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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.

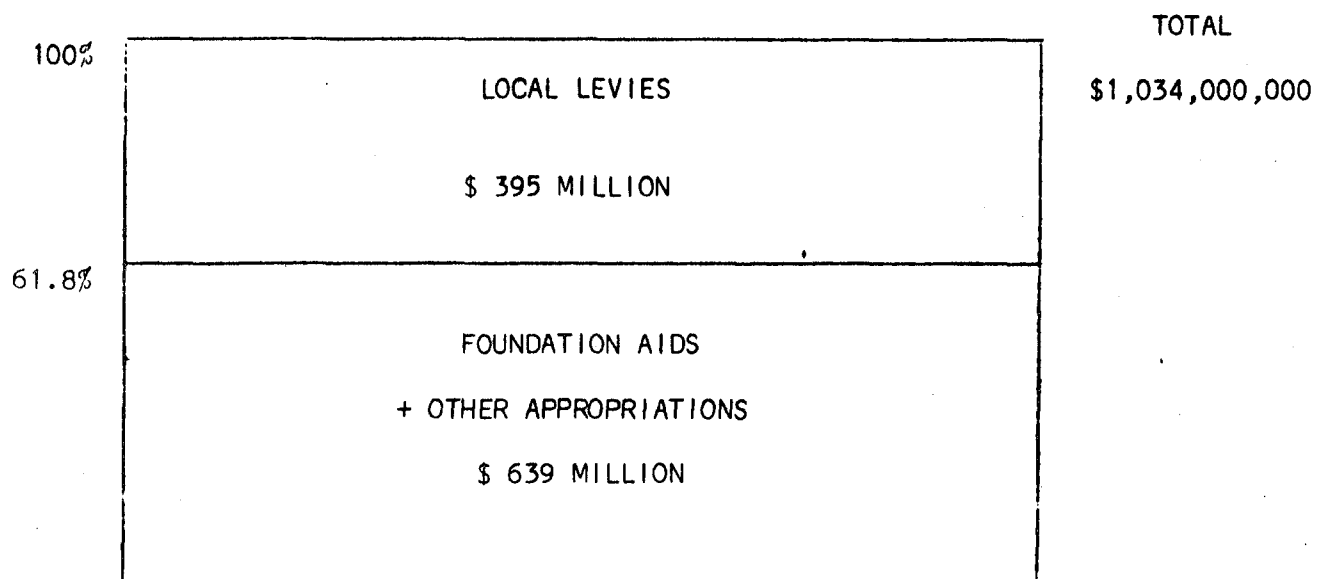


Figure 1
1972-73
GROSS SCHOOL EXPENDITURES

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.

*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.

