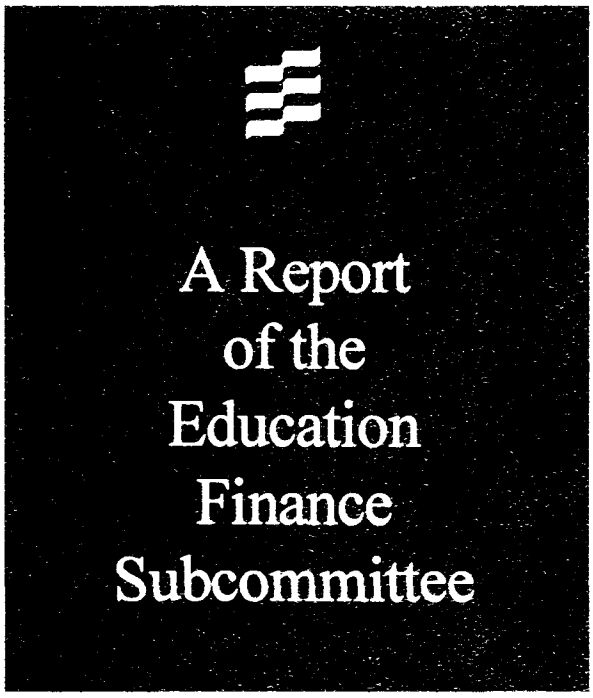
EDUCATION FINANCE

Education Quality
and Funding
Reform



The Minnesota Business Partnership

March 1993

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Contents

This report is one of three reports on education issued by the Minnesota Business Partnership for the 1993 legislative session. The other two reports deal with transformation of the education system and readiness of students to both learn and work. Copies of all reports are available from the Partnership offices.

The Minnesota Business Partnership is an association of the Chief Executive Officers of 105 of the state's largest corporations. The Partnership was created in 1977 with the mission of promoting job creation. Our goal is to pursue public policy reforms that will attract new jobs to the state and allow us to retain the ones we have.

We pursue our mission while working cooperatively with Minnesota's public officials. In addition to education quality improvement, current Partnership focus areas include state fiscal policy, employment law, and health care.

For further information about the Partnership and its work, contact Tom Triplett, Executive Director, at (612) 370-0840.

ACKNOWLEDGEMENTS

A report of this magnitude requires substantial input from a number of sources. The members of the Subcommittee are identified on the inside of the front cover of the report. We particularly appreciate the time and expertise provided by the following representatives of the public accounting firms of the Partnership membership: Cliff Hoffman of Deloitte & Touche; Terry Ward of Coopers & Lybrand, Chris Sagstetter of Peat Marwick, Dan Bauer of Ernst & Young, and Martha Larson of Arthur Andersen. Their assistance was critical to the financial analyses of the eight Minnesota public school districts as summarized in Section III of the report. Kevin Harris, of IDS Financial Services, also provided additional analysis and critique of these ideas.

The most time-consuming part of our work was the analysis of financial information from those eight districts. We deeply appreciate the time and assistance provided by the superintendents and staff from the following districts: Minneapolis (SP1), St. Paul (625), Rosemount Apple Valley Eagan (196), Orono (278), St. Cloud (742), Grand Rapids (318), Princeton (477), Blue Earth (240).

A significant number of Minnesota educators, legislators, and other experts advised us in the preparation of the recommendations portion of the report. We thank them all, and we want to express our admiration to them for their continuing commitment to education quality in Minnesota.

Business Partnership staff persons contributing to the report include Paula Prahl, Tom Triplett, Mike Latimore, and Marna Madsen. They and the Subcommittee members and deputies remain available to discuss this report.

March, 1993

Governor Arne Carlson
Lieutenant Governor Joanell Dyrstad
Members of the Legislature
Minnesota Educators
Citizens of the State:

We are pleased to submit this report which recommends a complete overhaul of the method by which we finance elementary and secondary education in Minnesota. This report is the third we have prepared for the 1993 session of the Legislature.

This report builds naturally from our prior efforts. As we worked on such topics as community involvement in schools, early childhood education, continuous quality improvement, and school-to-work transitions, we consistently discovered our education finance system to be a major barrier to reform. In the summer of 1992, we initiated this study with the goal of devising a new funding system for the state.

Key elements in our proposal include:

- 100% state financing for the basic instructional "core" of education with the funding directed to learning sites and tied to educational outcomes,
- increasing and redirecting funding for critical "support services" (such as social services, libraries and transportation) necessary for students to achieve the core outcomes, and
- use of local resources only for "discretionary" education services desired by local communities.

The changes we propose are substantial. We know they will require careful thought and an extended phase-in period. We invite your comments and questions, either to us or to the Business Partnership staff.

Thank you for your consideration.

Dr. James J. Renier, Chair
MBP Education Quality Task Force
Chairman and CEO, Honeywell Inc.

Jeffrey E. Stiefler, Chair
MBP Education Finance Subcommittee
President and CEO, IDS Financial Services

EXECUTIVE SUMMARY

This report recommends a fundamental redesign of Minnesota's education funding system.

We seek to improve education quality while holding down spending growth. We accomplish this by focusing state resources on the basic instructional mission of education, realigning tax resources, transferring state dollars to education from lesser priority programs, reducing state mandates, tying future funding adjustments to demonstrated results, restructuring the bargaining process for education employees, engaging community resources in education support services, and empowering teachers and parents at the learning site.

We base our recommendations on our 10 years of research in education, our analyses of the goals of current law, and our financial study of eight public school districts in Minnesota. From that background, we make the following findings and come to the following key conclusions:

- Education spending patterns vary widely in our schools and are inconsistent with the policy goals of education equity and quality. We found that total operating expenditures per year differ by over $2600 per student between the highest and lowest spending districts in our study. The difference in classroom spending between highest and lowest spending districts is roughly $1500 per student.

- In reviewing the limited comparative data related to student achievement, there appears to be little correlation between additional spending and results.

- The variety of education funding sources contributes to the inequities and generates little fiscal accountability.

- Our historic view of education as a local service to be funded in large part by the property tax impairs our ability to achieve education goals. The percentage of total education funding attributable to the property tax within the eight districts we studied ranges from about 20% to 80%.

- The current system of education finance is too complicated, spends resources ineffectively, is often duplicative of services provided elsewhere, does not target resources to where they are most needed, and does not help achieve desirable education outcomes.

Based upon the preceding and our research, we recommend that Minnesota's system of education finance be reformed consistent with the following principles:

EXECUTIVE SUMMARY

- The education funding system should be fair, accountable, and based on outcomes.

- The state should finance the entirety of core instruction and direct core funding to the sites which deliver education.

- Services needed to support the core instruction should be funded independently of the core. They should be funded in ways that ensure service delivery by the most effective provider, and they should reflect the extreme variations in need between districts.

- Discretionary education services should be funded with local resources that are equalized across districts.

OVERVIEW OF THREE-PART EDUCATION FINANCING SYSTEM

CORE FUNDING

- 100% STATE-FINANCED FROM GENERAL TAX SOURCES
- EVERY STUDENT RECEIVES THE SAME STATE ALLOCATION
- FUNDS ALL PROGRAMS AND SERVICES DIRECTLY RELATED TO INSTRUCTIONAL CORE
- DIRECTS FUNDING TO LEARNING SITE
- REWARDS PROGRESS TOWARD ACHIEVING OUTCOMES

SUPPORT SERVICES FUNDING

- PRIMARILY STATE-FUNDED
- FUNDS SERVICES WHICH SUPPORT INSTRUCTIONAL CORE (SUCH AS SPECIAL EDUCATION, LIBRARIES, TRANSPORTATION AND SOCIAL SERVICES)
- AMOUNTS DETERMINED BY THE NEEDS OF INDIVIDUAL CHILDREN
- DIRECTS FUNDING TO MOST EFFICIENT AND APPROPRIATE PROVIDER OF SERVICE

DISCRETIONARY SERVICES FUNDING

- 100% LOCALLY-FUNDED, BUT EQUALIZED
- LOCALLY-DETERMINED; NOT STATE-MANDATED
- WOULD PAY FOR SUCH SERVICES AS:
  - -District Administration
  - -Academics Beyond Core
  - -Extracurricular & Athletic Activities
  - -Extra Facilities
  - -Community Education

Financing the new plan. The per student cost of the core would be the amount deemed necessary by the Legislature for the average student to achieve the education outcomes as defined by the state's "graduation rule" adopted and periodically revised by the state Board of Education. Future funding adjustments to learning sites would be based, at least in part, on progress toward achieving the outcomes. Significant work on the development of assessment techniques is required before outcomes funding can be fully implemented.

The nature and amount of support services would be determined by the Legislature and based upon indices reflecting the relative needs of the children for each service in each district. The nature and amount of discretionary services would be determined by local school boards and taxpayers and would no longer be funded in part by a mandated state education levy.

To assist legislators and others in evaluating our recommendations, we have prepared a *sample* funding plan. For purposes of comparison with current funding, this sample plan assumes that the new funding system would be totally implemented for FY94-95 (although we strongly recommend that the system be phased-in over a number of years). Features of the sample plan include:

- The education funding component paid from state dollars for FY94-95 would increase by $1.9 billion over FY92-93 to a total of $6.1 billion. Of the $1.9 billion increase, $1 billion would be transferred from other local aid and property tax relief programs, and the remainder would come from the projected growth in state revenues under current laws.

- Total expenditures for the instructional core for FY94-95 under this sample would be $5.059 billion ($3124 per student per year).

- The balance of the state funding component, $1 billion, would be for support services. This state funding would be supplemented by $500 million of local resources. The total would provide an average of $961 dollars per student per year, although actual amounts will vary related to need.

- Because of the substantial increase in state share of education funding, we project that the voluntary local levy for education would be reduced by between $800 million and $1.1 billion from the $3.4 billion levy projected for FY94-95. The amount of the levy in each district would be determined locally; the state would no longer require a local levy for education funding.

- Because school districts vary greatly in their property wealth, it is fair for a portion of the local levy from each district to be equalized -- i.e. pooled and redistributed to all levying districts on the basis of relative local need.

- The additional local levy capacity freed by the increased state share of funding would be transferred to other local government units for their use (and to compensate for the loss of state aids).

- Assuming our projections for local discretionary programs, the state's share of education funding would rise from the current 59% for the average district to about 70% for comparative programs.

