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INTRODUCTION

Minnesota School Districts continue to face financial stress due to a number of factors:

- Ongoing, persistent, and increasing unfunded mandates;
- Special education cross subsidy of more than $500 million;
- Other prorated reductions in state aid formulas;
- Increased reliance on property tax levies for operating revenue;
- Increased pressure on labor costs with limited flexibility due to teacher tenure laws and PELRA (Public Employee Labor Relations Act).

It is critical that the State continue to stabilize funding and appropriately recognize education as a priority, given its constitutional obligations. The E-12 portion of the State budget has continued to decline as a percentage of the total State budget. The increased education standards and accountability require adequate, equitable, predictable and sustainable funding for schools.

ABOUT MASBO

The Minnesota Association of School Business Officials (MASBO) is an independent, nonprofit professional association including more than 600 school business managers and related specialists. MASBO members are experts in the areas of school finance, public accounting, and school district support services (including facilities management, transportation, food services, and information management). We are dedicated to defining and maintaining the highest standards of financial and operations management for Minnesota schools.

MASBO has a standing Legislative Committee whose primary goal is to promote state legislation that improves the efficiency and effectiveness of school district fiscal practices and operations. MASBO priorities are all related to school finance and operations — the areas of our members’ greatest experience and expertise. In addition, MASBO proposals are not intended to result in significant redistribution of resources among districts and are designed to make school districts more cost effective and efficient within existing resources.
Minnesota’s future prosperity and ability to compete successfully in the global economy is directly tied to the success of the students served by our system of public schools. The World’s Best Workforce bill was passed in 2013 to ensure every school district in the state is making strides to increase student performance. This bill reads that each district must develop a plan that addresses the following five goals:

- All children are ready for school.
- All third-graders can read at grade level.
- All racial and economic achievement gaps between students are closed.
- All students are ready for career and college.
- All students graduate from high school.

Students of color represent the fastest growing segment of our future workforce, yet they currently have the state’s lowest graduation rate. This achievement gap is unacceptable and will lead to lost opportunities for these students now and in the future. This is one of the many reasons this work is so important. We must provide every one of our students the opportunities and resources they need to reach their full potential.

MASBO has identified a series of recommendations to help Minnesota reclaim its place as a national leader in education by living up to the promises embedded in the World’s Best Workforce legislation.

**ACT Test Results Measure our Public School Achievements:**

Over the past decade, Minnesota school districts have consistently increased standards for student achievement and made significant progress in meeting those standards. State law requires that all juniors and seniors be offered the ACT, but while the test is no longer mandatory, over 92% of Minnesota high school graduates have taken the test, and the ACT is still a benchmark against which to measure the quality of Minnesota public schools.

- Minnesota’s 2016 average score of 21.1 was the highest of all the states in which at least 90% of high school graduates took the 2016 test.
- The state’s score was also higher than the national average of 20.8, based on 64% of 2016 graduating seniors taking the ACT.

**Basic Funding Not Keeping up with Inflation:**

Student success depends greatly on the state legislature providing adequate funding and maintaining school district flexibility to meet these financial challenges. A generally accepted benchmark by which to measure progress toward adequate funding is the annual increase in the basic allowance. State funding for the basic general education allowance continues to materially lag inflation. As the table shows, while progress has been made, the formula allowance would have to be higher than the current level by $550 (9.1%) per ADM (Average Daily Membership) to have kept pace with inflation since 2003.

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*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. — Article XIII; Section 1; Constitution of the State of Minnesota*
Meeting Special Education Mandates Requires Use of General Education Revenue:
Compounding the underfunding of formula allowance is the underfunding of special education. According to the Minnesota Department of Education (MDE) FY 2015 cross subsidy report, the cost of providing special education programs is underfunded by more than $662,500,000 which translates to $766 per adjusted ADM (state average) of regular education resources to fund special education programs. To meet the education expectations of parents, the community, and the state it is critical for the state to adequately fund all public school district operations and meet the obligation of funding mandated programs such as special education.

