



PARENTS UNITED FOR PUBLIC SCHOOLS

Critique of Coalition of Minnesota Businesses’ “Facts About School Funding”

The Coalition of Minnesota Businesses recently posted information regarding school finance entitled “Do the Math: Facts about School Funding.” However, the Coalition’s analysis contains serious issues regarding data and inflation adjustments which need to be noted.

First, the Coalition’s analysis counts over a quarter of school property tax increases from FY 2003 to 2007 as state aid. In FY 2003, the state significantly increased its share of school funding and took over 100 percent of general education costs. Since FY 2003, a significant portion of this aid has been shifted back onto local property taxpayers. A net amount of \$159 million of school costs that were shifted back onto the property tax is overlooked in the Coalition’s analysis.

Second, the analysis underestimates inflation for school districts by using the Consumer Price Index (CPI). The State requires school districts to use the Implicit Price Deflator (IPD) for state and local government purchases under the Supplemental Truth and Taxation Law (enacted in 2005) because the CPI is not intended to measure inflation in school purchases.

Governor Pawlenty’s Senior Policy Advisor Dan McElroy agrees, stating “school districts and local units of government don’t buy the same things that households buy.” McElroy has urged the use of the state and local IPD when adjusting school costs for inflation. Paul Anton of the Governor’s Council of Economic Advisors has noted in testimony before the Senate Finance Committee that the CPI frequently understates inflation in government purchases.

The Coalition’s analysis of school revenues focuses on the period from FY 1996 to FY 2007. School revenues were growing during the period prior to the state takeover of general education in FY 2003 due to tri-partisan initiatives to reduce class sizes. Other factors driving an increased need for school revenue over this period were new mandates and growth in special education and limited English proficiency enrollment.

In terms of the current policy debate, the more relevant time frame is the period since the state takeover of general education in FY 2003. Has the state kept its promise to adequately fund education at the state level? Defenders of “no new taxes” have argued that school revenue and state aid to schools have grown over this period. Education advocates have argued that school revenue and state aid have declined in inflation-adjusted dollars per pupil.

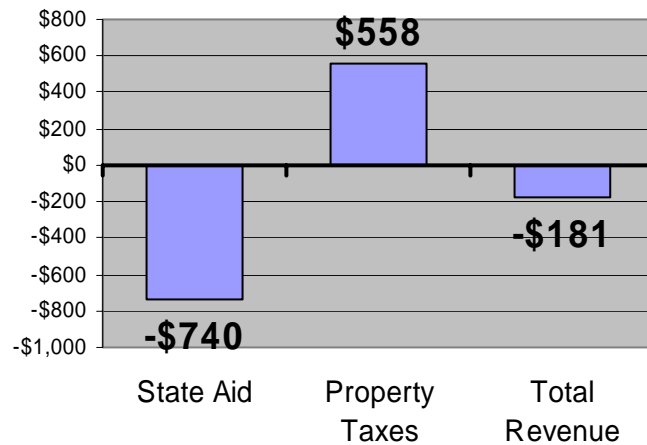
If we use the appropriate measure of inflation, it is clear that state aid to Minnesota school districts has fallen significantly since the state takeover of general education, causing both a growth in school property taxes and a decline in school revenue.

2003-2007 - Has the state kept its promise to adequately fund education at the state level?

FY 2003 is the first year of the state takeover of general education funding, making this the more relevant time frame in terms of the current policy debate. This analysis uses the 2006 end-of-session Price of Government (POG) report from the Minnesota Department of Finance, the most inclusive source of FY 2007 revenue information for school districts currently available.

From FY 2003 to FY 2007 (the current fiscal year), per pupil state aid to Minnesota public schools has fallen by \$740 (8.6%) in constant FY 2007 dollars, necessitating a \$558 (40.3%) increase in per pupil school property taxes and a \$181 (1.5%) decline in per pupil school revenue.

Change in Inflation-Adjusted Per Pupil State Aid to Schools, School Property Taxes, & Total School Revenue: FY 2003 to FY 2007



This graph shows inflation-adjusted per pupil school revenue, property taxes and state aid for each year from FY 2003 to FY 2007.