Cost control incentives. We believe there are significant cost control incentives in this funding proposal. Among those incentives, we highlight the following five:

- Because state funding for education would be separated into two funding sources -- one for the core instructional programs and one for those services which support education -- the state can more carefully target any desired program improvements. Any new funding would not be "lost" in a huge, unspecified funding formula; it would be directed to specific program improvements in the core or designated support services.

- Since the local discretionary funding would be completely voluntary, with no state mandate to raise local dollars to receive state education dollars, local taxpayers would have true ability to limit how their local tax dollars are spent.

- The linking of core funding to demonstrated progress toward specific outcomes will tend to target any new increases only to the most cost-effective programs and services.

- In respect to support services funding, we would require that funding go to the most cost-effective provider. In addition, by providing incentives to link the multiple providers of a given service, duplication will be eliminated and services will be provided in a more effective, "seamless" manner.

- The suggested restructuring of public employee bargaining has the potential to provide long-term cost control.

Financial reporting. The availability of financial information will be critical to successful operation of this new funding system and will be another aid toward future cost control. To permit policymakers and the public to know where education dollars are going, we recommend an overhaul of the state's current Uniform Financial and Accounting Reporting System ("UFARS").

Related issues. We make generalized recommendations in respect to the future role of school boards, the laws and processes for negotiating school employee contracts, the structure of other state programs affecting children, and the role for higher education.

Transition. Although the funding reform package is a significant improvement from the current funding systems, implementation of the package will result in transfers of aids between school districts. To mitigate any disruptive effects, we recommend that full implementation of this new system occur over a number of years. An appropriate calendar for implementation might be:

- adoption of the new funding system by the 1993 Legislature with delayed implementation,
- adoption and costing of the graduation rule for use in the 1994-95 school year,
- implementation of the new outcomes-based funding system in the 1995-96 school year,
- completion of accounting changes, full implementation of the new funding system and a new fiscal year for local governments in 1999.

I. *INTRODUCTION AND BACKGROUND TO OUR WORK*

This report recommends a fundamental redesign of Minnesota's education funding system. We make these recommendations because we believe the manner by which early childhood, elementary and secondary education are financed has a substantial impact on education outcomes and equity.

Money alone is not the answer to our education problems; fundamental reforms are needed throughout the system. Fortunately, such reforms are beginning to occur in schools and other learning sites in every corner of Minnesota. We support these efforts, and we have encouraged businesses to provide whatever assistance and counsel they can.

For these reform efforts to bear fruit, however, an overhaul of our education finance system is imperative. *Without fairness, accountability and focus in our funding, no other education reforms can succeed.*

Origins of our Work. The Minnesota Business Partnership has been involved in education issues since 1982. In the following year we commissioned our first report which helped Minnesota become the first state to have unrestricted public school choice.

The roots of the recommendations contained in this education financing report include:

- the work of the Partnership's Fiscal Policy Task Force, whose members have long advocated systemic reform in Minnesota's system of state-local finance,
- the findings and recommendations from our March, 1991, *Challenge to our Communities and Schools* report which called for a clearer understanding of the multiple agendas of the schools and better integration of education and support services,
- legislation enacted in 1992, Minnesota Laws Chapter 499, which called for the state to develop a new funding mechanism to add fairness and accountability to our system,
- a survey of 350 Minnesota businesses undertaken jointly with the Employers Association in the summer of 1992 which highlighted recent hiring experiences and current realities of the work environment,

- the December, 1992, *Transformation* report of our Academic Agenda subcommittee which recommended new outcomes for our K-12 system and discussed the need to transform the management of school systems,

- the December, 1992, *Readiness* report of our Learning Readiness subcommittee which urged strengthened connections between work and learning including school-to-work transition programs,

- the December, 1992, *Resolving the State's Budget Shortfall* report of our Fiscal Policy Task Force which suggested ways to control the growth in state spending including reforms in our K-12 and local aids financing systems,

- the January, 1993, *How is Minnesota Spending its Tax Dollars? Elementary and Secondary Education* report of the Minnesota State Auditor,

- the January, 1993, *Minnesota School Finance: Traditional Retrofit or Future Pacesetter* report by Professor Allan Odden which discusses Minnesota's current education finance system and ideas to realign funding mechanisms with program outcomes,

- the findings and conclusions in recent Minnesota district court litigation concerning school funding, which is discussed in Section III below,

- data from our study of the finances of eight Minnesota public school districts, which is summarized in Section IV below,

- reports from groups such as the Minnesota Taxpayers Association, the Minnesota Chamber of Commerce, the Hubert H. Humphrey Institute at the University of Minnesota, the Legislative Auditor and the Citizens' League which call for fundamental reforms in state fiscal and education systems, and

- a variety of other reports and surveys, many of which analyze recent experiences from other states in education financing reforms.

II. MINNESOTA'S CURRENT FUNDING SYSTEM

Minnesota led the nation in school finance reform in the early 1970's with the adoption of the "Minnesota Miracle." Seeking to provide a substantial portion of education funding from state resources, the plan was comprised of the key components listed below. While the "miracle" is now under major attack, its basic components remain as the central way public education is financed in Minnesota today.

GENERAL EDUCATION AID

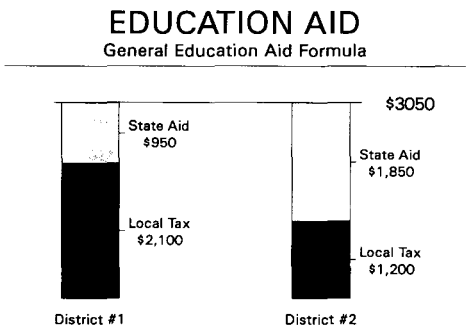
Description: The central, and largest, portion of aid to local school districts is determined through a foundation aid formula. During the regular budgeting cycle of the state, the Legislature makes two determinations critical to the general education aid formula:

(1) the general education aid amount ($3050 per pupil in 1992-93), and

(2) the general education local tax rate (27.9% in 1992-93).

The state guarantees that every school district will receive the general education aid amount per student (1). The state requires each school district to apply the determined tax rate (2) to their net tax capacity, generating a portion of the guaranteed amount. The state then provides the remaining funding necessary to equal the general education aid amount in that district for that year.

As demonstrated by the chart below, school districts with high property wealth receive a small amount of general education aid. School districts with low property wealth receive a larger amount of general education aid.



Each district receives general education aid based on the number of students in attendance. The number of students is weighted to account for assumed cost differences associated with different levels of education. The weighting is as follows:

kindergarten students	=	.5 student each
elementary students	=	1 student each
secondary student	=	1.3 students each

This weighting system results in an enrollment number known as weighted average daily membership (or WADM). This is the number of students which is used to compute the general education aid amount for each district.

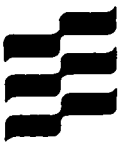
Use: General education aid is used for a wide range of services related to education including:

-administration
-building operations and maintenance
-basic instruction (salaries and supplies)
-counseling and social work services for students
-training and development for staff
-health services for students
-specialized curricula (AIDS, chemical abuse, violence, etc.)
-special academic programs
-athletics and extracurricular programs

There are requirements related to the use of general education aid. Fifteen dollars ($15) per pupil unit of the $3050 of general education aid must be used for staff development purposes and $5 must be used for programs designed to encourage parent participation. In addition, 2.2% ($67.10) of the current general aid total must be used for programs promoting excellence, chemical abuse prevention, talented and gifted programs, arts education, summer programs, and advance placement/international baccalaureate programs.

Issues: When first adopted in the early 1970's, the foundation aid or general education aid had the goal of providing 70% of total education aid from state dollars. The current formula provides close to 59% of total state education funding from state dollars (with the amount per district ranging between 5% and 80% after the application of the foundation formula defined above).

In recent years, while total state dollars have been increasing, the required local tax rate has been increasing more rapidly, causing a greater reliance on local property taxes. This trend is in opposition to the original goals of the Minnesota Miracle and places education funding increasingly on a more regressive tax base.



ADJUSTMENTS TO FUNDING BASED ON NEED OR SPECIAL CIRCUMSTANCES

In addition to general education aid, school districts also receive funding for specific needs or because of special circumstances. Five major programs comprise the additional funding sources:

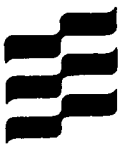
Training and Experience Revenue. Districts are eligible for T&E revenue if the seniority and training of their faculty exceed an index number. The decision to employ and reward senior faculties is a local decision for which the state now pays.

Compensatory Revenue. Compensatory revenue is available to school districts which have a high concentration of children from low income homes which receive Aid to Families with Dependent Children (AFDC). Districts are required to report how compensatory revenues are spent, but there are no state-mandated expenditures. Reporting only how the additional funding is used, and not what impact is has, provides little evidence that the additional amount is either necessary or adequate, or that it has resulted in proportional gains to students.

Supplemental Revenue. This special revenue source was made available to "hold harmless" districts which would have lost funding during the transition to the "Minnesota Miracle" system in the 1970s. Districts are eligible for this funding source based on historical funding patterns and not on current property wealth or current student demographics.

Special Education Revenue. The state pays a portion of the salaries of special education instructors (about 56%) and provides about $47 for supplies and equipment for these students beyond the amount provided for all other children. Increasingly, local districts are being required to supplement state special education aids.

Levy Referendum Revenue. Local districts are permitted to spend above the general education aid amount ($3050 in 1992-93) if such additional spending is approved by local voters in a referendum. The levies cannot exceed 30% of the general education level (or cannot exceed $915 per student in 1992-93), and they expire after five years. Use of local referenda is growing with 66% (277 of 411) of the school districts now receiving revenue through this method (compared to only 31% of districts ten years ago).



III. THE LEGAL CONTEXT

This section outlines the legal framework within which education finance reform will occur.

The following is not meant to be a definitive legal analysis. Rather, our goal is to summarize the constitutional requirements, current laws, pending litigation, and developing legal theory which will impact any efforts to reform education finance in Minnesota.

Constitutional requirements. The Minnesota Constitution contemplates a central role for state government in education. Article XIII, Section 1 reads:

> 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.

Relevant laws. In Section II above, we summarized the current statutory framework for education finance in Minnesota. Any reforms of our current system will require substantial amendments to those laws.

Recent legislative actions provide some guidance for the direction of future finance reforms. For instance, in 1991, the Minnesota Legislature adopted a mission statement for education which emphasized such concepts as "participatory decision-making," "accountability," and integration and coordination of "human services for learners" (Minnesota Statutes, Section 120.0111).

In 1989, the Legislature adopted general principles and a policy statement to guide state-local finance reform which stresses accountability. The law expresses a preference for state funding of state-mandated activities and local funding of local decisions (Minnesota Statutes, Section 3.882).

