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## Staff Paper Series

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### A NEW APPROACH TOWARD FINANCING PUBLIC EDUCATION IN MINNESOTA

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TOWARD FINANCING PUBLIC EDUCATION  
IN MINNESOTA

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A NEW APPROACH  
TOWARD FINANCING PUBLIC EDUCATION IN MINNESOTA

John S. Hoyt, Jr.

The 1971 Special Session of the Minnesota Legislature, in enacting the Omnibus Tax Bill, took a major step in revising the financial basis of the state's public education (K-12) program. There were--as I believe is generally agreed--two major elements in the bill which had impact on public education: reform and control.

The reform took the form of a major increase in state financial support (Foundation Aids) to public education which was based on state revenue receipts from increases in both the sales and the income tax. These increases were, in large part, responsible for an average decrease in local property taxes in 1972 (levied in 1971, payable in 1972) for school purposes of about 21 percent; a decrease which, when combined with other local property tax levies, is estimated to have averaged about 10 percent of the total property tax levy payable in 1972 as compared with the levy payable in 1971.

The control was exercised in a different manner. School districts continue to receive total income--for operations and maintenance purposes--which is a combination of Local Property Taxes (based on local property valuations) and Foundation Aids (based on state revenues from the income and sales taxes). Districts with low per pupil property valuations per pupil unit receive proportionately larger Foundation Aid payments. Although there are apparently a number of "quirks" in the law (or in the related regulations) which cause some districts unique problems, the crux of the "control" is exercised on districts that have a history of "above average" expenditures per pupil unit. Control, therefore, is a function of spending limitations per pupil unit plus decreasing Foundation Aids for districts with property valuations which are increasing at a faster than average rate. The net effect is to produce a situation where total income for operations and maintenance costs for a district may be less, in dollars, than total costs--with no increase in current programs. And with no realistic relief alternative offered to local school boards.

Rather than dwell on complex explanations one can visualize the impact of the current bill in the following way:

For the maintenance of existing educational programs only--at an assumed cost increase of 5 percent per year (inflation plus real cost increases in salary schedules, etc.) this will be the net cash position of several school districts as of June 30, 1975:

Positive Cash Balance

Anoka  
Richfield  
Orono

Negative Cash Balance

|                 |             |
|-----------------|-------------|
| Brooklyn Center | Wayzata     |
| Eden Prairie    | Hopkins     |
| Edina           | Minneapolis |
| Golden Valley   | Mound       |
| Robbinsdale     | Mounds View |
| St. Anthony     | Bloomington |

My purpose, however, is not to berate the existing legislation but to point out its long-term fiscal inadequacy and, in turn, to offer a formula and concept which is responsive to the philosophy of the 1971 Special Session and the operating needs of individual districts.

In that context I suggest that a workable school aid financing concept should accomplish several goals. Specifically it should:

1. Implement a total funding formula which increasingly moves the financing of public education toward an income and sales tax base. In 1972-73 Foundation Aids equaled about 60% of total gross school expenditures for operations and maintenance; that percentage should increase over time in any new funding concept;
2. Provide a formula which, district-by-district, takes into account differences in salary schedules (placement of teachers based on length of service and educational attainment). In short, a mature district with high mean salaries should be allowed a relatively higher per pupil unit expenditure for maintenance purposes than a district with low mean salaries;
3. Provide a formula which takes into account annual average increases in costs related to price increases for goods and services (A Consumer Price Index Ratio is one example of such a device for adjustment);
4. Provide a formula which assigns a portion of the available local tax levy in each district to a state-wide formula in order to move toward an equalization of the burden of property taxes between districts while, at the same time, sharing the revenues from property taxes on the basis of individual district needs;

5. Provide local boards of education with some discretionary local funding rights. However, limits must be placed on such discretion--and the burden of exercising the option of the discretion should fall more heavily on high assessed valuation per pupil unit districts than on "poor" districts;
6. Have built into the formula appropriate adjustments for special educational needs (on a pupil-unit adjustment basis) and for "special" tax payments to districts (such as Tax Exempt Land Aid, District 280 Airport Refunds, etc.).

### BUILDING A NEW SCHOOL AID PLAN

Figure 1 summarizes, in gross terms, the 1972-73 gross school expenditures picture for Minnesota Public Education. I propose to use these data as a point of departure to build a new plan.

