](http://www.mnmsba.org)

Website that promotes the work of Minnesota school boards

**University of Minnesota Center for School Change**  
[www.hhh.umn.edu/centers/school-change/](http://www.hhh.umn.edu/centers/school-change/)

Humphrey School center that focuses on public education reform and improvement initiatives.

**Brookings Institute: Brown Center on Education Policy**  
[www.brookings.org/gs/brown/brown\\_hp.htm](http://www.brookings.org/gs/brown/brown_hp.htm)

Research on topics in American education, with a special focus on efforts to improve academic achievement in public elementary and secondary schools

**Manhattan Institute**

[www.manhattan-institute.org/html/cci.htm#01](http://www.manhattan-institute.org/html/cci.htm#01)

Research on education reform with an emphasis on introducing choice and free market strategies into public education

## Appendix 2: Other State General Education Aids

Besides basic education revenue – the \$4,601 per pupil unit provided to all districts – the state provides several other forms of general education aid to school districts. Each of these aids has its own separate distribution formula. For further information on the aids and how they are distributed across districts, see [Financing Education in MN: 2003-2004](#) prepared by the Minnesota House of Representatives Fiscal Analysis Department available on line at:

<http://www.house.leg.state.mn.us/fiscal/files/03fined.pdf>

Even though general education aids generally can be used for any district purpose, operating capital revenue and basic skills revenue have legal limitations placed on them which links district spending to the aid's intended purpose. There are two other limitations placed on general education revenue spending. First, a certain amount of general education revenue must be reserved for class size reduction for kindergarten through third grade. The amount districts must reserve is based on a formula which factors in the number of elementary school students and pupil weightings.

Second, 2% of the basic per pupil formula amount must be spent for staff development ( $.02 \times \$4,601 = \$92$  per pupil unit in 2003-2004). For 2003-2004 and 2004-2005 only, a district board may waive this reserve requirement. In other years if there is a desire to waive this requirement, the board and licensed teachers within a district must vote to agree to it.

The table on the next page shows the special education aids available to districts. Footnotes for the table are on the page following the table.

Understanding Education Finance 2004-05

Name of Aid	Purpose of Aid	'03-'04 Aid Total (millions)	# Districts Receiving Aid
Extended Time Revenue	Compensates districts for students enrolled for more than a standard school year	\$55.7	183
Basic Skills Revenue <sup>1</sup>	Compensates districts for extra costs for educating limited English proficiency students and children in poverty	\$298.2	All
Sparsity Revenue	Additional revenue to cover higher costs associated with small, isolated schools. Provided for both secondary and elementary schools	\$16.6	80
Operating Capital Revenue <sup>2</sup>	School capital expenditures, facilities maintenance, and book purchases	\$195.0	All
Transportation Sparsity Revenue <sup>2,3</sup>	Compensates districts for high transportation costs in serving geographically dispersed areas	\$55.7	All
Equity Revenue <sup>2</sup>	Reduces disparity between highest and lowest revenue districts on a regional basis	\$32.2	322
Training and Experience Revenue <sup>4</sup>	Assist in teacher training and development.	\$17.0	216
Transition Revenue <sup>2</sup>	Temporary aid program designed to mitigate financial impacts created by 2003 legislative changes. Expires 2007-2008	\$32.2	216
Referendum Revenue <sup>5</sup>	Allows districts to increase revenue available in their school general fund with approval of voters in the district	\$82.0	285

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<sup>1</sup>Basic skills features separate formulas for distributing aid for servicing limited English proficiency students (\$50 million) and students living in poverty (\$248 million). An additional per pupil amount is provided to districts with concentrations of LEP students which is included in the \$50 million total

<sup>2</sup>Beginning in FY '05 these aid programs will require local levy efforts.

<sup>3</sup>For purposes of distributing equity revenue, the state is divided into two “regions”: seven county metro and the rest of the state.

<sup>4</sup>Based on faculty who were on district payroll prior to 1996-1997 school year. As teachers leave the district or retire, revenue is phased out.

<sup>5</sup>Formula used to distribute referendum revenue aid is an equalized formula – the state pays in aid the difference between what is raised by a local levy and a guaranteed revenue amount. See discussion on pages 19 and 20.

## Appendix 3: State K-12 Categorical Aids

K-12 categorical aids are provided on an eligibility basis to achieve some specific program outcome. Unlike general education aids, these funds can be spent only on program activities. Each of these aids has its own set of eligibility requirements and distribution formulas, and several of the aid programs require a local levy to receive the aid.