Finally and most importantly, in 1992 the Minnesota Legislature enacted the Minnesota Education Finance Act. Although the act will not be effective until the year 2000, it does specify in general terms a finance system based on three major components: "basic instructional aid," "elective instructional revenue," and "local discretionary revenue" (Minnesota Statutes, Sections 124A.697 to 124A.73).

Pending litigation. The above constitutional provisions, and to a lesser extent the statutory provisions, are the basis of a potentially far-reaching case now pending before the Minnesota Supreme Court.

In Skeen vs. Minnesota, a group of parents and 52 school districts challenged the excess levy referendum law discussed in Section II. The plaintiffs claimed that the law violates Article XIII and the Article I "equal protection" clause of the state Constitution by permitting property-rich school districts to more easily finance education improvements.

Judge Meyer of the Wright County District Court found that Minnesota's system for excess levy referenda violated both of the constitutional provisions. The judge was careful, however, not to base his decision on a determination that unequal spending results in unequal education outcomes. He concluded that the mandates under Article XIII and Article I refer "to resources, as in the meaning 'system of public schools,' and not outputs." (p. 190) What is unconstitutional, in the reasoning of the court,

> is the unequal capability of school districts to access discretionary revenues due to property wealth differences which is the underlying cause of a system which is not uniform. (p. 200)

The case was appealed to the Minnesota Supreme Court, and a decision before the end of the 1993 legislative session is likely.

Emerging legal theory. Professor Allan Odden of the University of Southern California was recently commissioned by the state Department of Education to review financing issues from a legal and policy perspective. In his 1993 report to the department, *Minnesota School Finance: Traditional Retrofit or Future Pacesetter*, Professor Odden summarized possible new directions in education finance theory in the 1990's:

- The likelihood exists of equity arguments at the site rather than the district level. That is, concerns may arise over whether each school has sufficient resources and makes use of its funds in a manner likely to achieve specific outcomes.

- An expanded version of resources is possible. Resources may come to mean not only dollars but the teacher expertise and curriculum quality available to each student.

- Education financial systems might have to be linked to program systems that produce specified levels of learning for all students, i.e., particular outcomes (pages 22-23).

Any education finance restructuring, in the opinion of Professor Odden, should focus on supporting outcomes and site-based management to achieve the levels of equity and fairness necessary to obviate or at least counter future litigation.

Conclusions. Regardless of how the Supreme Court ultimately decides the Skeen case, our existing state law, emerging legal theories, and sound public policy argue that the state's education finance system should be restructured to produce greater equity and fairness. Only with a more equitable education finance system can our schools provide the highest possible quality of education for all Minnesota students.

IV. LESSONS FROM EIGHT SCHOOL DISTRICTS

While an understanding of the laws governing our current education finance system in Minnesota provides a good view of how the money flows into the local schools, it provides little information on how that funding system impacts actual spending in schools and the final outcomes from our education systems.

Recognizing the need to examine how Minnesota might improve how it funds critical education needs, we sought additional information about current school systems' expenditures. We sought to understand current spending patterns, to discover any deficiencies in certain systems, and to use that knowledge to understand how changes to funding systems would impact different school systems.

The study, which was conducted from June of 1992 through January of 1993, focused on the spending patterns of eight public school districts in Minnesota and was designed to answer a number of basic questions:

- How much of total spending reaches the classroom?
- What are the costs associated with basic instruction?
- What are the costs associated with educationally related activities such as extracurricular and athletic activities, transportation, counseling, food service, etc.?
- What are cost and revenue variances between schools of different sizes and/or districts of different demographics?
- What is the nature of the relationship between funding and student achievement?
- What are the costs associated with teacher training and development?
- What are the costs associated with special populations of students?
- What is a fair estimate of the cost of the schools' "social" agenda?

Participating School Systems. We chose school systems to participate in the study which would provide representation from different geographic locations, populations, school sizes, and funding histories and patterns. The school districts were asked to participate and voluntarily chose to do so.

The school systems include two large urban systems, two suburban systems (one was a plaintiff in the Skeen lawsuit and the other was an intervener for the defense in the same suit), two regional center systems, and two rural systems. Their enrollment size and number of school buildings are as follows:

School		Description	students	schools
A	St. Paul	Urban, public	35,003	62
B	Minneapolis	Urban, public	41,139	63*
C	Rosemount-Apple Valley-Eagan	Suburban, public	21,670	24
D	Orono	Suburban, public	2,179	4
E	St. Cloud	Regional center, public	10,629	15
F	Grand Rapids	Regional center, public	4,869	13
G	Blue Earth	Rural, public	1,460	1
H	Princeton	Rural, public	2,830	4

* plus 25 classroom sites, not all owned by district

Information about the methodology used in this study is provided in the Appendix.

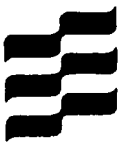
MAJOR FINDINGS

The following findings stem from the information gathered through our study of the eight districts. Detail related to these findings, as well as additional discussion, is contained in the Appendix.

1. Total spending varies greatly within the eight districts as does spending for particular programs or functions. Total operating expenditures per year differ by over $2600 per student between the highest and lowest spending districts in our study while the difference in classroom spending is about $1500 per student. Not surprising, the district with the highest median family income and the highest property wealth also had the greatest classroom spending per student (when classroom spending is controlled for additional revenue received for low income students). (See Appendix, Chart 4)

2. There is little correlation between the median family income in a given school district and the state's share of funding of education in the district. Of the two districts with the highest median family incomes, one receives one-third of its funding from the state (indicating high property wealth in the district) and has chosen to support a referendum levy while the other receives two-thirds of its funding from the state (indicating low property wealth) and does not have a referendum levy. At the other extreme, the two districts with relatively high property wealth but low median family income do not have additional levy referenda revenue. (See Appendix, Chart 2)

3. The fiscal capacity of districts is clouded by a state accounting practice called "property tax recognition" which is forcing many districts to use



short-term borrowing. In the year we studied (1991), three of the eight districts used short term borrowing to manage their cash flows with six of the eight districts projecting its use in 1992. In Minneapolis, the interest payment on the short-term borrowing required in 1991 was $1.7 million. (See Appendix, Chart 3)

4. There is significant variation in student/teacher and student/classroom staff ratios (with the latter including both teachers and non-licensed staff). Analysis of district-reported ratios and class size data suggests that most districts employ a significant number of licensed teachers who are not actually teaching in the classroom. On the other hand, some districts with larger student/teacher ratios make more use of teacher aides which results in greatly improved (and valuable) student/staff ratios. Not surprisingly, the district with the highest average teacher salary also has the highest number of students per teacher. (See Appendix, Chart 6)

5. Total expenditures for teacher training are much greater than what is traditionally discussed as "training and development" costs. Districts report training and development expenditures of between $200 and $750 dollars per teacher. If the costs associated with additional teacher compensation (based on the earning of additional advance degree credits) are included as a training cost, the total spent per teacher ranges from $300 to $900. Little of this additional training expenditure, however, is linked to the management and educational objectives of the district. (See Appendix, Chart 7)

6. There are few measures of student performance employed by all districts in the study. The only measures for which all districts reported results are the PSAT and ACT, both college entrance examinations. These measures are significantly limited by both the nature of the tests and by their relatively limited use: they only provide information about the performance of students who anticipate attending college. Recognizing this limitation, it is nonetheless interesting that there appears to be little correlation between education spending and education attainment. (See Appendix, Chart 8)

7. Special education spending is growing much more rapidly than are state aids or local revenues designated for that purpose. Special education spending is now close to double the total revenues received and levied for that purpose. Districts cited this cost as one of the most expensive state mandates. (See Appendix, Chart 5)

8. The formula for compensatory revenue provided for districts with high concentrations of low income students appears to be well-targeted. Districts with the greatest number of high-need students receive the greatest amount of additional revenue per student. However, given the

limited availability of student performance data, it is impossible to confirm that the additional revenue has had an impact on the performance of those students. (See Appendix, Charts 4 and 8)

ADDITIONAL FINDINGS

The districts also provided ample anecdotal information. Most important is a listing of the most costly state mandates. The following list comprises the five most cited mandates in terms of cost:

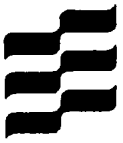
1. Special Education Requirement & Funding Patterns
2. PELRA laws and the January 15 Contract Deadline
3. Health and Safety Requirements
4. Elementary Teacher Preparation Time Requirement
5. Pay Equity Laws

Districts also provided information on the time required to negotiate teacher contracts. On average, these negotiations require between six and seven months and include a significant portion of at least one administrator's time during negotiations. In addition, many administrators noted the non-quantifiable costs associated with these negotiations including the loss of trust between the teaching and administrative staffs.

OBSERVATIONS

We do not suggest that the experiences learned from these eight districts are necessarily of the same magnitude that we would find if we examined the finances of each of the other 403 districts. We are confident, however, that the problems and deficiencies experienced by these districts probably occur, to one degree or another, in all the other districts as well.

We were very impressed by the commitment to quality education we found in the districts we studied. None appear to be in financial disrepair, and all portray a very positive picture about education and educational leadership in Minnesota. However, it became clear to us that Minnesota's system of education finance impairs the ability of the districts to achieve their goal of continuously improving student learning.



V. CONCLUSIONS

Based upon our prior research, the resources cited in Section I, the legal foundations discussed in Section III, and our study of the eight public school districts in Section IV, we come to the following conclusions:

- Education spending patterns vary widely in our schools. Significant differentials exist in total per pupil expenditures between school districts. These disparities are potentially in violation of our constitution and laws and are, in any event, not good public policy.

- The increasing reliance on referendum levies further compounds inequities in funding. Disparities resulting from these referenda are increasing as wealthier districts enact more referenda than do poorer districts. While these inequities in available dollars are growing, there is no Minnesota data supporting the proposition that additional funds have produced higher quality learning.

- Instruction and services related to education are now funded by a variety of revenue sources and provided by a multitude of public entities. Few of these revenue sources and spending units can be tied to particular education services or outcomes. As a result, there is little fiscal accountability in education finance.

- Our historic view of education as a local "property service" is inconsistent with the realities of today's education and employment demands. The state has a greater interest in and accountability for the provision of quality education for Minnesota's children than do local communities, but this interest is not reflected in our system of education finance.

- The current system of education finance is extraordinarily complicated and fragmented, tends to move tax dollars away from instructional programs, inadequately compensates for special learning situations, and lacks incentives toward quality education and mechanisms for evaluating the effectiveness of education expenditures.