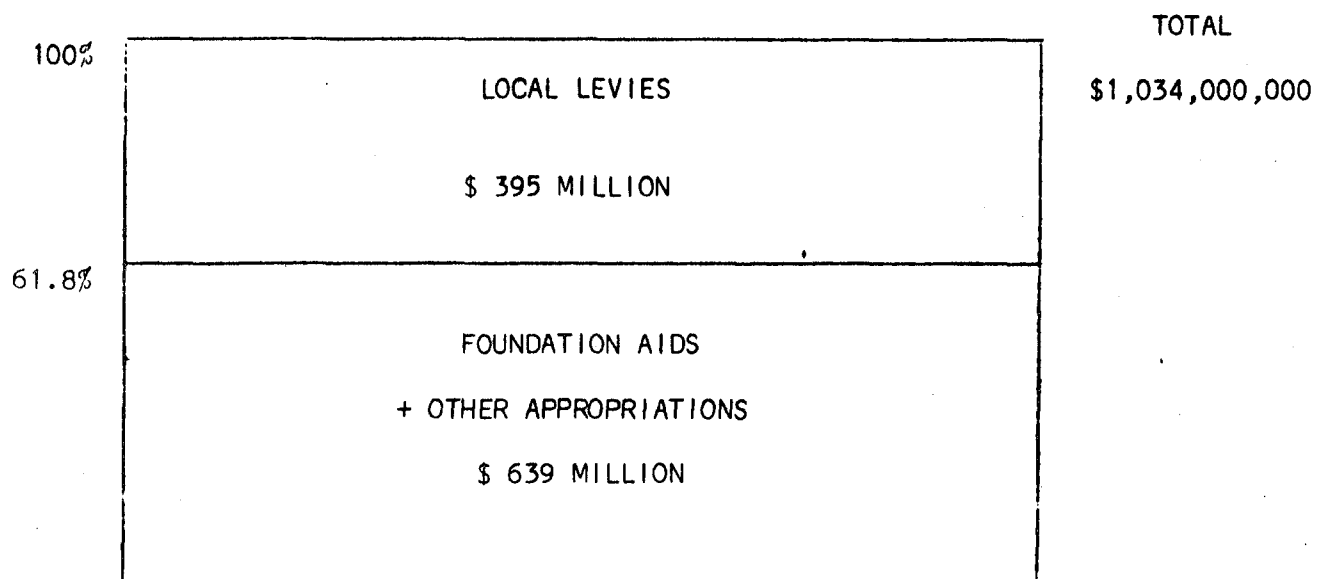


Figure 1  
1972-73  
GROSS SCHOOL EXPENDITURES

SUMMARY OF REASONS FOR PROPOSING A CHANGE

1. Present law will cause severe financial deficits by 1974-75 on a number of districts that presently have above average expenditures (costs) and high EARC/P.P.V. valuations.
2. Discretion of local boards in present law is virtually non-existent--and present indications are to remove such discretion altogether.
3. Present law increases state aids as a percentage of total expenditures but it does not "share" local property taxes on any equalized basis.
4. Present law does not have any "accountability" feature built into it in terms of the uses of additional resources available to districts.

### SUMMARY OF WHAT THE CONCEPT ACCOMPLISHES

1. Relates the Annual Increase in State Aids to Economic Growth
2. "Property Poor" Districts receive
  - a) a proportionately greater State Aid (as is the case now)
  - b) plus a share of local taxes from "Property Rich" Districts
3. State Aids (based on Income and Sales Tax Receipts) are an increasing share of total Educational Expenditures
4. "Property Rich" (low property tax burden) Districts may levy controlled increases in local taxes
5. Increases in per pupil unit expenditures -- for both below- and above - average districts -- are subject to prior accountability
6.
  - a) Local property taxes for "Property Poor" Districts are frozen at current dollar levels
  - b) Local property taxes for "Property Rich" Districts may increase up to 5.7 percent, but decision rests with the Local Board of Education. In growing districts the mill rate may well decrease. Any such increases will also result in increase "sharing" in subsequent years.
7. The concept can be implemented with no increase in State Tax rates.



### Structuring a Public Education Financing Model

1. Gross School Expenditures 1972-73 - All Districts;

|                              |    |                    |
|------------------------------|----|--------------------|
| Non-Bonded Property Levy     | \$ | 395 million        |
| State Education Aids - Gross |    | <u>639 million</u> |
| Total                        | \$ | 1,034 million      |

2. Number of Pupil Units 1972-73 - All Districts;

1,055,000 P.U.