Districts receive other major categorical aids for adult, community, and early childhood education. These aids are not included in the table below.

For further information on the aids and how they are distributed across districts, see Financing Education in MN: 2003-2004 prepared by the Minnesota House of Representatives Fiscal Analysis Department available on line at:

<http://www.house.leg.state.mn.us/fiscal/files/03fined.pdf>

Name	Purpose	FY '04 Aid (millions)	No. of Districts Receiving
Special Education Regular Revenue	Partially reimburse districts for the additional costs of providing required educational services to students with disabilities	\$515.1	All
Special Education Excess Cost Aid	Compensates districts with high non-reimbursed special education costs relative to the district's general fund revenue	\$92.6	283
Miscellaneous Special Education Aids <sup>1</sup>	Smaller special education aid programs targeting special circumstances	\$16.7	Varies
Health and Safety Aid	Compensation for health and safety, improvements and code repairs at schools	\$7.8	117

<sup>1</sup> Aid programs are: partial (50% ) travel reimbursement for providing home based educational services to disabled children under five; servicing special needs children who have no school district of residence because parental rights have been terminated or who have been placed by the court; vocational programs; and out of state special education tuition. Also includes a temporary aid program which helps mitigate financial effects of 2003 legislative decision to remove growth factor from special education revenues.

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Name	Purpose	FY '04 Aid Total (millions)	No. of Districts Receiving Aid
Alternative Facilities Aid <sup>2</sup>	Capital improvement aid for districts with large, old buildings, significant deferred maintenance needs, or large health and safety projects	\$18.7	4
Debt Service Equalization Aid	Assist in debt repayment of voter-approved district general obligation bonds. (Aid is distributed using an equalization formula-see page 5)	\$34.5	126
Charter School Aids	Pay for start-up costs and building leases for new charter schools	\$17.9	83
Integration Aids <sup>3</sup>	Compensation for costs and transportation expenses associated with state or court ordered desegregation plans	\$62.7	51
Non-Public Pupil Aids <sup>4</sup>	Provide education-related services and instruction materials to nonpublic school students	\$36.1	216
School Breakfast and Lunch Aids	Offset costs of providing meals	\$10.9	All
First Grade Preparedness Grants	Provide full day kindergarten or half day programs for four-year olds in areas with high concentrations of poverty	\$7.3	42
Other Miscellaneous Categorical Aids <sup>5</sup>	Smaller aid programs targeting special circumstances	\$3.9	Varies

<sup>2</sup>Qualifying districts may sell bonds and make a levy to repay them or may annually levy for the costs without voter approval. State aid only goes to districts that participated in the program prior to 2000.

<sup>3</sup>Includes \$56.8 million for integration aid and \$5.8 million for transportation grants for interdistrict desegregation

<sup>4</sup>Includes \$14.6 million for educational materials and services and \$21.5 million for transportation expenses

<sup>5</sup>Includes aid for school consolidation, compensation for districts losing anticipated property tax revenues because property values declined after levy was certified, and magnet school startup

## Appendix 4: Local Levies Available to School Districts

The accompanying table lists the 29 property tax levies available to Minnesota school districts. They are organized by three categories: general fund levies (directed at K-12 education) community service levies (directed at adult, community, family, and early childhood education programs) and debt levies. Totals are certified gross amounts for taxes payable 2003 and do not include adjustments and offsets.

Aside from debt service resulting from voter approval of district general obligation bonds, only the referendum levy and the capital projects levy are voted on by citizens. The other levies can be adopted without voter approval by the district school board—subject to the limitations placed on them by the state such as revenue caps and levy limits. However, several of these levies require that an application be submitted to and approved by the Commissioner of the Department of Education prior to their use.

Levy names appearing in italics are linked to state aid programs in that a local levy is necessary in order to receive any state aid related to the program. Levy names appearing in boldface require review and approval of budgets, plans, or expenditures by the Commissioner of the Department of Education prior to their use.

Beginning in FY 2005, three general education aid programs currently funded entirely by state aid will be funded by a combination of state aid and new local levies. They are operating capital revenue, equity revenue, and transition revenue. See Appendix 2.