- School districts provide a variety of programs and services which are not part of the central education mission, are occasionally duplicative of services provided elsewhere in the community, are not provided in the most effective and efficient ways, and tend to siphon off funding which should be going to the classroom.

- State-imposed mandates place cost and time burdens on educators for which there is no clear return in quality improvement or cost-efficiency.

* * * *

We want to emphasize that the above conclusions are not meant to be a general indictment of Minnesota's public education system. Although many improvements are needed, we are encouraged by how well Minnesota's educators are doing to meet the challenges of today. We firmly believe, however, that our funding system impairs further improvement in education quality.

VI. PRINCIPLES FOR REFORM

We believe the Minnesota Legislature should overhaul our system of education finance consistent with the following principles:

- The education funding system should be made more fair and should not penalize taxpayers and students who live in areas with lower property wealth. The state should strive to reduce funding disparities.

- The state should greatly reduce its mandates and instead articulate specific outcomes for the education system. Funding should be linked to, and incentives provided for, progress toward achievement of those outcomes.

- Accountability must be improved through a stronger link between program delivery and program funding. The unit of government which makes a decision to provide for an education program or service should be the unit of government which raises the revenue to support that program or service.

- Because the provision of equal and quality education is the responsibility of state government, the state should finance the entirety of basic or "core" instructional costs. To accomplish this task, the state should rely exclusively on its broad-based general tax sources.

- Accountability should also be improved by ensuring that core funding go to the learning site and not be redirected away from instruction by competing programs.

- Services needed to support the instructional core should be funded independently of the core and in ways that accurately reflect the special needs of some Minnesota students. Funding for education-related services should go to the service providers best able to deliver the services in the most effective and efficient ways possible. Funding mechanisms should provide incentives for coordination of multiple providers of a service.

- The funding system should be understandable to legislators, administrators, educators and the public.

VII. A PROPOSED NEW FUNDING SYSTEM

Consistent with these principles, we recommend a major overhaul of the manner by which education is funded in Minnesota.

Our recommendations alter our current funding system in order to focus more state resources on the basic instructional mission of education. Our proposals realign tax resources, transfer state dollars to education from lesser priority programs, reduce state mandates, gear future funding adjustments to demonstrated results, better engage community resources in helping educate our children, and empower teachers and parents at the school site to play a more active role in funding allocations.

Our proposed new education funding system has three basic components: core instruction, essential support services, and discretionary programs. A chart summarizing the three is included in the Executive Summary at the beginning of this report.

A. Core Instruction

Basic premise of the education core. The constitutional and statutory framework governing education finance should be interpreted to mean that the state should have exclusive responsibility for financing the basic or instructional "core" component of education. This core should be defined as the education programs and services necessary for the average student to achieve prescribed and measurable outcomes at the conclusion of their formal education.

The state should perform its responsibility by using its general revenues to pay for 100% of every student's instructional core. The local property tax is not appropriate for these core education services.

Definition of the core. The practical definition of the instructional core is difficult but critical. The process should begin with the state Board of Education defining desirable outcomes from our education system in the form of a "graduation rule." The education program necessary to achieve the outcomes defined by this rule would constitute the instructional core.

Core instruction should no longer be defined as "seat time" -- i.e. requirements of a specific number of course hours. Rather, the core should be defined in terms of basic skills deemed necessary for all graduates of our education system. To the state board's credit, it is moving in this direction, and the Legislature should remain supportive.

A. Core Instruction

Once the board has adopted its graduation rule, it should revisit the rule every two years and redefine it as necessary. In its review process, the board should evaluate current education programs and services, review the experiences in other states, consult with employers about needed job skills, and determine whether the outcomes in its graduation rule are being achieved.

Costing the core. The second step is to define the cost of attaining the results specified in the graduation rule. The state Department of Education should have responsibility for this costing process with the assistance from the state board, the Department of Finance and local school districts.

The following is our attempt to quantify the cost of the graduation rule now being considered by the state board. This effort should be viewed *only as a sample* of what the state board and department might conclude in its effort to define and cost those outcomes.

Programs and services to be financed with core funding might include:

- the teaching and mentoring functions at $2135 per student each year (which reflects, generally, the compensation for a qualified, experienced career teacher assisted by a part-time teachers' aide with professional development funds for both) (total state cost of $1.7 billion per year).

- materials and equipment needed for core learning, including advanced telecommunications equipment, computers, and other materials at $375 per student (total cost of $304 million).

- activities related to students' academic and career progression at $100 per student (e.g. community-based learning such as mentoring and youth apprenticeships) (total cost of $81 million per year).

- core early childhood education at $74 per student (non-weighted count based on total student population, not number of eligible young children) (total cost of $60 million per year).

- activities related to measurement of outcomes at $60 per student (total cost of $49 million per year).

- activities related to the management of the learning site at $200 per student (e.g. school principal and/or site-based management team, school's share of accounting and other administrative activities) (total cost of $162 million per year).

- operations and maintenance of classroom space at $180 per student (total cost of $146 million per year).

The total estimated cost of this sample core instructional package is about $5.059 billion for FY94-95 or $3124 of state dollars for every student per year.

Site-based funding. Basic principles of accountability require that the resources be made available to the institutions which we ultimately hold responsible for achieving the desired outcomes. In most instances, these sites will be the schools. A key function of school districts, therefore, will be to ensure that the core funding dollars reach the schools or other learning sites having responsibility for achieving the outcomes. The law must be very clear: *core instruction funding is intended for and must be directed to the learning sites.*

In order to have site-based funding work, site-based management structures must be established. Such structures will encourage teacher, parent and student involvement in the allocation of resources and commitment to achievement of the outcomes. Many districts are moving to site-based management programs, and the remaining districts should be encouraged to do so.

Tying funding to outcomes. A central goal of the redesigned funding system is to create a fundamental link between core funding and desired education outcomes. Linked together, education outcomes -- which are established to challenge all students -- and a redesigned funding system have the power to encourage significant gains in student learning.

Continued financing of every learning site through core funding must not be automatic. Critical to the achievement of our Principles for Reform is the notion of outcomes-based funding which emphasizes, measures and rewards progress toward achieving the outcomes.

Implementation of outcomes-based funding must await the development of appropriate measures. We recognize that there is now no accepted measurement system for determining achievement toward the type of outcomes discussed in this report. Various national activities are underway to

accomplish this goal but, to our knowledge, success has not yet been achieved. Development of such a system, relying heavily on national research, should be a top state Board of Education priority. In addition, it may be desirable to include measures which chronicle progress on related outcomes such as reduction of school violence and increased student attendance.

Schools and other learning sites should be rewarded for demonstrating progress toward the outcomes. Because the achievement of education outcomes is invariably a team accomplishment, the reward funding should be directed to the entire learning site team. Perhaps the rewards could be used for staff compensation bonuses and to acquire new equipment or other services for the site. Such rewards could emanate from a special fund created by the state for that purpose or from some other source.

A difficult issue is what to do with learning sites which do not make progress toward the desired outcomes. It is unfair to penalize them by withdrawing or reducing funding (unless the school is operating as a "charter school" or other special entity for which achieving outcomes is the basic reason they were created in the first place).

In appropriate cases, it may be desirable to funnel additional resources or services to non-performing schools where there is reasonable probability that such additional help will enable them to achieve measurable progress. Such resources would have to be dedicated to specific activities designed to improve performance. An example of such assistance might be a special team of master educators loaned to the school to help improve performance.

Progress toward outcomes. We make a critical distinction in our discussion of the linkage between outcomes and funding: we intend to reward demonstrated progress, and not simply the attainment of an outcome. ***This distinction means that all systems can be rewarded simultaneously; districts or schools are not competing against each other.***

Because many schools begin with student populations who are less skilled than others, it will be unfair and counterproductive to penalize those schools by grading outcomes funding on an absolute basis. We should reward progress toward the absolute and not reward only for achieving the absolute itself.

We want all students to achieve the outcome, but we should not penalize schools who have further to go than others in that effort. Such a system seeks to encourage constant improvement, involve many in the validation of progress and achievement, and eliminate the tendency to merely rank, reward and punish.

Implications of the reforms. As outlined above, the revised funding system for the core will replace some current funding mechanisms and totally repeal others. For example, under our proposed new system, school sites would receive enough core funding to employ skilled and experienced career teachers as defined by the state. Core funding will likely not be adequate to fund the special "T&E" compensation for the teachers having a multitude of graduate credits and teaching years common in the "senior" districts.

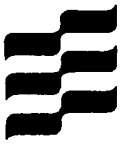
A district would be free to reward seniority independent of outcomes if it so chooses, but the resources for this purpose would be local dollars (see Part C below). Core funding would only reward demonstrated progress toward the outcomes.

B. Essential Support Services

Basic premise of support services. Funding the core instruction is not enough. There are important services not provided directly through the core that are essential to allow all students to achieve desired outcomes, and these also need state support. These services include such disparate items as school buses, career counseling, libraries, social workers, special language instruction, disease immunizations, and subsidized school lunches.

The services needed by each student will vary according to their individual needs. The concept of the instructional core assumes that a basic package of instructional programs are needed by every student; the concept of support services assumes that each of the students needs support services of types and in amounts suited to each.

In today's society, our students need a variety of support services and programs which vary tremendously depending on such factors as where individual students live and their family backgrounds. The need for these services reflects geographic realities (e.g. transportation needs of students living in remote areas of the state), social realities (e.g. language skills for immigrant children), and economic realities (e.g. the poverty of many inner



city families). The proper balance of these services for every individual child is essential to help each of them achieve the graduation outcomes.

To one degree or another, these services are now made available to all Minnesota students. However, we found in our *Challenge to our Communities and Schools* report that the services vary widely in both quality and quantity. Far too often, the students who need these services the most are receiving too few of them.

We believe that the problem is not so much a lack of resources as it is a problem of ineffective delivery and coordination. Overall, Minnesota has no shortage of social service agencies, or school buses, or swimming pools, or libraries. But these resources are often not provided in the most effective and efficient manner.

Independent funding system. The essential support services should be funded through a separate mechanism and not made part of the core instructional funding. We reach this conclusion for several reasons:

- Because the need for support services will vary depending on local circumstances, funding for these services should not be restricted to a specified amount per student (as is core funding).

- In most instances, these services are best provided by persons other than classroom teachers or aides.

- In most instances, comparable services are already provided by other public or private institutions, and expanding those services to school children (rather than having the schools duplicate the services) will be a more effective and cost-efficient method of providing them.