3. Average Gross Expenditure per Pupil Unit 1972-73;

$$\$1,034,000 \div 1,055,000 \text{ P.U.} = \$980/\text{P.U.}$$

4. Average Gross Expenditure (Basic Formula) for 1973-74;

1972-73 Average x Price Index Increase in preceding  
calendar year (Use Sept. 1971 - Sept. 1972 as example)

$$\text{CPI Sept. 1972} = 126.2$$

$$\text{CPI Sept. 1971} = \underline{122.2}$$

$$4.0 \div 122.2 = 3.3\% \text{ increase}$$

$$\$980 \times 1.033 = \$1,012/\text{P.U.}$$

5. Total Gross Expenditure (Basic Formula) for 1973-74;

Average Gross Expenditure/P.U. 1973-74 x  
Number of pupil units 1972-73

$$\$1,012 \times 1,055,000 = \$1,067,660,000$$

6. Combined State Educational Aids 1973-74;

State Educational Aids, 1972-73 as a percentage  
of Gross School Expenditures, 1972-73 plus 3.3%

$$\left( \frac{639 \times 100}{1,034} \right) + 3.3 = 65.1\% \quad .651 \times \$1,067,660,000 = \$695,047,000$$

7. Non-Bonded Property Levy (Basic Formula);

$$\$1,067,660,000 - \$695,047,000 = \$372,613,000$$

8. Increase in State Educational Aids 1973-74 vs 1972-73;

$$\frac{695,047,000 - 639,000,000}{639,000,000} \times 100 = 8.8\%$$

9. Decrease in Non-Bonded Property Levy (Basic Formula);

$$\frac{395,000,000 - 372,613,000}{395,000,000} \times 100 = 5.7\%$$

10. Non-Bonded Property Tax Levy available for Local District Expenditures\* without increasing Non-Bonded Levy (total) for 1972-73;

$$\$395,000,000 - \$372,613,000 = \$22,387,000$$

11. The levy for 1972-73 shall be levied again in 1973-74. Each local district shall remit 5.7 percent of its local levy to the state to be placed in the District Expenditure Escrow Fund.
12. Each district with an EARC property valuation per pupil unit for the 1972-73 school year that is below the state-wide average of \$10,244 shall receive an apportionment from the Escrow Fund that represents its share of the total fund as determined by the total of all below average districts.\*\* Such districts shall submit budgetary plans for educational improvement for approval by the State Department of Education before the apportioned funds are distributed to the district.
13. Individual districts with an EARC valuation per pupil unit that is above the state average shall be authorized to levy a local district property tax up to, but not greater than, the dollar amount which they have contributed to the Escrow Fund.

Expenditures from these levies shall be made only after approval of an educational program budget submitted to the State Department of Education by the individual district. Inter-district programs shall receive first priority for approval. Any unexpended levies shall be used by each district at the end of the current year to:

- a. Reduce outstanding debt service liabilities; or
- b. If none, to reduce the allowable capital outlay property tax levy of the district for the next tax year.

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\*For below average per pupil unit expenditure districts only.

\*\*EARC valuation per pupil unit for below average districts (251 of 435 districts) =  $\$3,978,945,000 \div 532,870 = \$7,467$  P.P.U.