**District General Fund Levies – Payable 2003 School Year**

(Italics=linked to state aid, Boldfaced = Dept. of Educ. approval required)

Levy Name	Purpose	Total Levy	No. of
		(all districts in millions)	Districts Using
<i>Referendum<sup>1</sup></i>	General operating revenue for districts – (voter approved levy)	\$347.6	284
<i>Integration</i>	To promote school desegregation	\$19.5	45
<i>Health and Safety</i>	School health and safety improvements	\$127.3	335
Abatement	To make up for revenue lost from property tax abatements	\$3.3	279
Capital Projects Referendum	To pay for school capital projects (voter approved levy)	\$11.0	11
Operating Debt	To enable districts to eliminate negative general fund balances	\$0.5	12
Reorganization Operating Debt	To enable districts with negative general fund balances to consolidate with other districts	\$0.4	5
Reemployment Insurance	To pay for district obligations to state unemployment insurance trust fund	\$8.3	184
Safe Schools	To pay for crime prevention and drug abuse programs	\$27.6	309
Career Technical	To fund vocational education programs	\$12.6	312
Staff Development Incentive	To pay for outplacement counseling services for district staff <sup>2</sup>	\$0.03	5

<sup>1</sup>Seven school districts use the referendum levy but do not receive any accompanying referendum aid from the state. The total levy of these districts is \$19.2 million

<sup>2</sup>Being phased out – 2004 is last year

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<b>Levy Name</b>	<b>Purpose</b>	<b>Total Levy (all districts in millions)</b>	<b>No. of Districts Using</b>
Disabled Access	To enable handicapped access to school buildings	\$1.1	18
<b>Building/Land Lease</b>	To rent or lease a building or land for instructional purposes	\$40.9	187
<i>Alternative Facilities</i>	To fund deferred maintenance and large health and safety improvement projects	\$37.0	14
Judgment	To pay for lawsuits against districts	\$2	8
Health Insurance and Benefits	To make contributions for school district share of health insurance for retired employees	\$5.1	71
Additional Retirement	To help fund retirement plans for Minneapolis and St. Paul school districts	\$9.6	2
Severance	To pay for teachers severance	\$1.3	7
Swimming Pool	To pay for new swimming facilities	\$0.4	4
Ice Arena	To pay for new ice skating facilities	\$0.8	10
Tree Growth	To make up for lost revenue previously received by districts from counties as a result of forest taxation	\$0.6	48
Lost Interest Earnings	To compensate for lost interest revenue resulting from changes in timing of payment of state appropriations	\$3.0	300
Economic Development Abatement	To make up for lost revenue due to property tax abatements stemming from economic development programs	\$0.3	5

**District Community Service Levies**

(Italics=linked to state aid)

<b>Levy Name</b>	<b>Purpose</b>	<b>Total Levy (all districts in millions)</b>	<b>No. of Districts Using</b>
<i>Basic Community Education</i>	To support community education programs	\$33.6	340
<i>Early Childhood and Family Ed.</i>	To support ECFE programs	\$22.2	335
Home Visiting	To pay for ECFE targeting high risk kids	\$0.5	269
<i>Adults with Disabilities</i>	To support education and vocational training for adults with disabilities	\$0.6	62
School-Age Care	To pay for extra costs of providing district-provided child care to special needs children	\$7.7	145

**Debt Service Levies**

(Italics=linked to state aid)

<b>Levy Name</b>	<b>Purpose</b>	<b>Total Levy (all districts in millions)</b>	<b>No. of Districts Using</b>
<i>Debt Service (voter approved)</i>	To repay district general obligation bonds	\$468.8	274
<i>Debt Service (non voter approved)</i>	To repay other district general obligation and other bonds <sup>3</sup>	\$113.0	125

<sup>3</sup>Minneapolis and St. Paul do not need voter approval for issuing district general obligation bonds

## **Appendix 5: How to Get Informed and Involved**

The Minnesota Center for Public Finance Research and its parent organization, the Minnesota Taxpayers Association believe that effective citizen control over governmental processes and finance remains the cornerstone of our democratic system of government.

Unfortunately, the citizen in Minnesota who tries to exercise some degree of oversight over government costs is confronted with a bewildering array of complexities which hinder the investigation and discourage further involvement. Only those who are paid to do so (both public and private lobbyists) become informed and confident enough to engage public officials, but quite naturally they are confined to promoting their more narrow interests rather than those of the public at large

Though becoming an informed and involved citizen isn't as difficult as it might seem to be at first glance, there isn't a quick and easy path to follow. One commitment that is necessary is perhaps the one most difficult to make, and that is the commitment of time. The cost of good citizenship is primarily one of investing the time necessary to learn enough about schools (and cities and counties, too) to exercise more effective oversight and become a more informed voter.