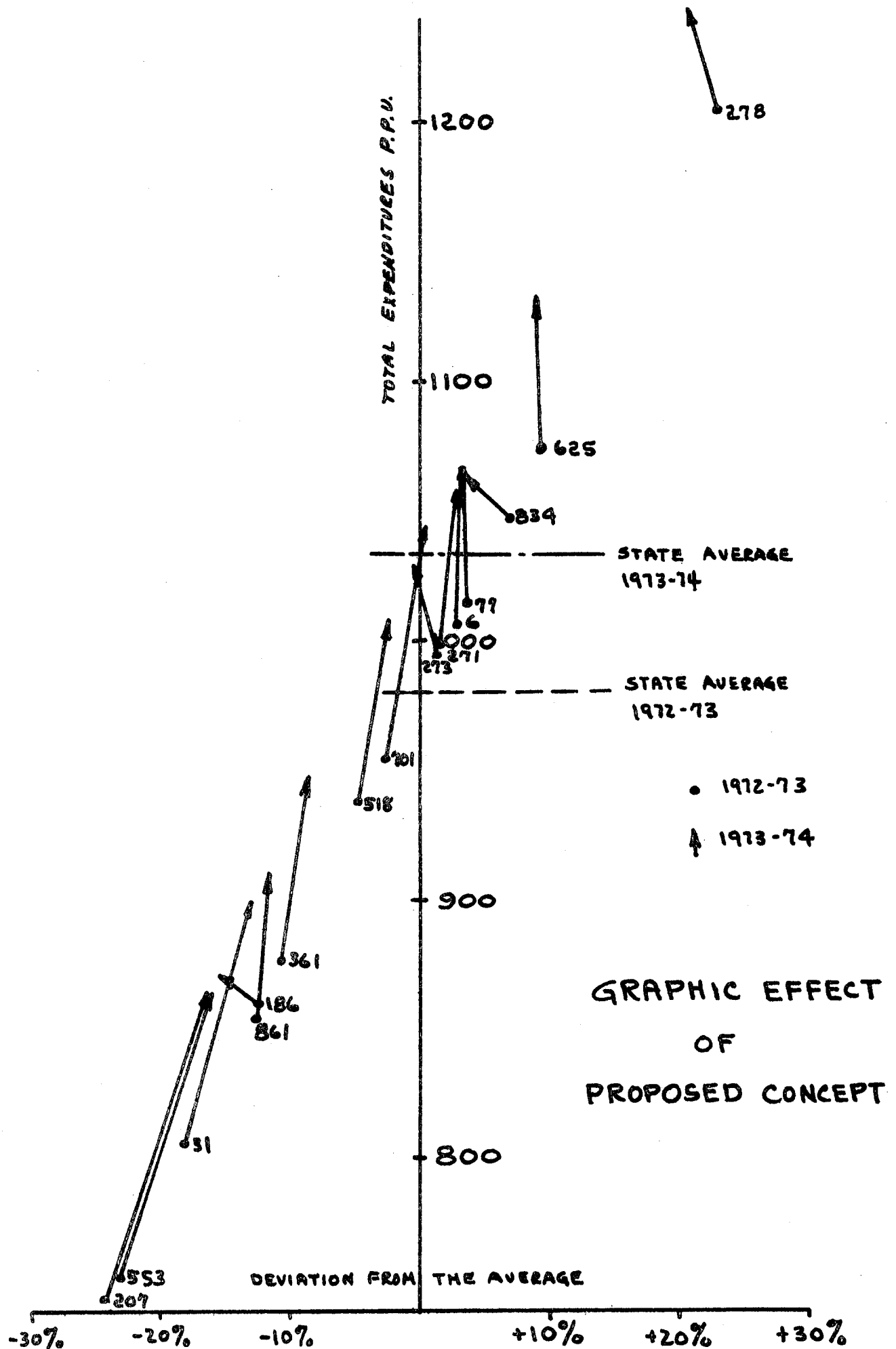
$$\frac{\$22,387,000}{\$3,978,945,000} \times \$7,467 = \$41.96 \text{ P.P.U. available