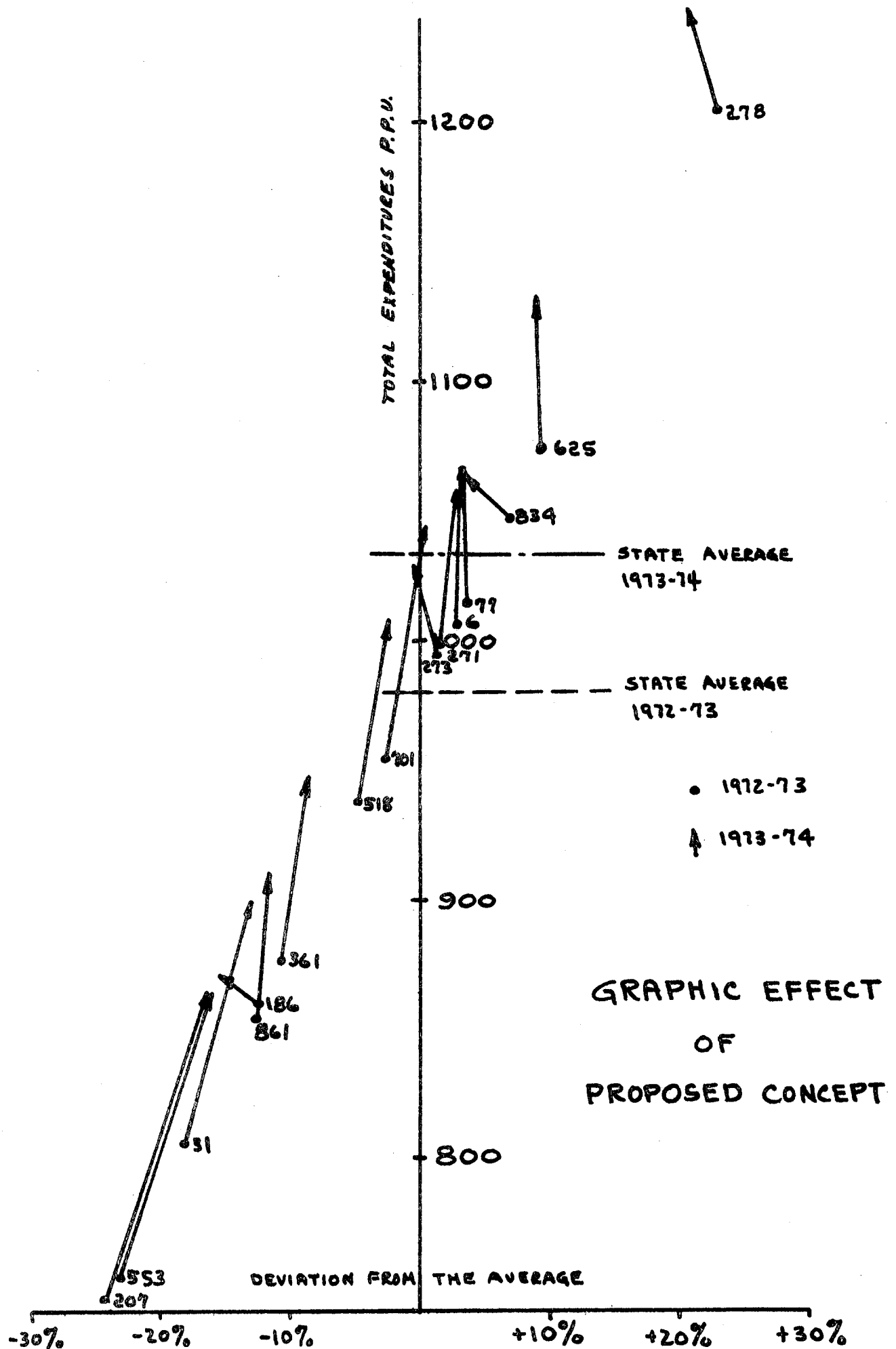
$$\frac{\$22,387,000}{\$3,978,945,000} \times \$7,467 = \$41.96 \text{ P.P.U. available