Our number one recommendation in getting involved that applies to every idea in this appendix is that you work together with others in a group of interested and motivated taxpayers. Working with others will help keep you motivated, allow members to develop specific areas of expertise, and help make your collective voices be heard.

In a booklet this size, we aren't able to go into much depth on this subject, but we want to present some of the budgeting mechanics and timelines, plus ideas for how you can be more effective in monitoring the budget developments in your school district.

### **At the State Level**

More than ever the State Legislature has tremendous influence in determining the amount of money available for schools to budget. Budget sessions of the Legislature are held in odd numbered years, so for the 2003-2004 and 2004-2005 school year, the amount of money appropriated for education aids was set in the 2003 legislative session. Adjustments either desired or required by updated forecasts of state revenues or policy initiatives can be, and usually are, made in even-year sessions.

About 80% of school district budgets, on average, come from state appropriations. A major element of school district budgeting is a discussion of how to distribute the money available to them to the various schools and programs in the district. Even though it may seem daunting, there are ways to make your voice heard at the Capitol.

**Know Your Legislators.** Since so much of the K-12 budget is determined by the Legislature, it is imperative that you get familiar with who your legislators are. You are represented by one member of the Minnesota House of Representatives and one member of the Minnesota Senate. If you do not know who they are, call House Information at (651) 296-6646 or Senate Information at (651) 296-0504. They will be able to tell you who your legislators are based on your address. Be sure you get their phone number and mailing address.

**Know the Members of the Education Committee.** Each legislative body has its own committee which deals with K-12 education issues. Both chambers also have K-12 Education Funding Divisions which deal primarily with financial issues. Your legislators may be on those committees, but whether they are or not, it is important for you to know who the committee

members are. They are the ones closest to the K-12 legislative issues of interest to you, and are the most able to influence the direction of K-12 education policy and funding. See the list in Appendix 6 in this booklet.

**Concentrate on the Big Picture.** It is important in trying to influence education policy at the state level that you pick one or two major issues and get as familiar with them as possible. The “Hot Issues” section in this booklet (Section 2) gives an overview of several “big picture” issues. How these issues are resolved over the next several years will have tremendous implications on the cost of K-12 education as well as how students perform.

Once you pick the issues you want to learn about, here are additional things to do:

**Do a library or Internet search on your topic.** For example, if you are interested in school choice, search your local library catalog (or the Internet, if you have access) under that subject to see what others are saying about that issue around the state and the country. Ask a librarian if you’re not sure how to do a search.

**Find out what Minnesota is doing regarding your issue.** First, you can check with the Minnesota Department of Education, Internet address ([www.education.state.mn.us](http://www.education.state.mn.us)) or one of the Education Committee chairs to see if there have been any recent legislative changes regarding your issue. You may also ask the committee chairs for any legislation or proposals that are currently being considered that affect the topic you have chosen. Legislative staff can do topical

searches on the Legislative Revisor's computer system for a list of bills, or you can access them directly via the Internet at [www.leg.state.mn.us](http://www.leg.state.mn.us).

**Educate the rest of your group.** As you get more familiar with your topic, pass what you have learned along to your group. This will help you learn even more.

**Find out where your legislators stand.** As you develop convictions about your issue, find out where your legislators stand on it and write or call them with your concerns.

### ***At the Local Level***

Just because only about 25% of K-12 funding is primarily determined at the local level does not mean that it is not important for you to get involved at the local level. In fact, it is even more important, because what local school officials hear from people in their districts will affect what happens at the state level, too.

One of the most visible ways for you to be involved with local school finances is at the annual Truth-in-Taxation (TNT) budget hearings held in late November or early December each year. You will receive a notice next November telling you how much your school property tax bill is expected to change for 2005 over 2004, as well as how much your city, county, and any special taxing district bill will change, along with the total proposed change. The notice of these changes will contain the announcement of your city, county, and school district budget hearings. One way for you to be involved in your school district's finances is to attend that meeting.

What you will be presented with at that meeting is a proposed school levy that will be used primarily for the following school year. As Appendix 4 in this booklet shows, there are 29 property tax levies authorized by the Legislature and available to school districts. Part of what you can learn

at a school district TNT meeting is which levies your district is proposing to use and how much is planned to be raised by each levy. Your questions will indicate to your school board that you are paying attention and want to learn how they raise school revenues and how they will be spent. School officials, however, have complained that the TNT meetings occur at the very end of a long process and that citizens who show up for these meetings are frustrated about how little they seem to be able to affect the levy decisions that have already been made.