Total School District Revenue, Property Taxes, and State Aid from FY 2003 to FY 2007

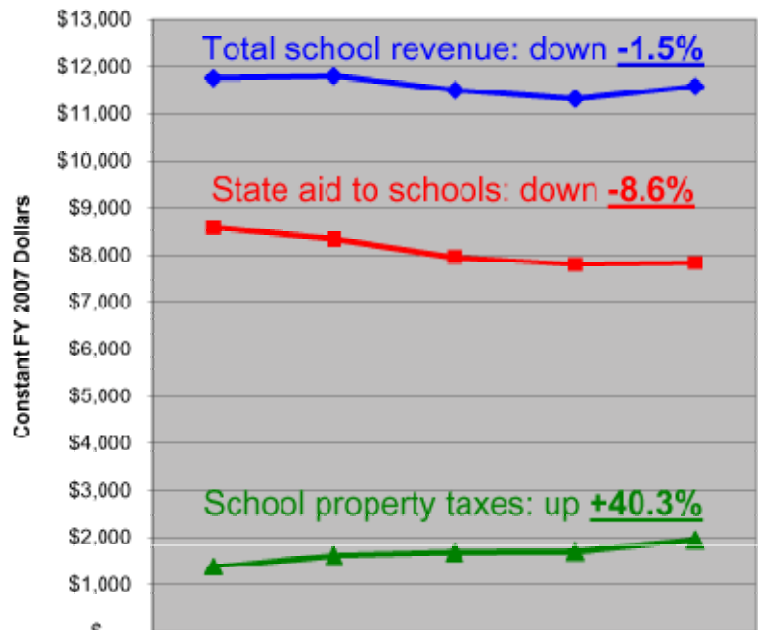


Table Notes:

The Price of Government report is prepared by the Minnesota Department of Finance. Information for FY 2006 and FY 2007 is projected. The sum of state aid and school property taxes does not equal total school district revenue because total revenue includes other categories of revenue, such as federal aid. Inflation adjustment is based on the Implicit Price Deflator (IPD) for state and local government purchases. Per pupil adjustment is based on average daily membership (ADM) from the Minnesota Department of Education.

	Pay 2002/ FY 2003	Pay 2003/ FY 2004	Pay 2004/ FY 2005	Pay 2005/ FY 2006	Pay 2006/ FY 2007
◆ Total School Revenue Per Pupil	\$11,762	\$11,807	\$11,502	\$11,314	\$11,580
■ State Aid to Schools Per Pupil	\$8,569	\$8,325	\$7,950	\$7,793	\$7,829
▲ School Prop. Taxes Per Pupil	\$1,384	\$1,624	\$1,690	\$1,707	\$1,942

At the same time that school district revenues have fallen, the number of special need students—disabled, English language learners, and children in poverty—have continued to increase. In addition, mandated costs associated with the federal “No Child Left Behind” act have increased.

In short, real school costs have increased while real school revenue has decreased.

The following information sheet, “Are the ‘Facts’ Really the Facts?”, is a critique of specific misstatements or incomplete disclosures that are posted on the Coalition’s Web site.

In addition, we recommend you download and print “2003-2007 Grand Total Revenue by District,” which provides a table showing the inflation-adjusted per pupil change in revenue, aids, and property tax levies for each Minnesota school district during the period from FY 2003 to FY 2007. This table reveals that inflation-adjusted per pupil state aid to schools and total school revenue have fallen while school property taxes have increased in seven out of every ten Minnesota school districts since the state takeover of general education in FY 2003.

Both pieces are available at www.parentsunited.org/PSRevenues.html



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Are the “Facts” Really the Facts?

A critique of statements made by the Coalition of Minnesota Businesses
on their education finance Web site

(www.mnbusiness.com/mng/front.html, accessed 10/19/2006).

- **Coalition:** “The numbers on this website come directly from the Minnesota Department of Education. We have not changed the information in any way.”
- **Critique:** The Coalition’s definition of “state aid” includes revenue generated by property taxes that is not identified as state aid by the Department of Education. **The definition of “state aid” used by the Coalition results in any overstatement of aid growth and an understatement of property tax growth.**

- **Coalition:** “If your school district is growing [i.e., enrollment is increasing] it is getting more state aid. Period.”
- **Critique:** Occasionally, a school district with growing enrollment will nonetheless experience a decline in state aid even without adjusting for inflation. This is because increases in some categories of state aid due to enrollment growth can be offset by cuts to other categories of state aid. **When you factor in inflation, school districts with growing enrollment have routinely seen reductions in state aid since the state takeover of general education in FY 2003.***