in each "below average" district}$$

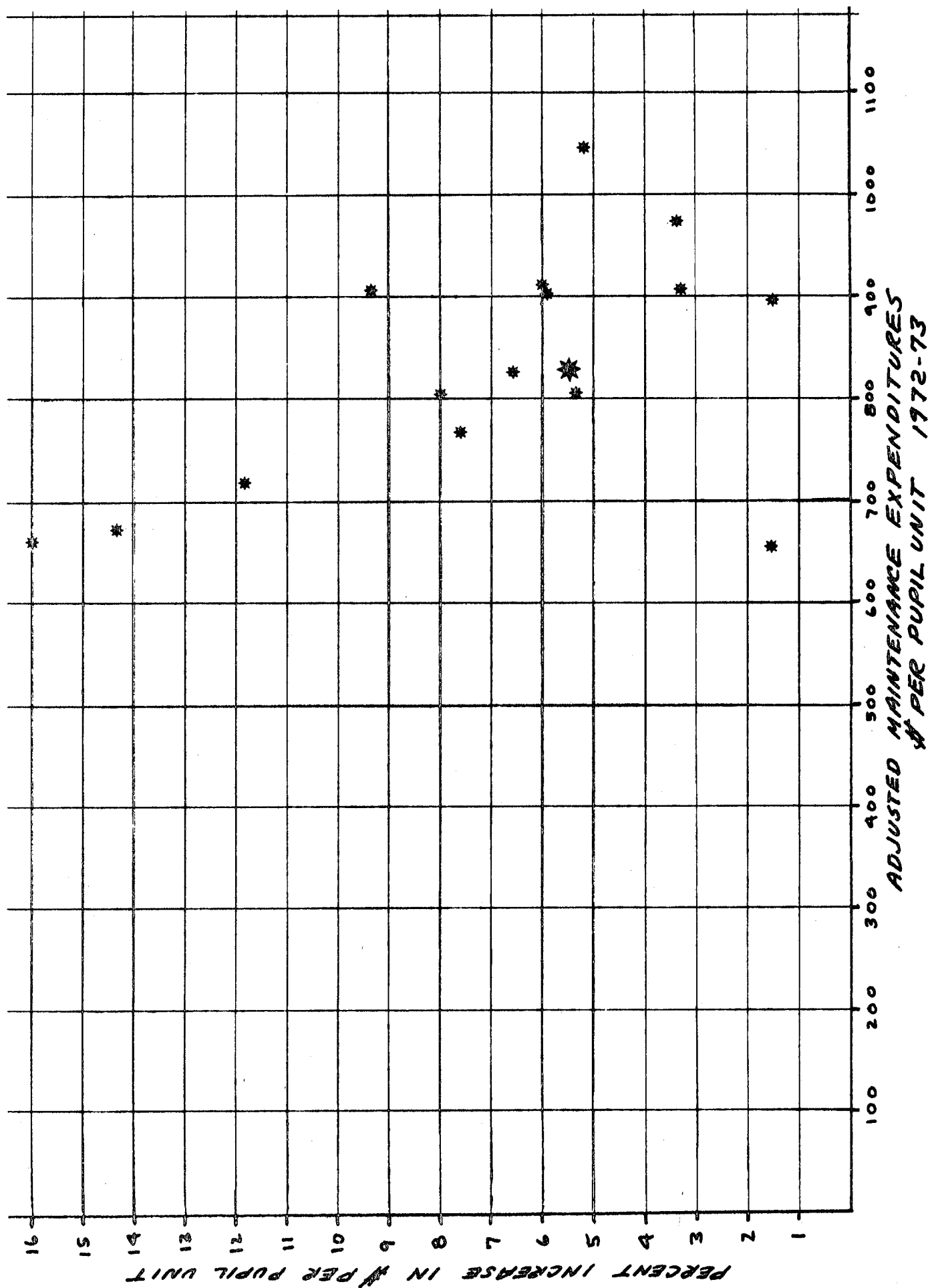
SUMMARY CALCULATIONS FOR 15 SAMPLE DISTRICTS