There is a lot of truth to this complaint. Therefore, we suggest a few more important tips.

**Start Early.** School districts set the preliminary levy amounts in August or September. The maximum total levy must be certified to the state before the end of September. Find out from your school board when they do the work on setting the preliminary levy amounts and how you can watch and learn. All of the school sites and school boards plan far ahead of the school year for the budget. Below is a sample timeline for the 2004-2005 school year budget (Your school district will have its own timeline. This one is presented just as an illustration.)

### **Example Timeline for School Budgeting Process** **2004**

September	Begin processing information to set preliminary levy. Board of Education sets preliminary levy for 1996.
November	Budget forms for sites completed. Review site allocation formulas.
December	Public hearing for levy. Board sets levy for property taxes payable in 2005.

**2005**

January	Review and update strategic direction, program study resolution by school board. (Also specific sites begin their budget planning in earnest usually during this month.)
February	Complete formula review by school board. Budget priorities discussed.
March	Site council recommendations due to superintendent. Smaller districts have budget presentation to school board.
April-May	Board makes preliminary allocations to schools. (Smaller districts may actually approve the budget by April. Larger districts can still be discussing allocations to sites.)
June	Budget presented to School Board

As you can see, there is much work before the December TNT meeting, and the actual budgeting process for schools begins in January for the following school year. You can be involved from the beginning for the whole district, or, if your district has site or leadership councils, you can concentrate on one school (see Site Based Management in the “Hot Issues” section of this booklet for more on leadership councils.) This leads to the second idea for involvement.

**Become active on a leadership council.** Many school districts are using leadership councils to get more involvement from parents and members of the community. You probably have an opportunity to volunteer as a member or alternate on your

leadership council even if you don't have a child in that school, because many leadership councils want members who represent the community at large. Even if you can't become a member of the council, the meetings are open to the public. Budget discussions for specific school sites usually begin in January for the following year, as was mentioned above. The leadership council is where you can learn about a particular school's operations from the ground up.

**Monitor school progress and performance.** In recent years Minnesota has invested heavily in enabling parents to access to all sorts of information about school districts and individual schools within districts. The "School and Districts" website of the MN Department of Education is an invaluable resource for information on enrollment, teaching staff, funding, expenditures, test results and contact information. The site also features the new "School Report Card" and Adequate Yearly Progress (AYP) Status. You can also compare and contrast school data from different parts of the state by clicking on the links to school test results or student demographics. Visit the website at:

[www.education.state.mn.us/html\\_intro\\_schools\\_districts.htm](http://www.education.state.mn.us/html_intro_schools_districts.htm)

### *At Any Level*

Whether you get involved and informed at either the state or local level or both, it is important to know the main issues that effect both the cost and quality of K-12 education. Here are a couple of final thoughts to guide your efforts:

**The biggest expense for schools is related to salaries, wages, and benefits.**

It is easy to forget when talking about cutting the costs of education or providing more money for education that "people costs" are the number one expense by far. In 2003-2004, about 75% of the average school budget went for salaries and other personnel costs. Pay scales are negotiated

every two years between the teachers' and other employees' unions and the school boards, district by district. In addition to adjustments in pay scales, step increases for longevity, job classification changes, for additional educational attainment, and benefits paid are all negotiated items. School boards are under pressure to keep costs down when negotiating, but are also under pressure from parents to avoid a strike if at all possible. By letting the school board know you are informed and care, you can influence the negotiations. Each board member is elected, so the more people that contact them, the more attentive they will become.

The most important result of spending on K-12 education must be children who are schooled to the peak of their abilities. This may sound obvious, but sometimes it gets lost in the rhetoric. Policy makers have had a tendency to focus on inputs (money, courses offered, "seat time", training, pupil to teacher ratios, etc.) and have assumed that if the inputs were right, the outcomes would be desirable. By focusing more on the results of education, that is, what students are learning, and allowing more flexibility on how that result is achieved, Minnesotans who are **both** cost-conscious taxpayers and are concerned about the quality of K-12 education have a greater chance to be even more pleased with K-12 education in Minnesota.

## Appendix 6: Education Committees

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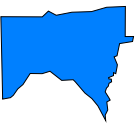
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