Proposals

1) Provide Adequate Regular Program Funding
Fully fund the basic formula by phasing out the current funding deficit of $550 over four years ($138 per year), plus an inflationary adjustment for the FY18-FY19 Biennium of 2% each year—$121 in FY18 and $124 in FY19—to avoid future underfunding. The combined increases would result in the basic formula amount increasing a total of $259 in FY18 to $6,326 and $262 in FY19, to $6,588.

The two most pivotal factors in determining a Minnesota school district’s revenue are the basic funding formula amount and student enrollment, the
product of which is the largest source of revenue for all school districts, accounting for approximately 56% of a school district’s total operating revenue. Should other sources of revenue remain constant, a 2% increase in the formula allowance will only increase total General Fund revenue by slightly more than 1%, insufficient to cover increased operating costs. As a result, valuable programs such as arts and physical education, along with class sizes, have been compromised in many school districts. In an effort to retain a quality education program, school districts annually face the prospect of seeking a voter approved operating referendum or cutting programs or increasing class size in order to balance their budgets. It is therefore critical that the basic formula is fully funded.

2) Fully Fund Special Education Mandates
Special education services are mandated by federal and state law. While school districts have few options to control the cost of providing the service, each student identified with special education needs must be served.

The special education cross subsidy calculated by MDE measures the difference between special education expenditures and corresponding revenues. In the FY 2014 Special Education Cross-Subsidies Report the adjusted net cross subsidy totaled $617.6 million, or a transfer of $679 per pupil from regular program resources to support an underfunded program mandated by state and federal law.

The 2015 Legislature increased special education funding by $179.8 million over the FY 16–FY 17 Biennium, narrowing the cross subsidy deficit to approximately $438 million, or an estimated cross-subsidy of $507 per regular pupil enrollment, down from $679 per pupil.

Because these expenditures are mandated in state and federal law, districts must subsidize unfunded costs of special education by allocating $507 per pupil (Minnesota average) of general education resources that would otherwise be available for regular program instruction. Increasing special education funding will have an equal and reciprocal impact on regular program resources, freeing up money for regular program needs.

3) Fully Equalize Property Tax Levies
In recent years, the Legislature has made an effort to increase the state equalization aid to help reduce property taxes, particularly in low property value districts. The biggest increases in equalization aid attached to the voter approved operating referendums and Long Term Facilities Maintenance funding, and indexing was introduced for debt service equalization aid this past year. While we appreciate the work that has been done to create a fairer property tax system, we believe there are changes to be made. The primary issues to be addressed are fully equalizing all levy components and indexing levies so districts are not penalized by losing State aid when property values grow.

We believe a fair property tax system would mean that families or property tax payers in a district with low property tax values would have the same tax burden as a property tax payer in a district with higher property tax values. This can be addressed with equalization. Some of the unequalized or partially equalized levies that, if equalized or equalized to a greater degree, would add the most equity to the education funding system including debt service, career and technical, building lease, capital project and safe schools levies. In addition, all levies would benefit from indexed equalizing factors that increased as property values increased.

All property tax levies should be fully equalized, so that generating the same revenue in any districts requires the same property tax effort, regardless of overall property value. Further, the equalization factors used to calculate the state aid for a levy should be indexed to the growth in property value over time, so that the aid provided by the state does not erode.
Support Local Control and Reduce Unfunded Mandates

Despite the best of intentions, new legislation often results in more administrative requirements and unanticipated costs that consume and divert district resources away from student learning. Therefore, the Legislature must continually assess existing mandates and recommend reform to allow Minnesota school districts to reduce these costs and adequately fund current programs and requirements.

Minnesota Statute 127A.05, subd. 2, requires the Commissioner of Education to “review all education-related mandates in state law or rule once every four years to determine which mandates fail to adequately promote public education in the state.” MASBO members appreciate that in recent years the Legislature has eliminated some mandates that will help districts focus more time and money on student learning.

MASBO requests state leaders either fund mandates or increase districts’ flexibility to make decisions locally based on local needs. And, we request legislators continue assessing mandates and recommend reform and other efficiencies as a way to help school districts ease the administrative and financial burdens of providing education services in Minnesota.