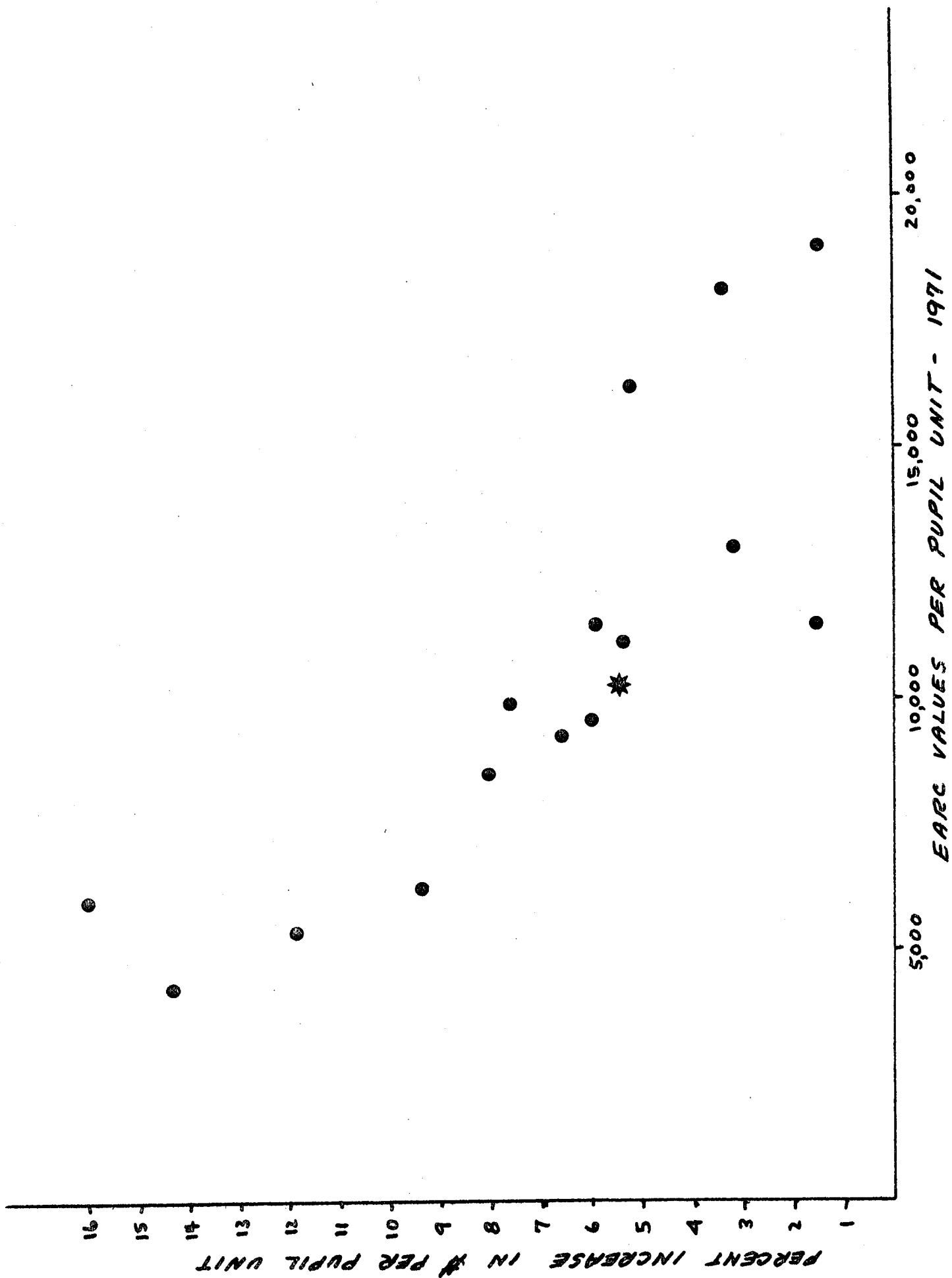
ITEM #	PROPOSAL CONCEPT FORMULAE	UNITS	St. Paul #625	Int'l Falls #361	South St. Paul #6	Bloomington #271	Edina #273	Brandon #207	Mankato #77	Bemidji #31	North-Ington #518	Orono #278	New York Mills #553	Hibbing #701	Winona #861	Stillwater #834	Pequot Lakes #186	STATE
1	Non-Bonded Property Levy, 1972-73	\$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 (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 (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 (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 (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 (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), 1973-74 (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 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 Allowable .057 x (1)	\$000	1727			681	502		247			103				248	25	22,387
15	Total Allowable Resources, 1973-74 (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 (15) ÷ (5)	\$000	1131			1057	1028		1068			1244				1064	871	1033
17	Percent increase in per pupil unit resources a. Base ((12) - (6)) ÷ (6) times 100 b. Base plus Discretion ((16) - (6)) ÷ (6) times 100	%	2.2 5.2			3.4 5.9	-0.5 3.4		2.9 5.3			.05 3.3				-1.5 1.5	-1.5 1.5	3.3 5.4
18	Share from Escrow Fund 7467 ÷ (13) x 41.96 x (5)	\$000		150	218			31		345	125		75	306	261			22,387
19	Total Base, 1973-74 (11) + (18)	\$000		3840	7131			472		5271	3939		872	6385	6994			1,090,047
20	Total Base per pupil unit (19) ÷ (5)	\$		948	1066			863		899	1008		862	1043	910			1033
21	Percent increase in per pupil unit resources ((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: 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 Name and Number	1972-73 Total Exp./PPU	1971 EARC/PPU	Adj. Maint. Exp./PPU	1973-74 Total Exp./PPU	Change- in Percent	1972-73 & 1973-74-- Pct. Dev. from Ave. State	Exp./PPU
Orono #278	\$ 1,204	\$13,036	\$ 971	\$ 1,244	3.3	+22.9	+20.4
St. Paul #625	1,075	16,267	1,043	1,131	5.2	+ 9.7	+ 9.5
Stillwater #834	1,048	11,428	897	1,064	1.5	+ 6.9	+ 3.0
Mankato #77	1,014	11,122	809	1,068	5.3	+ 3.5	+ 3.4
So. St. Paul #Sp 6	1,006	9,603	921	1,066	6.0	+ 2.7	+ 3.2
Bloomington #271	998	11,421	903	1,057	5.9	+ 1.8	+ 2.3
Edina #273	994	18,161	914	1,028	3.3	+ 1.4	- 0.5
Hibbing #701	954	6,273	913	1,043	9.3	- 2.7	+ 0.1
Worthington #518	937	9,784	769	1,008	7.6	- 4.4	- 2.4
Int'l Falls #361	878	8,461	818	948	8.0	-10.4	- 8.2
Pequot Lakes #186	858	18,972	657	871	1.5	-12.4	-15.7
Winona #861	854	9,228	828	910	6.6	-12.6	-11.9
Bemidji #31	804	5,325	719	899	11.8	-18.0	-13.0
New York Mills #553	754	4,255	672	862	14.3	-23.1	-16.1
Brandon #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.