Funding the best provider. The essential support services funding mechanism should allow for identification of the most effective and efficient provider of each service in each region of the state. In most cases this could be accomplished by seeking competitive proposals for services. For example, a group of school districts might come together to jointly seek proposals for providing school lunches for all students in the districts.

In the case of services which are also provided for citizens other than school students, it is absolutely essential that the funding mechanism require coordination of and encourage co-location of services.

Funding examples. Four examples of how this funding mechanism would work are libraries, transportation, career counseling, and social services. In all four cases, there are now dual systems -- one for school students and one for the general public. Our proposed funding restructuring would promote coordination between the dual systems and, possibly, serve to consolidate the services into a single delivery mechanism.

School libraries or "media centers" are a very important part of education; schools should continue to have them. However, as new community libraries and new schools are built, or old ones closed, school and library boards should work together to share services, facilities and staff. A consolidated funding program for libraries will help achieve this goal.

Student transportation is an increasingly expensive component of our K-12 education system. In the 1992-93 school year, schools are estimated to spend $254 million for those services, an average of $314 per student. The state's share of that funding is projected to be $126 million.

Under our proposed restructuring, state transportation funding for students would be consolidated with public mass transit funding and distributed to regional transportation authorities which would, in turn, contract with local schools and providers. In the Twin Cities, for example, the Regional Transit Board (or possibly the Metropolitan Transportation Commission) could be charged with providing or contracting for transportation of metro-area students on MTC buses or through area contracts with other transportation companies. The end result of this new system might very well be bus routes that occasionally include service on regular MTC buses and that cross school district lines. Another beneficial result of this service consolidation might be the improvement of public mass transit in some areas.

Career counseling is inadequately provided in our schools. As the state moves toward an enhanced school-to-work transition program, quality career counseling coupled with academic planning becomes even more critical. Schools should be expected to improve their counseling programs by incorporating services provided through public agencies such as the state Job Service and volunteer programs provided by company experts.

Social services are also consuming an increasing amount of educators' resources and time. At the same time, such services are being provided by a myriad of local agencies with little coordination between similar service providers. Our proposed new system would fund social workers employed by the county or non-profits to spend much of their day in school buildings working directly with children and their parents.

Partial examples of this new system are already in operation. In Hennepin County, school districts along with public and private social service providers are already beginning to coordinate services. In another example, the state has received a planning grant from the Pew Charitable Trusts to pursue a similar idea on a broader scale. This "co-location" approach has proven to be effective in other parts of the country where it has freed teachers to devote more of their time to teaching and ensured a better and targeted level of required service.

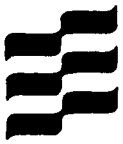
This collaboration idea should not be restricted to support services. Some of the programs we include as core programs have the potential to benefit from collaboration with other providers of the same service or program. For example, it might be possible for core physical education to be provided more effectively at nearby YMCAs, private health clubs or community park programs.

Mechanics of operation. The operation of the distribution formulas is a critical issue. The need for support services will vary widely around the state. Sparse and remote districts may need more transportation dollars per student than would suburban districts. Schools with high concentrations of low income and disadvantaged children undoubtedly need and deserve more social service dollars than do wealthier schools.

To accommodate these differences, each support service should be funded using an index that reflects relative need of students for these services and the availability of providers of those services in the communities.

At-risk children and their special needs will be one of the most important -- and difficult -- index issues. Having early childhood education as part of the core instructional program will help these children in those critical pre-school years. But more special services and programs will be needed as the children progress through their education. It is critical that an appropriate index be created and that the funding mechanism require significant collaboration between the multiple service providers now working with these students. That index should draw most extensively from family income or wealth, as the current compensatory revenue index does (by counting AFDC households), but may be expanded to include other measures of extraordinary need.

Building from existing funding mechanisms will in many cases be the most efficient mechanisms for these support services. For example, the community services block grant funding mechanism might serve as



the base funding tool for social services. Communities and counties with established public library funding mechanisms could combine those with school library funding.

For each service, some sort of competitive bidding is essential. In addition, it may be beneficial to structure the funding mechanism to provide incentive to leverage already existing service funds into a collaboration. In some cases, the schools could be charged with identifying the most appropriate regional providers of services and entering into contracts with them. In other cases, it may be appropriate for a state agency to supervise the selection process. In no case should funding be given until a joint service delivery agreement has been entered into. In keeping with our goal of promoting outcomes, each such agreement should specify the method by which service effectiveness will be measured.

A sample support services package. Programs and services to be financed with state-level support services funding might include:

- student counselors and psychologists at a total cost of $87 million per year; these services are currently provided by both education and county human services,

- support programs for students needing special education and services for handicapped children aged 0-3 beyond the core programs at a total cost of $198 million per year; these services are currently provided by education systems & county human services,

- student health care including early childhood screening at a total cost of $15 million per year; these services are currently provided by county human services and education systems,

- student transportation at a total cost of $130 million per year; these services are currently provided by education systems,

- state-funded nutrition programs at a total cost of $7 million per year; these services are currently provided by education systems,

- libraries at a total cost of $8 million per year; these services are currently provided by education systems and regional library authorities,

- programs for "specialized" curricula related to social issues such as violence prevention, AIDS awareness, and drug abuse prevention at a total cost of $1 million per year; these services are currently provided by education systems, county and city agencies, and

- funding for special student support services targeted at children from high-risk families at a total cost of $100 million per year; these services are now funded through the "compensatory" aid program.

The total estimated state cost of the above sample support services package is about $1 billion for FY94-95. This amount would be increased by currently required local contributions for some of these services totalling about $500 million. Together, these funds equal an average of $961 for every student every year.

C. Discretionary Services

Basic premise of discretionary services. These services include those education programs and services which are not part of the core or the essential support services packages. They are not directly related to meeting the graduation outcomes but may be desired by local taxpayers and school districts. Examples of such services include costs associated with a school board and superintendent, athletics and co-curricular activities, academic courses in excess of the core program, and capital costs beyond those necessary for the delivery of the core.

These services are truly discretionary; no longer would state law *mandate* a local levy. To the extent that local citizens desire these services, they would pay for them themselves without state resources. Most likely, the financing will be from the traditional local funding source in Minnesota: the property tax.

By suggesting that a service or program is discretionary, we are not suggesting that they are unnecessary or unimportant. In fact, for many students, athletics and extracurricular activities are principal reasons for their remaining interested in school. These programs do help students with important goals such as the development of specific skills and self-esteem.

Need for equalization. A disadvantage of using local revenues is the fact that localities differ widely in their tax capacity or relative wealth. This issue, as noted in Section III, is now being litigated in the state Supreme Court.

We are not taking a position on the merits of the court litigation. As we noted above, there is no evidence that simply spending more money on education will improve outcomes. However, it is clear from the data provided in the litigation, and from our own research with the

eight districts, that districts tend to spend more per pupil if they have high relative property wealth (although that extra spending is frequently not spent on the core).

Because of the inequities in the tax capacity of various communities, the funding for discretionary services should be partially equalized through a technique called "power equalization." By this is meant that all school districts choosing to provide discretionary services would deposit a percentage of the revenues generated from discretionary program levies into a statewide "pool" which would be re-distributed back to the funding districts on the basis of their relative tax capacity.

Under this system, wealthier districts such as some Twin Cities suburbs would receive less back from the pool than they deposited while poorer districts would receive more. This technique will offset the gains to these districts from the new core funding mechanism.

Taxpayer decision-making. A major issue will be the process used to decide whether to provide discretionary services. The school board could be empowered to levy, with the levy subject to the same Truth-in-Taxation requirements applicable to other local government units.

It may also be appropriate to require citizen referenda on all or a portion of the decisions. Options include:

- requiring a vote to expend *any* local dollars for discretionary services,
- giving discretion to each school board as to whether to hold a referendum,
- requiring a vote whenever the proposed discretionary services package is proposed to rise by more than a set index (such as inflation or personal income growth), or
- requiring a vote whenever projected discretionary spending exceeds a certain percentage of state aid.

This issue deserves more study, but our preference would be for some variation of either of the last two options. Increased local spending for discretionary services, whether determined by the local board or through a referendum, should be spread on all properties according to their market values (as is now required for excess levy referenda).

A sample discretionary services package. Programs and services to be financed with discretionary services funding might include:

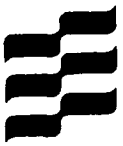
- all capital costs and maintenance and operation costs related to non-core learning spaces at a total cost of $771 million per year,
- central school district administration at a total cost of $162 million per year,
- athletics and co-curricular activities at a total cost of $81 million per year,

The total estimated cost of the above sample discretionary services package is about $2.02 billion for FY94-95 or $1252 of local dollars for every student.

In addition, districts may to choose to fund other discretionary services such as non-core academic programs, community education services and additional teacher compensation.

* * * *

To emphasize again, the three "packages" outlined in this section are intended as samples only. We provide them merely to give an idea of what the cost for the three types of funding might be based on current practice and our perception of what changes are needed in current program funding. (Persons interested in the calculations used to derive these costs are invited to contact the Partnership staff.)



VIII. Resource Reallocation

As we stated at the outset, the key to improving education quality is not more money. We believe there are enough resources now available or scheduled to become available to provide quality education for all students if those resources are distributed pursuant to an improved funding system. Therefore, the following financial outline of our funding proposal relies on current funding levels increased by expected growth in state revenues.

We have used the estimates contained in the March, 1993 state revenue and expenditure forecast. However, we propose increasing expenditures for early childhood programs and for at-risk student support services. Reductions are recommended in programs such as transportation and libraries because we believe savings can occur through more effective use of existing programs and services.

These changes are fundable through the revised revenue forecast and are consistent with the budget recommendations contained in our December, 1992 report titled *Resolving the State's Budget Shortfall: Some Options for a Rational Solution.*

Transfer of state dollars. Our proposed funding redistribution would move state dollars from lower priority state programs such as property tax relief and aids to cities to state-mandated public education. *The net amount of state dollars going to local governments including school districts would not decrease; they would actually increase from current levels by more than $500 million per year.*

The state would continue to provide a significant amount of Local Government Aid (LGA) but would do so pursuant to a more need-based formula. Dollars removed from LGA and the other aids and transferred to education would be offset by increased levy authority transferred from the schools. Revenues from existing local referendum levies would be partially redistributed (as described below), and the levies would be scheduled to expire within a few years.

Property tax recognition shift. In recent years, the Legislature has enacted accounting changes affecting the cash flow in school districts and the state. These "shifts" will need to be restored over the course of implementation of the new funding system. Ideally, this will be done over a six-year period to conform to a changeover of the fiscal year for the property tax system, counties and municipalities to the state's fiscal year (which begins July 1). A six-year transition will, in essence, require "buying back" one-sixth of the shift as the fiscal year is gradually shifted from a calendar year basis.