in each "below average" district}$$

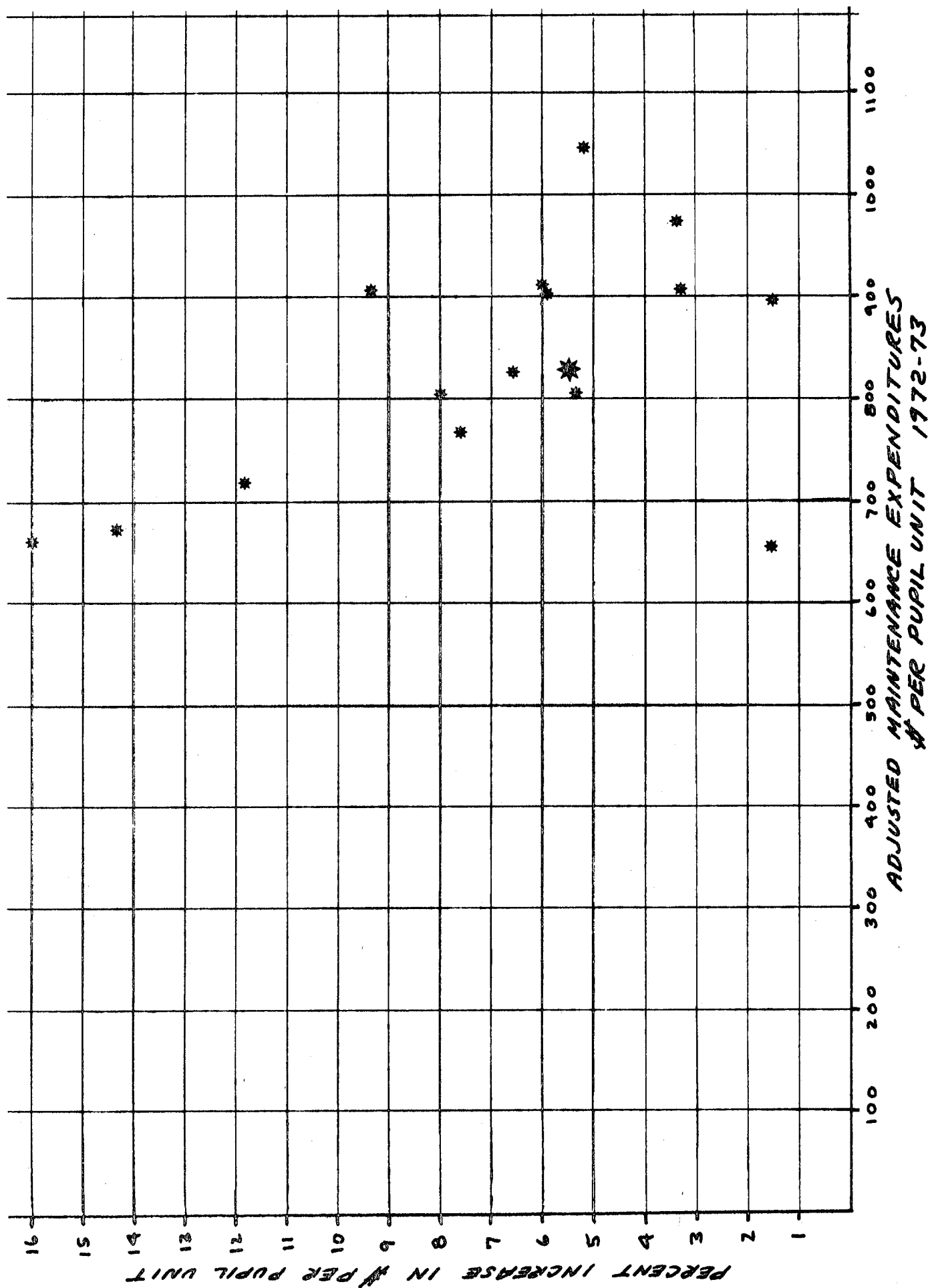
SUMMARY CALCULATIONS FOR 15 SAMPLE DISTRICTS