- **Coalition:** “State aid remained flat and school property taxes began to climb in FY 2004-2005 as the legislature wrestled with budget shortfalls.”
- **Critique:** Based upon information from the most current *Price of Government* report from the Minnesota Department of Finance, state aid to school districts declined by \$540 million from FY 2003 to FY 2005 in constant FY 2005 dollars—a decline of 8.3 percent. **On a per pupil basis, this represents a decline of \$566 or 7.2 percent. On a statewide basis, the growth in inflation-adjusted school property taxes over this period is due to a decline in inflation-adjusted state aid, not to growth in inflation-adjusted school revenue.**

- **Coalition:** “State aid to schools increased again in FY 2006 and FY 2007.”
- **Critique:** Based upon *Price of Government* data, in constant FY 2007 dollars state aid to Minnesota school districts declined by \$130 million (2.0 percent) from FY 2005 to FY 2006 before growing by \$12 million (0.2 percent) from FY 2006 to FY 2007. This represents a net state aid decline of \$118 million (1.8 percent) over the two year period. In constant FY 2007 dollars *per pupil*, state aid to schools declined by \$157 (2.0 percent) from FY 2005 to FY 2006 before increasing by \$36 (0.5 percent) from FY 2006 to FY 2007. The net per pupil reduction in state aid over the two year period is \$121 or 1.5 percent. **The bottom line: inflation-adjusted state aid to Minnesota schools declined from FY 2005 to FY 2007.**

* This analysis uses the Implicit Price Deflator (IPD) for state and local government purchases for all inflation adjustments. However, real state aid has declined among many districts with growing enrollment regardless of whether the inflation adjustment is based on the state and local IPD or the Consumer Price Index (CPI).

- **Coalition:** "School district revenue statewide—excluding federal funding—is up \$1.5 billion over FY 2002."
Critique: True only if one completely ignores inflation. In inflation-adjusted dollars, total school district revenues are down \$32 million (0.3 percent) in constant FY 2007 dollars from FY 2002 to FY 2007. **Since the state takeover of general education in FY 2003, total school revenues have fallen by \$285 million or 2.9 percent in constant FY 2007 dollars; on a per pupil basis, the decline is \$181 or 1.5 percent.**
- **Coalition:** "Total [statewide] general education revenue rose 62 percent [from FY 1996 to FY 2007] — that's 24 percent above inflation."
Critique: Beside understating inflation, the Coalition doesn't take into account the modest enrollment growth over this twelve-year period. **In inflation-adjusted dollars per pupil, total school district revenues have grown at an average rate of about one-percent per year since FY 1996. Over the entire 12 year period, school revenue increased by 13 percent, not 24 percent.** The above statement on the Coalition's Web site applies to statewide school revenues; similar statements made for individual school districts are similarly flawed.

Also, all of the real per pupil growth in school revenue occurred prior to the state takeover of general education in FY 2003. As noted above, statewide inflation-adjusted per pupil revenue has fallen since FY 2003.

The growth in school revenue that occurred prior to FY 2003 is due largely to:

- ⇒ Tri-partisan initiatives to reduce class sizes.
- ⇒ Increased revenue for schools districts without a referendum levy.
- ⇒ Growth in the number and severity of disabilities of special education students that are served in public and private schools.
- ⇒ Rapid growth in the number of non-English speaking students.
- ⇒ Cost growth due to various state and federal mandates.

In response to the budget deficit in FY 2003 to FY 2005, the state froze general education funding and other categorical aids were cut or capped, especially special education revenue, English Language Learner revenue, extended day/year revenue, and Early Childhood revenue. Schools received "transition" revenue, which was a combination of state aid and levy for programs that were previously all aid. In addition, other state aid formulas were shifted to local property taxes.

In short, the Coalition noted growth in school revenues from FY 1996 to FY 2007 without noting that all inflation-adjusted growth occurred prior to FY 2003 and without discussing the factors that necessitated the growth in school revenue prior to FY 2003.

- **Coalition:** "According to the Minnesota Taxpayers' Association, Minnesota was 13th in per capita spending on K-12 education in 2004."
- **Critique:** According to the U.S. Census Bureau, Minnesota ranks 20th among the fifty states in elementary and secondary public school current spending per pupil in 2004 and 40th among the fifty states in public school current spending as a percentage of statewide personal income. ("Current spending" is an expenditure definition developed by the Census Bureau to facilitate interstate comparisons.) **In terms of current spending per pupil and as a percent of personal income, Minnesota's ranking has fallen significantly over the last several years.**