There may be other more effective methods for resolving this issue, and the Legislature should consider other options.

A sample funding model. In determining the shift of resources from other local aids to schools, we rely on the work of the Minnesota Taxpayers Association in their November, 1992 property tax and local aids reform plan. The MTA proposal would take available dollars from the Homestead and Agricultural Credit Aid and Local Government Aid, and redirect those dollars to state-mandated programs such as education and to a greatly enhanced income-adjusted homestead credit (building off of the existing "circuit breaker").

The following sample plan assumes that the new system will be put in place for the biennium beginning July 1, 1993. As noted below, such a major change at one time is not desirable. Therefore, it is assumed that the numbers below would be *as if the new system were to be fully operational for the 1994-95 biennium.*

- The education funding component paid from state dollars for FY94-95 would increase by $1.9 billion over FY92-93 to a total of $6.1 billion. Of the $1.9 billion increase, $1 billion would be transferred from other local aid and property tax relief programs, and the remainder would come from the projected growth in state tax revenues under current laws.

- As outlined in Section VII, total expenditures for the instructional core for FY94-95 under this sample would be $5.059 billion ($3124 per student per year).

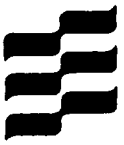
- The balance of the state funding component, $1 billion, would be for support services. This state funding would be supplemented by $500 million of local resources. The total would provide an average of $961 dollars per student per year, although actual amounts will vary related to need.

- Because of the substantial increase in state share of education funding, we project that the voluntary local levy for education would be reduced by between $800 million and $1.1 billion from the $3.4 billion levy projected for FY94-95. The amount of the levy in each district would be determined locally; the state would no longer require a local levy for education funding.

- Because school districts vary greatly in their property wealth, it is fair for a portion of the local levy from each district to be equalized -- i.e. pooled and redistributed to all districts having local levies on the basis of relative local need. Local need could be determined by formulas like those suggested by MTA in their proposal.

- The additional local levy capacity freed by the increased state share of funding would be transferred to other local government units for their use (and to compensate for the loss of state aids).

- Assuming our projections for local discretionary programs, the state's share of education funding would rise from the current 59% to about 70% for an average district, for comparable programs.



IX. COST CONTROL INCENTIVES

As we stated above, we believe more money is not the answer to future education quality issues. However, moving to this new funding system will require some additional resources as outlined above. Once implemented, the new system should seek to control future cost growth.

We believe there are significant cost control incentives in our funding proposal. Among those incentives, we highlight the following five:

- Because state funding for education would be separated into two funding sources -- one for the core instructional programs and one for those services which support education -- the state can more carefully target any desired program improvements. Any new funding would not be "lost" in a huge, unspecified funding formula; it would be directed to specific program improvements in the core or designated support services.

- Since the local discretionary funding would be completely voluntary, with no state mandate to raise local dollars to receive state education dollars, local taxpayers would have true ability to limit how their local tax dollars are spent.

- The linking of core funding to demonstrated progress toward specific outcomes will tend to target any new increases only to the most cost-effective programs and services.

- In respect to support services funding, we would require that funding go to the most cost-effective provider. In addition, by providing incentives to link the multiple providers of a given service, duplication will be eliminated and services will be provided in a more effective, "seamless" manner.

- The suggested restructuring of the public employee bargaining has the potential to provide long-term cost control.

X. *FINANCIAL REPORTING*

Critical to the transformation of the education funding system is the availability of information related to the operation of that system. As indicated earlier, information about the progress of students toward defined education outcomes is essential to the success of our funding redesign.

Also critical is the availability of financial information. State and local policy makers must be able to ascertain that individual schools have received the resources necessary to allow them to achieve the outcomes. This will require a dramatic improvement of our financial reporting and accounting systems.

To accomplish this goal, the state's current Uniform Financial and Accounting Reporting System ("UFARS") must be overhauled. The Commissioner of Education and the State Auditor must be directed to monitor and report on the distribution and effective use of education funds. In his recent report, the Auditor has also recognized this need, and the Department is well along in developing reform ideas.

Related to the preceding is the need to improve financial accounting and reporting in many state school districts. To help elevate the importance of this function, schools should be encouraged to comply with appropriate governmental financial reporting standards such as those administered by the Governmental Financial Officers Association.

XI. OTHER ISSUES

This proposal is presented as a sketch of the fundamental characteristics of an education finance system which we believe will promote the kind of continuous progress and enhanced learning demanded of today's and tomorrow's workforces. There are significant details to be discussed and questions to be answered related to this system's implementation. The following points highlight some of these continuing questions:

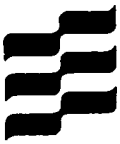
- *The role of the school board.* It is clear that this new funding proposal would change the traditional role of the school board in school finance issues. Although each board will be responsible for allocating funds among its learning sites, the law would be clear that core funding must go to the learning sites.

There may be opportunities for redefining the school board's role altogether. Potential new responsibilities include monitoring the progress of learning in each district school, increasing the collaboration with support service providers, and strengthening district involvement in alternative or work-based learning programs.

- *The role of central administration.* By requiring that core funding be fully distributed to learning sites, some change in the role of central administration of school districts may be indicated. The work of central administrations could, for example, begin to focus more extensively on the delivery of services to learning sites.

- *PELRA and staff contract negotiations.* As the state assumes 100% of the core education funding, the process of negotiating contracts at the local level should be reconsidered. We have been told repeatedly that the process of negotiations is a time- and emotionally-consuming exercise for school boards which substantially detracts from more important board functions. We therefore believe that the Legislature should consider enacting some form of regional or statewide bargaining for education employees. Consideration should also be given to other reforms of the state's Public Employee Labor Relations Act (PELRA) designed to promote quality and cost-efficient delivery of instruction.

- *Structure of state-level education administration.* In his budget message, the Governor has proposed a restructuring of a variety of state programs affecting children. We agree that state-level restructuring is needed, but we are not certain as to the precise form.



- *Special Education Funding.* Although the special education program is discussed as a critical problem, this proposal does not focus specifically on solutions to the issues raised in our discussion. Significant attention to reform of this program, in particular, is necessary.

- *Relationship to higher education.* The technical colleges will play an increasingly important role as technical and work-based learning grow in importance and funding. However, the other higher education systems should re-evaluate their relationships to K-12 education as well. For instance, with a greater role for the state in K-12 funding, more students may choose to make use of the Post-Secondary Enrollment Options program, to the benefit of the student and the higher education institution.

- *Impact on existing referendum levies.* Many school districts in the state now have referendum levies in effect. Because some of those same districts would receive substantially more state dollars under our new core funding approach, it is fair that these districts should share some of this "windfall." We assume in the transition provisions outlined below that these existing referendum levies will be phased-out as the new funding system is phased-in.

- *Transition provisions.* Although the funding reform package is a significant improvement from the current funding systems, implementation of the package will cause transfers of aids between school districts. Therefore, we recommend that full implementation of this new system occur over a number of years. An appropriate calendar for implementation might be:

  - adoption of the new funding system by the 1993 Legislature with delayed implementation,

  - adoption and costing of the graduation rule for use in the 1994-95 school year,

  - implementation of the new outcomes-based funding system for the 1995-96 school year, and

  - completion of accounting changes and full implementation of the new funding system and a new fiscal year for property taxes and local governments in 1999.

Appendix: School District Data

CHART #1: *Overview of the Eight District Study*

The study of eight Minnesota school districts was conducted from July 1992 through January 1993. The following points summarize the information collected and the methods used.

Information Collected
Our study consists of three parts: financial information, demographic and student achievement data, and relevant but anecdotal information from school superintendents and finance officers. The third part is not used for comparative purposes but does provide additional information on the current experience in school districts in Minnesota. Topics covered include:

Part 1 -- Finance Information:

District Size & Funding Information:
- Size of the district (buildings, students, staff)
- Sources of revenue
- Size of fund balances
- Size of short-term and tax anticipation borrowing

District-level Expenditures:
- Non-school building program expenditures
- Non-school building staff salaries and benefits expenditures

School-level Expenditures:
- Program expenditures associated with individual school buildings
- Staff salaries and benefits associated with individual school buildings

Part 2 -- Demographic and Achievement Information:
District Demographics:
- Income levels of students' families
- Family situations
- District diversity

Student Profiles:
- Dropout & graduation rates
- Transfer rate
- Attendance rates
- Post-secondary aspiration
- Achievement on standardized tests
- Other student assessment measures

Part 3 -- Anecdotal Information

- Staff salary schedules and negotiation processes
- Perceptions on cost drivers
- Descriptions of decision-making

Verification of Information Collected: A public accounting firm representative (from the Business Partnership membership) was assigned to each participating school system. All of the participating accountants currently provide audit services to public school systems in Minnesota. Each accountant was assigned two schools systems, and the group cross-referenced the collection mechanisms on the financial data.

The accountants, along with Partnership staff, provided assistance to the staff from the eight districts and verified the information collected. The demographic data and anecdotal information was collected by the Partnership staff directly and was augmented by existing 1990 census data. (While extensive work has been done to ensure that the data is comparable, there may be some inconsistencies in the reported data.)

School Districts Included: The eight districts represent a wide variety of settings, sizes, and student profiles. Chart #1 below outlines the eight districts in terms of size and location.

CHART #1: *Overview of the Eight District Study*

District Reference Letter	District Name and Number	Description	Number of Students	Number of Schools
A	St. Paul #625	Urban, public	35,003	62
B	Minneapolis #SP1	Urban, public	41,139	63**
C	Rosemount-Apple Valley-Eagan #196	Suburban, public	21,670	24
D	Orono #278	Suburban, public	2,179	4
E	St. Cloud #742	Regional center, public	10,629	15
F	Grand Rapids #318	Regional center, public	4,869	13
G	Blue Earth #240	Rural, public	1,460	1
H	Princeton #477	Rural, public	2,830	4

** plus 25 classroom sites, not all owned by district

CHART #2: *Median Family Income in District and Percentage of State Funding*

ABOUT THE NUMBERS:
This comparison views the relative income levels in the cities (in which all or most of the school districts are located) in relation to the property wealth of the district. The percentage of funding from the state gives a good picture of the relative property wealth of the district, with a small percentage indicating high property wealth in the district. The state-wide average for state-level funding is 55%.