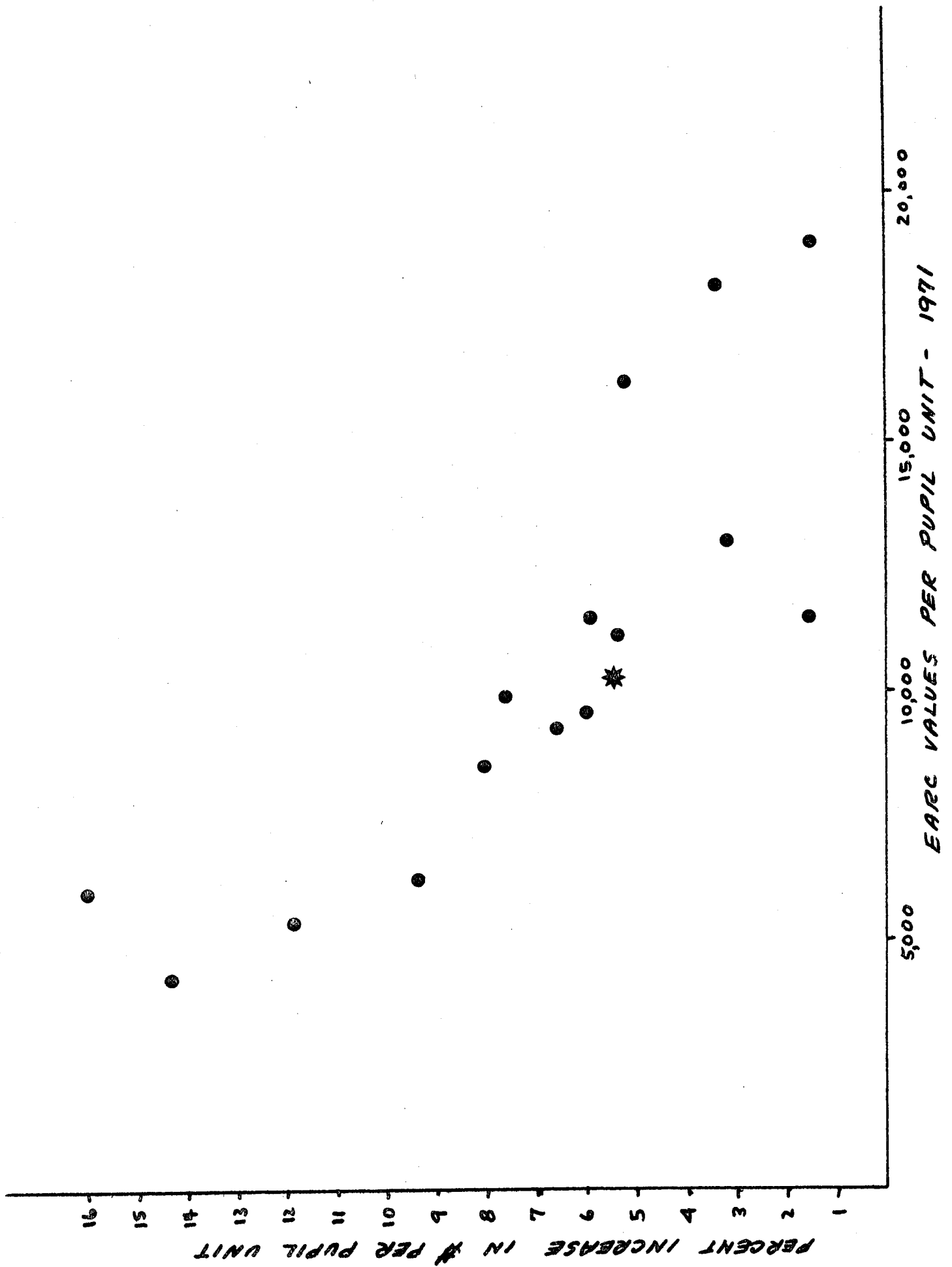
| ITEM # | PROPOSAL CONCEPT FORMULAE  | UNITS | St. Paul #625 | Int'l Falls #361 | South St. Paul #6 | Bloomington #271 | Edina #273  | Brandon #207 | Mankato #77 | Bemidji #31 | North-Ington #518 | Orono #278 | New York Mills #553 | Hibbing #701 | Winona #861 | Stillwater #834 | Pequot Lakes #186 | STATE      |
|--------|--|-------|---------------|------------------|-------------------|------------------|-------------|--------------|-------------|-------------|-------------------|------------|---------------------|--------------|-------------|-----------------|-------------------|------------|
| 1      | Non-Bonded Property Levy, 1972-73  | \$000 | 30,298        | 1414             | 3000              | 11,948           | 8802        | 90           | 4339        | 952         | 1328              | 1806       | 163                 | 2278         | 2504        | 4347            | 447               | 395,000    |
| 2      | Gross State Aids, 1972-73  | \$000 | 27,931        | 2201             | 3733              | 15,845           | 3635        | 322          | 5463        | 3671        | 2408              | 1747       | 589                 | 3698         | 3947        | 5062            | 326               | 639,000    |
| 3      | Total of (1) + (2)   | \$000 | 58,229        | 3615             | 6733              | 27,793           | 12,637      | 412          | 9802        | 4623        | 3736              | 3553       | 752                 | 5976         | 6451        | 9409            | 773               | 1,034,000  |
| 4      | Number of Pupil Units, 1972-73   | #     | 54,187        | 4117             | 6691              | 27,862           | 12,712      | 554          | 9667        | 5752        | 3987              | 2951       | 997                 | 6265         | 7557        | 8981            | 901               | 1,055,000  |
| 5      | Estimated Number of Pupil Units, 1973-74   | #     | 53,940        | 4049             | 6690              | 27,477           | 12,906      | 547          | 9643        | 5864        | 3906              | 3052       | 1012                | 6120         | 7685        | 9752            | 955               | 1,055,000  |
| 6      | Expenditure Per Pupil Unit, 1972-73  | \$    | 1075          | 878              | 1006              | 998              | 994         | 744          | 1014        | 804         | 937               | 1204       | 754                 | 954          | 854         | 1048            | 858               | 980        |
| 7      | 1973-74 Allowable Expenditure Base<br>(5) x (6) x 1.033  | \$000 | 59,899        | 3672             | 6952              | 28,327           | 13,252      | 437          | 10,101      | 4870        | 3781              | 3796       | 788                 | 6031         | 6780        | 10,557          | 846               | 1012       |
| 8      | State Aid as a percent of Total, 1972-73<br>(2) ÷ (3) x 100  | %     | 47.97         | 60.89            | 55.44             | 57.01            | 30.35       | 78.16        | 55.73       | 79.41       | 64.45             | 49.17      | 78.32               | 61.88        | 61.18       | 53.80           | 42.17             | 61.8       |
| 9      | State Aid, 1973-74<br>(7) x (.033 + (2) ÷ (3))   | \$000 | 30,710        | 2357             | 4084              | 17,084           | 4459        | 356          | 5963        | 4028        | 2562              | 1992       | 643                 | 3931         | 4372        | 6028            | 385               | 695,000    |
| 10     | Local Taxes, 1973-74<br>(1) ÷ .057 x (1)   | \$000 | 28,571        | 1333             | 2829              | 11,267           | 8300        | 85           | 4092        | 898         | 1252              | 1703       | 154                 | 2148         | 2361        | 4099            | 422               | 372,613    |
| 11     | Total Allowable Base, 1973-74<br>(9) + (10)  | \$000 | 59,281        | 3690             | 6913              | 28,351           | 12,759      | 441          | 10,055      | 4926        | 3814              | 3695       | 797                 | 6079         | 6733        | 10,127          | 807               | 1,067,660  |
| 12     | Expenditures Allowable Per Pupil Unit (Base),<br>1973-74<br>(11) ÷ (5)   | \$    | 1099          | 911              | 1035              | 1032             | 989         | 806          | 1043        | 840         | 976               | 1211       | 788                 | 993          | 876         | 1038            | 845               | 1012       |