Proposals

We recommend for repeal or revision those mandates with negative, unintended consequences in their implementation. Although there are many mandates that should be repealed or revised, the most immediate priorities for this year are:

1) Continue to Invest in Infrastructure

Some of the mandates imposed on school districts result from the inadequate technology infrastructure at MDE to provide vehicles for districts to deliver information to the department. The EDRS and UFARS reporting systems are both more than 30 years old, are obsolete systems based on antiquated programming language, and are unable to integrate with each other or other systems. SERVS has been developed in recent years, but is currently limited to only certain federally-funded programs. It is not user-friendly, and MDE doesn’t have adequate resources to refine it to satisfy both federal monitoring requirements and the needs of the State.

MASBO supports MDE’s technology requests to MN.IT and believes the department is due for more adequate funding in its technology infrastructure.

2) Repeal Reserved Revenue Requirements for Staff Development (M.S. 122A.61)

Districts are required to reserve at least two percent of basic revenue for in-service and staff development, and should be permanently given discretion as to the amount expended in the area of staff development. Repeal.
Facility Funding

Minnesota public school buildings are the backbone of every community. Maintenance of these buildings accounts for 10-15% of a school district’s operating expenditures. Many of these costs are attributed to building inefficiencies that could be corrected with more adequate capital funding. Furthermore, funding for Minnesota public school buildings is not equitable among the state’s school districts.

The 2013 Legislature directed the Commissioner of Education to convene a working group to develop recommendations for reforming the financing of pre-kindergarten through grade 12 education facilities to create adequate, equitable, and sustainable financing of public school facilities throughout the state. The scope of the recommendations included funding options for facilities projects currently financed with debt service, alternative facilities, deferred maintenance, health and safety, building lease and operating capital revenues.

Since 2014, the Legislature has reviewed the recommendations of the working group each year, and has each year adopted some of the recommendations, including the full recommendation to streamline the review and comment process, part of the recommendation to provide enhanced debt service equalization to address unique situations or needs for those districts which suffer natural disasters, part of the recommendation to implement a new Long Term Facilities Maintenance (LTFM) revenue for all school districts, and part of the recommendation to enhance debt service equalization aid, via indexing of the equalizing factors. While those actions are good first steps in creating a comprehensive and fair system to finance school facilities in Minnesota, MASBO recognizes and supports the full implementation of all eight recommendations of the School Facility Financing Working Group.

Proposals

MASBO recognizes and supports the work of the School Facility Financing Working Group and supports legislation to adopt all recommendations and the following additions to the recommendations:

1) No Limit on Long Term Facilities Maintenance (LTFM) Revenue

The task force recommended that all districts have unlimited access to revenue for deferred maintenance, instead of the legislative limit of $380 per pupil unit. While the new LTFM revenue is of tremendous benefit to all school districts in the state, this recommendation should be fully implemented.

2) Authorize LTFM Revenue to Be Used for PreK New Construction

When the Legislature authorized the new PreK program, it allowed districts to use LTFM above the $380 limit to remodel existing space for PreK programs. For most districts, however, this revenue is not equalized. While this is beneficial for some districts, for most districts there is no equalization aid for the program, and there is no ability to construct new space with the revenue.

3) Fully Equalize Debt Service Aid

Equalization aid has fallen to 3% of total debt service, compared to 6% in 2003, when it was last increased. While the indexing of the current equalizing factors to inflation in statewide property values will help prevent further erosion of the aid, increasing those factors to fully equalize debt service levies and restore aid that districts previously qualified for should also be adopted.
4) Provide Equalization Aid for Districts with Voter Approved Capital Project Levies
Providing equalization aid for districts with the voter approved levies will provide tax relief for the district residents. It will also aid the districts in passing these levies which provide valuable technology resources.

5) Improve the Lease Levy Program by Increasing the Limit by $100 to $312 per Pupil, Allowing Use for Physical Security Safety Improvements, and Providing Equalization Aid for the Revenue
The lease levy program is instrumental in providing additional learning spaces for growing districts and also aids districts that need learning spaces and may be limited in land and building resources. Physical security and safety should be considered as educational needs. Equalization aid will provide tax relief to school district residents.