COMMENT:
It is clear that high property wealth is not necessarily linked with high median family income. This is significant as the state pursues necessary reform of the property tax system. As property tax rate classifications are compressed, tax burdens on residential properties increase. This increased burden does not necessarily reflect an ability to pay.

Education has long been viewed as a "property service" or a public expenditure which directly affects the ability of that local area to function and compete economically. With the globalization of the economy and the mobility of jobs, this view of education is outdated. A significant portion of education funding needs to be financed by revenues not tied to property wealth. Education can no longer be a "property service."

CHART #2: *Median Family Income in District and Percentage of State Funding*

1. School System
2. Median Family Income in District City
3. Percentage of Revenue from State Sources

School	Median Family Income in District City	% of Revenue from State
A urban	$33,818	57.96%
B urban	$32,998	38.87%
C suburban	$49,028	63.06%
D suburban	$69,263	27.73%
E regional center	$34,570	62.32%
F regional center	$30,472	51.36%
G rural	$28,802	77.90%
H rural	$31,766	73.00%
STATE-WIDE AVERAGE	$36,916	55%

CHART #3 *Fiscal Capacity Measure*

ABOUT THE NUMBERS:

This comparison highlights the difference between the existence of fund balances and actual fiscal capacity of the systems. This table also demonstrates the effect of recent legislation changing the tax recognition formulas. The table uses four measures for comparison:

Total Fund Balance: This is the total fund balance of the district and includes restricted and unrestricted fund balances. There is great variation between districts in the relative sizes of restricted and unrestricted fund balances.

Past Short Term Borrowing: This is the amount of borrowing required in 1990-91 to compensate for differences in timing of revenue recognition and expenditures.

Future Short Term Borrowing: This is the amount of short term borrowing projected for 1992-93 to compensate for differences in timing of revenue recognition and expenditures.

Fiscal Capacity Measure: This is the total fund balance less the past short term borrowing.

COMMENT:

Property rich school districts are clearly required to rely on short term borrowing more extensively than districts which receive a larger portion of their total funding from the state. Since state governments do not cease to exist, there is little financial risk associated with this shift of tax recognition. True fiscal capacity, however, is masked by the reporting of fund balances. This holds some concern for districts because of the limitation on the allowed size of fund balances and the common use of fund balances as one measure of a districts' ability to pay salary increases. Interest costs associated with short term borrowing reduce the amount of education funding available for classroom instruction or other programs.

The 1992 legislation clearly places more districts in the category of short term borrowers and therefore reduces the fiscal capacity of those districts.

CHART #3 *Fiscal Capacity Measure*

1. School System
2. Total Fund Balance
3. Past Short Term Borrowing
4. Future Short Term Borrowing
5. Fiscal Capacity Measure (fund balance less past short term borrowing)

School	Fund Balance	Past Short Term Borrowing	Future Short Term Borrowing	Fiscal Capacity Measure
A urban	$42,428,965	$16,000,000	$26,000,000	$26,428,965
B urban	$ 7,859,329	$32,000,000	$50,000,000	($24,140,671)
C suburban	$ 8,909,011	$0	$0	$ 8,909,011
D suburban	$ 1,530,498	$ 104,687	$ 6,000,000	$ 1,425,811
E regional center	$11,446,567	$0	$0	$11,446,567
F regional center	$ 3,243,715	$0	$ 2,870,000	$ 3,243,715
G rural	$ 675,281	$0	$ 200,000	$ 675,281
H rural	$ 1,447,651	$0	$ 4,190,000	$ 1,447,651

CHART #4: *Spending Per Student*

ABOUT THE NUMBERS:

This comparison demonstrates the range of spending between districts in terms of both total spending and program spending. All measures in this comparison are weighted by the number of students in the district. These comparisons use actual total enrollment of students in the school system and not a weighted average daily membership. The following describes the different measures:

Total Spending per student: This measure is the total spending amount for the district reflected on a per student basis. It includes all operating expenditures (general, transportation, food service, community service expenditures) and non-operating expenditures (capital, building construction, debt service expenditures) of the district. This measure would encompass expenditures from all revenue streams (state, federal, and local).

Total Operating Expenditure per student: This measure is total spending less capital, debt service, and building construction expenditures divided by the total number of students.

Total Administrative Expenditure per student: This is a total of all staff (salary and benefits) and other administrative expenditures (at both the district and the school level) divided by the total number of students in the district.

Total Athletic and Extracurricular Expenditures per student: This measure reflects total staff (salary and benefits) costs, equipment costs, and other expenditures for student activities reflected on a per student basis.

Student Support Expenditures per student: This measure reflects the costs associated with student counseling, testing and assessment, health services, and social work services reflected on a per student basis.

Building Overhead Expenditures per student: This measure reflects the operations and maintenance costs for school buildings reflected on a per student basis. It does not include capital, debt service, or building construction costs.

Food, Transportation, and Community Education Expenditures per student: This measure reflects the costs associated with student transportation, school lunches and breakfasts, and community education services (including early childhood family education programs) reflected on a per student basis.

Total Classroom Spending per student: This measure includes the following expenditures items:

- Training and development costs including salaries at both the district and the school site level,
- Instruction support costs including salaries at both the district and the school site level,
- Curriculum supplies,
- Equipment expenditures,
- Teacher salaries and benefits, and
- Teacher aide salary and benefits.

Given the inclusion of some of these expenditures, particularly training and development expenditures which may not be limited to teaching staff, it is possible that these totals are inflated. The total amounts for training and development, instruction support, and equipment expenditures are relatively small and any inflation is slight.

Compensatory Revenue per student: This number reflects the total amount of compensatory revenue a district receives (provided on the basis of their concentration of low income students) divided by the total student population. While districts receive this amount specifically for programs related to their low income students, those dollars typically are used for instruction or instructional support.

Total Classroom Expenditures Controlled for Compensatory Revenue: This measure removes the total of compensatory revenue per student from the total classroom spending per student. Districts receive compensatory revenue because their concentration of low income students is high. A fairer comparison of actual classroom spending results from this computation.

COMMENT:

The range of total expenditures is great, spanning over $2,600 per student in total operating expenditures. The range in expenditures which reach the classroom is $1,500. If spending in districts receiving compensatory revenue (revenue directed at districts with a high number of students from AFDC homes) is reduced by the per pupil amount of that revenue, the range in classroom spending decreases to just under $1000.

It is interesting to compare this table with table #1. Districts which have the highest property wealth (see table #1, districts C, G, and H) also have the lowest classroom spending. When classroom spending is controlled for additional compensatory revenue, the district with the highest property value and the highest median family income (district D) also has the highest classroom spending per student.

The method by which compensatory revenue is distributed appears to meet the extreme variations in need (see Table #8). The law changes in 1992 related to the formulas for compensatory revenue will target the aid even more effectively.

CHART #4: *Spending Per Student*

1. School System
2. Total Spending per student
3. Total Operating Expenditure per student
4. Administrative Expenditure per student
5. Athletic and Extracurricular Expenditure per student
6. Student Support Expenditure per student
7. School Site Overhead Expenditure per student
8. Food, Transportation, and Community Education Expenditure per student
9. Total Classroom Spending per student
10. Compensatory Revenue per student
11. Total Classroom Spending controlled for Compensatory Revenue

School	Total Spending	Total Operating Expenditure	Admin	Athletic & Extra Curricular	Student Support	Building Overhead	Food, Transport, Community Education	Total Classroom Spending	Comp. Revenue	Classroom Spending less Comp. Revenue
A urban	$7,199	$5,919	$482	$77	$586	$500	$781	$3,177	$479	$2,698
B urban	$7,727	$6,462	$846	$47	$269	$459	$1,077	$3,794	$580	$3,214
C suburban	$5,149	$3,813	$372	$96	$122	$298	$470	$2,276		$2,276
D suburban	$7,194	$5,636	$619	$135	$147	$510	$821	$3,473		$3,473
E regional center	$5,574	$4,894	$248	$80	$108	$341	$666	$3,315	$22	$3,293
F regional center	$5,765	$5,227	$631	$99	$104	$466	$654	$3,354	$127	$3,227
G rural	$4,498	$4,203	$633	$164	$151	$273	$441	$2,368		$2,368
H rural	$5,304	$4,635	$454	$158	$289	$311	$801	$2,522		$2,522
MEAN	$6,051	$5,099	$557	$107	$222	$395	$714	$3,305		$2,884

CHART #5: *Special Education Costs*

ABOUT THE NUMBERS:
This comparison views the costs of special education services for students with special learning needs along with the revenue available for those services. The comparison uses 4 measures:

Total Special Education Expenditures: This measure reflects total special education costs (both staff and program) for each district.

Special Education Aid Received: This measure reflects the total amount of state aid received by each district to fund special education costs. In addition, districts are required to levy for special education expenditures. In 1991 that additional levy requirement, on average, equaled roughly 40% of total state special education aid.

Total Number of Special Education Students: This is the total number of students in the district who are designated as having special education needs.

Total Number of Special Education Students as a percentage of total Student Population: The figure is the number of students designated as having special education needs divided by the total student population.

Total Special Education Expenditure per Special Education Student: This measure reflects the average cost in each school district of education for students designated as needing special education services.

COMMENT:
It is clear, even when adding the additional 40% of local revenue for special education, that revenues for special education services fail to meet the costs associated with the delivery of services. In many cases, total special education revenue--both state and local--does not even equal half of the total expenditures on special education services.

It should be noted that these totals for special education students are not the same as an F.T.E. count for special education students. These counts include students for whom additional educational services may only be necessary for a limited portion of the day. This tends to diminish the true cost per student for special education services.

CHART #5: *Special Education Costs*

1. School System
2. Total Special Education Expenditures
3. Total Special Education Aid Received
4. Total Number of Special Education Students
5. Total Number of Special Education Students as a percentage of Total Student Population
6. Total Special Education Expenditure per Special Education Student

School	Total Special Education Expenditure	Special Education Aid Received	Total # Special Education Students	% of Total Students who are designated Special Education	$ per Special Education Student
A urban	$40,895,299	$14,129,552	3,881	11.74%	$10,537
B urban	$43,022,440	$12,185,168	4,901	11.91%	$ 8,778
C suburban	$ 8,037,690	$ 2,669,778	1,918	8.85%	$ 4,191
D suburban	$ 978,541	$ 252,181	196	8.99%	$ 4,993
E regional center	$ 9,656,648	$ 3,298,244	1,744	16.41%	$ 5,537
F regional center	$ 2,320,619	$ 970,620	433	8.89%	$ 5,359
G rural	$ 946,627	$ 251,698	137	9.38%	$ 6,910
H rural	$ 1,622,345	$ 380,903	238	8.41%	$ 6,817

CHART #6: *Teaching Staff Ratios and Salaries*

ABOUT THE NUMBERS:

These ratios and average salaries are based on full-time equivalent staff positions. The comparison has 5 measures:

Reported Student/Teacher Ratio: This ratio is the student to classroom teacher ratio as reported by the school district. These ratios are often set as maximum allowable ratios by local school boards and actual ratios may vary.