| 13     | EARC value per pupil unit, 1971<br>Note: if (13) is greater than \$10,234, proceed with calculations (14) through (17); if less proceed with calculations (18) through (21). | \$    | 16,267        | 8461             | 9603              | 11,421           | 18,161      | 5599         | 11,122      | 5325        | 9784              | 13,056     | 4255                | 6273         | 9228        | 11,428          | 18,972            | 10,234     |
| 14     | Maximum Discretionary Levy, 1973-74<br>Allowable .057 x (1)  | \$000 | 1727          |                  |                   | 681              | 502         |              | 247         |             |                   | 103        |                     |              |             | 248             | 25                | 22,387     |
| 15     | Total Allowable Resources, 1973-74<br>(11) + (14)  | \$000 | 61,008        |                  |                   | 29,032           | 13,261      |              | 10,302      |             |                   | 3798       |                     |              |             | 10,375          | 832               | 1,090,047  |
| 16     | Allowable Resources per pupil unit, 1973-74<br>(15) ÷ (5)  | \$000 | 1131          |                  |                   | 1057             | 1028        |              | 1068        |             |                   | 1244       |                     |              |             | 1064            | 871               | 1033       |
| 17     | Percent increase in per pupil unit resources<br>a. Base ( (12) - (6) ) ÷ (6) times 100<br>b. Base plus Discretion ( (16) - (6) ) ÷ (6) times 100                             | %     | 2.2<br>5.2    |                  |                   | 3.4<br>5.9       | -0.5<br>3.4 |              | 2.9<br>5.3  |             |                   | .05<br>3.3 |                     |              |             | -1.5<br>1.5     | -1.5<br>1.5       | 3.3<br>5.4 |
| 18     | Share from Escrow Fund<br>7467 ÷ (13) x 41.96 x (5)  | \$000 |               | 150              | 218               |                  |             | 31           |             | 345         | 125               |            | 75                  | 306          | 261         |                 |                   | 22,387     |
| 19     | Total Base, 1973-74<br>(11) + (18)   | \$000 |               | 3840             | 7131              |                  |             | 472          |             | 5271        | 3939              |            | 872                 | 6385         | 6994        |                 |                   | 1,090,047  |
| 20     | Total Base per pupil unit<br>(19) ÷ (5)  | \$    |               | 948              | 1066              |                  |             | 863          |             | 899         | 1008              |            | 862                 | 1043         | 910         |                 |                   | 1033       |
| 21     | Percent increase in per pupil unit resources<br>( (20) - (6) ) ÷ (6) times 100   | %     |               | 8.0              | 6.0               |                  |             | 16.0         |             | 11.8        | 7.6               |            | 14.3                | 9.3          | 6.6         |                 |                   | 5.4        |
| 22     | SUMMARY:<br>Increase in State Aids (9) - (2)   | \$000 | 2779          | 156              | 351               | 1239             | 624         | 34           | 500         | 357         | 154               | 245        | 54                  | 233          | 425         | 966             | 59                | 56,000     |
| 23     | Share to Escrow Fund (14) or (1) - (10)  | \$000 | 1727          | 81               | 171               | 681              | 502         | 5            | 247         | 54          | 76                | 103        | 9                   | 130          | 143         | 248             | 25                | 22,387     |
| 24     | Share from Escrow Fund (18)  | \$000 | 0             | 150              | 218               | 0                | 0           | 31           | 0           | 345         | 125               | 0          | 75                  | 306          | 261         | 0               | 0                 | 22,387     |
| 25     | Maximum Local Tax Increase (14)  | \$000 | 1727          | 0                | 0                 | 681              | 502         | 0            | 247         | 0           | 0                 | 103        | 0                   | 0            | 0           | 248             | 25                | 22,387     |
| 26     | Net Increase (22) - (23) + (24) + (25)   | \$000 | 2779          | 225              | 398               | 1239             | 624         | 60           | 500         | 648         | 203               | 245        | 120                 | 409          | 543         | 966             | 59                | 78,387     |