6) Increase the Operating Capital Allowance by $50 per Pupil, and Index the Allowance to Inflation
Districts use operating capital to purchase equipment, textbooks, technology equipment, and to maintain and repair buildings and grounds. Increasing the per pupil allowance will allow districts to place more resources into classrooms. Indexing the allowance to inflation will ensure the funding will not fall further behind rising costs.

7) Provide Enhanced Equalization to Districts with Unique Needs, such as:
• Very low tax bases and high debt burdens
• Consolidating districts that have facilities needs as part of a consolidation process

School Facility Ag Credit
The state share of K-12 building debt is at a historic low of 2.5% of the total. Half of Minnesota’s school facilities were built before 1976, and 25% are between 54 and 125 years old. Only 40% of rural bond elections have passed since January 2015, which is only half of the rate of metro bond elections. Agricultural land values have increased significantly over the past decade, shifting the burden for school building debt to farmers in rural Minnesota. Rural communities now disproportionately struggle to pass bond referendums to modernize school facilities. Rural students should be afforded the same opportunities to have up-to-date facilities as those in the metro area.

The 2016 Legislature overwhelmingly passed, through a bi-partisan effort, the 40% Ag2School Credit for school facility debt levies, which would have lowered taxes for both current and new bond levies for farmers in 218 districts. Unfortunately, the governor, through the pocket veto process, ultimately rejected this important legislative action. This was to be addressed in the Special Session that ended up not occurring.

Proposal
Approve the 40% Ag2School Credit Legislation
Reduce high agricultural taxes for school building bonds, while protecting homeowner and business property taxes by approving the previously passed 40% Ag2School Credit legislation, which would level the playing field for all Minnesota districts. In tandem with this, homeowner tax effort for school facility bonds should be equalized by linking Debt Service Equalization to a fixed percent of state average Adjusted Net Tax Capacity (ANTC).
HEALTH INSURANCE TRANSPARENCY ACT

With the passage of the Health Insurance Transparency Act (HITA), school districts now have additional administrative expense and time commitments when soliciting bids for health insurance with very little reward to show for their labors. This law also provided significant advantages to the Public Employment Insurance Program (PEIP) not enjoyed by other health insurance providers, which has created an un-level playing field.

MASBO proposes the following changes to the current HITA law in order to improve the legislation.

Proposals

1) Eliminate Two Year Bid Requirement
Under current HITA law, fully insured districts and self-insured districts through a service cooperative program are required to go out for bids every two years. Prior law allowed districts to go out for bid every year or at least once every four years if with a service coop or five years if fully insured. The two-year requirement places additional administrative expense on districts resulting in increased premiums to district employees. MASBO proposes that the requirement to obtain bids every two years should be eliminated, allowing individual districts (management and employees) flexibility to decide to go out for bid every year or at least every four years if with a service cooperative or five years if fully insured.

2) Implement Equal Bid Requirements
PEIP’s interpretation of the law is that districts currently in the PEIP program do not have to go out for bid every two years, unlike those districts that are fully insured or self-insured through a service cooperative. This provides significant benefits to the PEIP program in the form of lower administrative costs not enjoyed by other insurance providers. Additional assistance given to PEIP was nearly $300,000 to implement the HITA law. PEIP was the only provider granted state funding to help implement this law. MASBO proposes that all districts enrolled in the PEIP program should be required to go out for bid every two years as well, if that stipulation were to stay in place.

3) Return Decision Authority to Leave Current Insurance Carrier to School Boards
Under current Minnesota law, exclusive representatives of the largest bargaining unit (in most cases, this is the teachers union) can decide to get a proposal from PEIP and leave their current carrier and/or service provider regardless if the proposal is more expensive or offers less coverage for districts’ insured members. MASBO proposes that if districts are required to solicit bids every two years under this legislation, the ability of the exclusive representatives to leave their current carrier should be rescinded, and the authority for these decisions should be returned to the school boards.
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