Student/Teaching Staff Ratio: This is the total student population divided by total number of classroom teachers reported. This total number includes specialists and other personnel who hold a teaching certificate.

Student/Total Classroom Staff Ratio: This is the total student population divided by total of classroom teachers plus classroom aides.

Average Teacher Salary: This amount reflects the total of salary and benefits reported for teachers divided by the total FTE figure for teachers.

Average Teacher Aide Salary: This amount reflects the total of salary and benefits reported for teachers' aides divided by the total FTE figure for teacher aides.

COMMENT:

All districts have significantly more teachers on staff than those who actually teach in the classroom.

Not surprisingly, the district which pays the highest teacher and teacher aide salaries also has the highest student to total classroom staff ratio.

The district with the highest student/teacher ratio achieves a comparable student to classroom staff ratio by using teachers aides more extensively. This pattern of staff differentiation may be an interesting strategy to study as it has the power to significantly improve the student to adult ratio in the classroom and may assist teachers in managing the learning process.

Districts which have the lowest property wealth (see table #2, districts C, G, and H) also have the lowest teacher salaries.

The two urban districts have the lowest student to total classroom staff ratios. These districts also have significantly higher at-risk populations.

The range of salary and benefit totals is greater for teachers aides than for teachers. It is clear that many districts employ significant numbers of part-time teacher aides.

CHART #6: *Teaching Staff Ratios and Salaries*

1. School System
2. Reported Student/Teacher Ratio (when districts reported different ratios for different levels of education, those ratios were converted to a composite ratio.
3. Student/Teaching Staff Ratio: Total student population divided by total number of classroom teachers reported
4. Student/Total Classroom Staff Ratio: Total student population divided by total of classroom teachers plus classroom aides reported
5. Average Teacher Salary (salary and benefits total)
6. Average Teacher Aide Salary (salary and benefits total)

School	Reported Student/ Teacher Ratio	Student/ Teaching	Student/ Total Classroom Staff	Average Teacher Salary	Average Teacher Aide Salary
A urban	24.1 : 1	17.01 : 1	12.39 : 1	$44,948	$7,861
B urban	na	15.73 : 1	12.41 : 1	$47,546	$12,768
C suburban	24.2 : 1	16.90 : 1	14.77 : 1	$29,376	$13,549
D suburban	20.1 : 1	15.79 : 1	14.19 : 1	$45,860	$17,358
E regional center	26.37 : 1*	18.49 : 1	16.75 : 1	$49,788	$28,018
F regional center	27.56 : 1*	17.45 : 1	14.52 : 1	$47,146	$18,232
G rural	23.1 : 1	17.42 : 1	14.48 : 1	$37,273	$8,277
H rural	23.54 : 1	17.41 : 1	13.47 : 1	$33,515	$9,848

* indicates the reported ratio is for elementary students only

CHART #7: *Staff Training and Development Expenditures*

ABOUT THE NUMBERS:
This comparison looks at total expenditures on staff training and development including those expenditures which are not spent in specific training programs but impact the level of training of the staff. Of significant importance are the expenditures for "lane changes" on the system's salary schedule. Lane changes occur when a teacher earns a specific number of credits toward an advanced degree and therefore is eligible for a higher base salary. The comparison has 5 measures:

Total Reported Training and Development Expenditures per teacher: This figure is the total amount of expenditures reported by the district for training and development activities divided by the total number of teachers reported.

Percentage of Teachers receiving Lane Changes: The number of teachers receiving lane changes in the 1990-91 school year divided by the total number of teachers.

Total Cost of Lane Changes: This figure represents the total cost of lane changes in the 1990-91 school year.

Lane Change Expenditures as a Percentage of Total Training and Development Expenditures: This is the total cost of lane changes in 1990-91 as a percentage of total training expenditures (training and development expenditures plus lane change expenditures). A percentage over 50% indicates that the system spends more on lane changes as a form of training than it spends on its own training and development programs.

Total Training Expenditure per teacher: This total includes training and development programs at the district and the school level as well as expenditures in the salary schedule for additional credits earned toward advanced degrees (lane change costs).

COMMENT:
A comparison of the percentage of teachers who receive lane changes with the percentage of total training indicates that close to one third of total training and development expenditures reach one seventh of the teaching staff. More importantly, the cost for lane changes is an annual expenditure which continues through the length of employment of the teacher resulting in true costs being 10 to 30 times as great. In contrast, the reported training and development expenditure is a one-time expenditure. Most districts do not place requirements on the types or nature of advance degree course work. Lane change expenditures represent a significant training and development expenditure in school systems, yet little of it is directed toward the system's aims.

CHART #7: *Staff Training and Development Expenditures*

1. School System
2. Total Reported Training & Development Expenditure per Teacher
3. Percentage of Teachers receiving lane changes
4. Total cost of lane changes
5. Lane Change Expenditures as a percentage of total training and development expenditures
6. Total Training Costs per teacher

School	Total Reported Training & Development $ per Teacher	% of Teachers receiving lane change	Total cost of lane changes	% of Total Training $ spent on Lane Changes	Total Training $ per Teacher
A urban	$462	11.4%	$187,200	19.68%	$553
B urban	$337	13.4%	$500,000	31.21%	$528
C suburban	$594	18.5%	$314,463	29.21%	$840
D suburban	$478	23.2%	$24,433	27.03%	$655
E regional center	$427	27.0%	$195,031	44.28%	$766
F regional center	$197	9.3%	$27,950	33.67%	$297
G rural	$373	8.3%	$7,810	19.97%	$467
H rural	$759	11.6%	$23,100	15.57%	$898
MEAN	$453	14.7%		29.0%	$626

CHART #8: *Student Profiles*

ABOUT THE NUMBERS:
This comparison looks at measures of student academic achievement, relates those measures to the percent of the population to which they apply, relates the measures to the classroom spending per student, and provides information on the differing demographics of each district.

The measures of student achievement are all college entrance exams and have extremely limited comparative use. There is no other measure of student achievement used by a significant portion of the study participants.

This comparison looks at the percentage of students in school systems which come from under-represented cultures for whom the cultural context of the education system may seem irrelevant. It also highlights the percentage of students who are from backgrounds which often lack the support systems necessary for educational achievement.

The comparison has 8 measures:

ACT scores: The figure represents the mean composite score for the district. The test has content area scores which comprise the overall composite score. The national mean composite score on the ACT is 20.6. The Minnesota mean composite score on the ACT is 21.5. The percentage listed in parentheses is the percentage of eligible population tested.

PSAT scores: The figures represent the system's mean scores in both verbal and math areas. The percentage listed in parentheses is the percentage of eligible population tested.

SAT scores: The figures represent the system's mean scores in verbal and math tests which comprise the entire test. The percentage listed in parentheses is the percentage of eligible population tested. Many schools do not report SAT results because so few of their students take the test.

Percentage of Student Population who are Minority Students.

Percentage of Student Population from Single Parent Homes: When this data was not available from the school district, 1990 census data was used.

Percentage of Student Population from AFDC Homes: Aid to Families with Dependent Children is a grant program to assist low income families with children. School districts receive additional compensatory aid based on the concentration of students from AFDC homes.

Percentage of Student Population Receiving Free or Reduced Lunch: Students from low income homes are eligible for either free or reduced-price lunches based on family income. This is a fuller measure (than the AFDC total) of the district population at or near poverty status.

Total Classroom Expenditure per student: As previously described.

COMMENT:
There are few common measures of student performance which all districts in the study employ. The measures which are common are college entrance related and inherently limited. Because of this lack of comparative data, it is difficult to ascertain any relationship between higher spending and enhanced student achievement.

The performance of students on the ACT is relatively consistent across districts and there appears to be, on the surface, no correlation between these results and the differences in classroom spending per student. It should be noted that while these scores are consistent across districts, the percentage of eligible population tested varies extensively. Typically, the higher the percentage of eligible population tested, the lower the mean score. This fact further clouds the connection between spending and achievement. What these test scores do reveal is that there is no perceptible difference in the achievement of the college-bound students schooled in these districts. What they fail to reveal is how the student population, as a whole, performs.

The urban districts clearly have student populations which are at greater risk of under-achievement. Those same districts also receive additional revenue for those populations.

CHART #8: *Student Profiles*

1. School System
2. ACT Scores (% tested)
3. PSAT Scores (% tested)
4. SAT Scores (% tested)
5. Percentage of Total Student Population which is Minority
6. Percentage of Total Student Population which is from Single Parent Homes
7. Percentage of Total Student Population which is from AFDC Homes
8. Percentage of Total Student Population which is receiving free or reduced lunch
9. Total Classroom Expenditure per student

School	ACT	PSAT	SAT	% Minority	% Single Parent Homes	%AFDC Homes	% Free or Reduced Lunch	Classroom $ per student
A urban	20.1 (34%)	verbal 40.1 math 46.5 (26%)	na	44.24%	29.28%	32.83%	53.59%	$3,177
B urban	20.2 (38%)	verbal 40.3 math 46.1 (29%)	verbal 464 math 523 (16%)	52.68%	43.09%	34.53%	62.73%	$3,794
C suburban	21.5 (62%)	verbal 43.5 math 50.5 (26%)	verbal 460 math 555 (20%)	6.83%	13.39%	3.42%	8.28%	$2,276
D suburban	21.2 (60%)	verbal 42.7 math 45.1 (74%)	verbal 482 math 526 (24%)	2.62%	13.58%	2.85%	7.34%	$3,473
E regional center	21.4 (56%)	verbal 44.6 math 51.5 (29.5%)*	na	2.88%	24.12%	8.27%	23.88%	$3,315
F regional center	22.2 (46%)	verbal 47 math 54.6 (20%)	verbal 559 math 635 (5%)	4.81%	14.58%	11.48%	26.5%	$3,354
G rural	21.3 (62.6%)	verbal 45.62 math 52.79 (31.7%)	na	5.34%	17.05%	9.04%	26.3%	$2,368
H rural	21.0 (37%)	verbal 40.3 math 46.5 (51%)	na	2.01%	17%	5.37%	30.21%	$2,522

* indicates scores are from one of two schools

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