SUMMARY OF IMPACT OF PROPOSED CONCEPT FORMULA ON 15 SAMPLE DISTRICTS

| District<br>Name and<br>Number | 1972-73<br>Total<br>Exp./PPU | 1971<br>EARC/PPU | Adj. Maint.<br>Exp./PPU | 1973-74<br>Total<br>Exp./PPU | Change-<br>in<br>Percent | 1972-73 & 1973-74--<br>Pct. Dev. from<br>Ave. State | Exp./PPU    |
|--------------------------------|------------------------------|------------------|-------------------------|------------------------------|--------------------------|---|-------------|
| Orono<br>#278                  | \$ 1,204                     | \$13,036         | \$ 971                  | \$ 1,244                     | 3.3                      | +22.9   | +20.4       |
| St. Paul<br>#625               | 1,075                        | 16,267           | 1,043                   | 1,131                        | 5.2                      | + 9.7   | + 9.5       |
| Stillwater<br>#834             | 1,048                        | 11,428           | 897                     | 1,064                        | 1.5                      | + 6.9   | + 3.0       |
| Mankato<br>#77                 | 1,014                        | 11,122           | 809                     | 1,068                        | 5.3                      | + 3.5   | + 3.4       |
| So. St. Paul<br>#Sp 6          | 1,006                        | 9,603            | 921                     | 1,066                        | 6.0                      | + 2.7   | + 3.2       |
| Bloomington<br>#271            | 998                          | 11,421           | 903                     | 1,057                        | 5.9                      | + 1.8   | + 2.3       |
| Edina<br>#273                  | 994                          | 18,161           | 914                     | 1,028                        | 3.3                      | + 1.4   | - 0.5       |
| Hibbing<br>#701                | 954                          | 6,273            | 913                     | 1,043                        | 9.3                      | - 2.7   | + 0.1       |
| Worthington<br>#518            | 937                          | 9,784            | 769                     | 1,008                        | 7.6                      | - 4.4   | - 2.4       |
| Int'l Falls<br>#361            | 878                          | 8,461            | 818                     | 948                          | 8.0                      | -10.4   | - 8.2       |
| Pequot Lakes<br>#186           | 858                          | 18,972           | 657                     | 871                          | 1.5                      | -12.4   | -15.7       |
| Winona<br>#861                 | 854                          | 9,228            | 828                     | 910                          | 6.6                      | -12.6   | -11.9       |
| Bemidji<br>#31                 | 804                          | 5,325            | 719                     | 899                          | 11.8                     | -18.0   | -13.0       |
| New York Mills<br>#553         | 754                          | 4,255            | 672                     | 862                          | 14.3                     | -23.1   | -16.1       |
| Brandon<br>#207                | 744                          | 5,599            | 664                     | 863                          | 16.0                     | -24.1   | -16.5       |
| State Average                  | <u>980</u>                   | <u>10,234</u>    | <u>827</u>              | <u>1,033</u>                 | <u>5.4</u>               | <u>none</u>   | <u>none</u> |







DATA SOURCE WORKSHEET  
FOR INDIVIDUAL DISTRICT CALCULATIONS

DISTRICT \_\_\_\_\_

1. Local levy certified in 1971 for school year 1972-73 for all purposes except debt service.

|                |          |
|----------------|----------|
| Total Levy     | \$ _____ |
| Less Debt Levy | - _____  |
| Net Levy       | \$ _____ |

Source: F29-2d(8-71)

2. Total receipts from state sources

| <u>Actual 1971-72</u> | <u>Est. 1972-73</u> |
|-----------------------|---------------------|
| \$ _____              | \$ _____            |

Source: F29-2a(3-72) p.2

Source: By phone from  
individual districts

3. Estimated Pupil Units in A. D. M.

| <u>1972-73</u> | <u>1973-74</u> |
|----------------|----------------|
| _____          | _____          |

Source: Walt Harvey

4. Adjusted maintenance expenditures per Pupil Unit in A. D. M.

|                 | <u>Actual 1971-72</u> | x 1.05 = | <u>Est. 1972-73</u> |
|-----------------|-----------------------|----------|---------------------|
| State and Local | \$ _____              |          | \$ _____            |
| Federal         | \$ _____              |          | \$ _____            |
| Total           | \$ _____              |          | \$ _____            |

Source: F29-2a(3-72), p.7

5. E. A. R. C. Valuation for 1971. \$ \_\_\_\_\_

Source: Grace Dougherty, State Department of Ed.