

# ***2008 Legislative Platform***



**masbo**

***Minnesota Association  
Of School Business Officials***

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*Prepared and paid for by the Minnesota Association of School Business Officials.*

## ***About MASBO...***

The Minnesota Association of School Business Officials (MASBO) is an independent, nonprofit professional association that was chartered in 1950. Its membership includes over 500 school business managers and related specialists. MASBO is one of 50 state affiliates of the Association of School Business Officials International, which serves members from the United States, Canada, and twenty other nations.

MASBO is dedicated to defining and maintaining the highest standards of financial and operations management for Minnesota schools. The association's principal purposes are:

- a. To provide opportunities for school business officials to meet, discuss, and study all phases of school business administration.
- b. To cooperate and collaborate with other school professional associations and with state officials to enhance the quality of Minnesota schools.
- c. To provide leadership that promotes increased efficiency and effectiveness in the administration of Minnesota schools.

MASBO members possess high levels of expertise in the areas of school finance, public accounting, and school district support services (including facilities management, transportation, food services, and information management). Our members have established positive working relationships with fellow professionals in all branches of state and local government, as well as business leaders.

## ***About the MASBO Legislative Committee and Platform...***

MASBO has a standing Legislative Committee, consisting of fifteen members. The Committee's primary goal is to promote the adoption of state legislation that will improve the efficiency and effectiveness of school district fiscal practices and operations. This document describes MASBO's legislative proposals for 2008.

There are several key differences between these proposals and the legislative platforms of most other groups. First, these proposals are all related to school finance and operations – the areas of our members' greatest experience and expertise. Second, none of the proposals are intended to result in significant redistribution of resources among districts. Third, many of these proposals are designed to make school districts more cost effective and efficient within existing resources.

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## ***Proposal #1 – School Finance Reform***

### ***Background***

P.S. Minnesota, a coalition of Minnesota's education organizations and parent groups, has proposed a framework for a new Minnesota education funding formula. Student success is paramount to P.S. Minnesota, and the group has proposed the following framework for a funding formula that will help deliver that success.

The framework is centered upon research-based principles, and is targeted at student achievement. It is not, however, prescriptive in its approach to a final funding formula. Rather, the framework is intended to be the basis for an important policy discussion on school funding. Discussions around this framework should lead to the creation of a funding system that will provide sufficient levels of resources, targeted to school districts in a rational fashion that will provide students with a reasonable chance to achieve at levels required through local, state, and national standards.

The framework proposed by P.S. Minnesota is based on the premise that a good school funding formula should have a rational link to student needs, be based on research, and be supported by data.

As such, a good funding formula should contain the following characteristics:

1. It should be targeted toward student achievement of local, state, and national standards.
2. It should account for differences in district property wealth through a system of equalization. Said system should be based on an accurate economic representation of the use of a given property coupled with sensitivity toward income produced by that property or, in the case of a residence, the income of the property owner.
3. It should account for differences in individual students such as family wealth, family language, and specific needs.
4. It should account for the unique characteristics of individual districts such as cost variances due to factors like geographic remoteness, declining enrollment, and market-based labor cost differentials.
5. It should provide for local discretion by both the local school board and by district voters to account for marketplace competition and community expectations.
6. It should target resources into capital-intensive obligations such as textbooks and other non-technology instructional resources, student and system technologies, annual and deferred maintenance expenses, and transportation system operations.
7. It should offer equalized access to the acquisition of new and/or remodeled school facilities while also providing incentives for collaboration and sharing of resources when possible.
8. Both base costs and adjustments should be adequate and established in accordance with research-based methodologies which calculate the real costs associated with meeting state and federal standards. Such a system should significantly reduce the need for districts to rely on local operating referenda to support basic instructional costs.

9. A new general education levy, equalized with state and local resources, should be used to adequately fund the base costs in the new formula.

The complete education funding formula framework as proposed by P.S. Minnesota can be found at <http://www.psmnnesota.org/resources.html>.

Based on the funding formula framework proposed by P.S. Minnesota, the 2007 Legislature established a School Finance Reform Task Force with the following goals:

1. Creating a standard and index to ensure that the formula remains adequate over time.
2. Simplifying the remaining school formulas.
3. Analyzing categorical funding formulas, including but not limited to pupil transportation, compensatory revenue, and limited English proficiency revenue.
4. Establishing a schedule for implementation of the other new formulas.
5. Examining the role of the regional delivery structure including the functions performed by intermediate school districts, service cooperatives, education districts, and other cooperative agencies.

The task force must submit a report to the education committees of the legislature by January 15, 2008, describing the formula recommendations according to the goals it has established.

### **Proposal**

#### **1. Reform of Education Finance System**

*MASBO recommends major reform of the education finance system as recommended by P.S. Minnesota to provide adequate financial resources commensurate with the high standards and expectations of the community and the challenges posed by demographic characteristics in each school district.*

##### **Basic School Funding Formula**

- *Learner Component that includes a base student weighting of 1.0 for all students in grades Kindergarten through grade 12; individualized adjustment factors for Free and Reduced lunch eligibility and/or English language learners; and a special education funding formula that uses a cost reimbursement approach based on current year funding.*
- *District Instruction Services Component that addresses district characteristics of size, market based labor costs differential, and enrollment decline.*
- *District Support Services Component that provides adequate resources for facilities maintenance, technology support, transportation services, desegregation, and targeted initiatives.*

##### **Additional Levy Authority**

- *Limited authority for boards of education to raise resources targeted at local program initiatives.*
- *Limited authority for voters to generate additional resources targeted at local program initiatives.*
- *Fair and affordable access to educational facilities through an equalized capital construction formula. State equalization should be measured against program sustainability standards developed by the state.*

#### **2. Transition to New Finance System**

*MASBO proposes that an appropriate plan be implemented for transition from existing funding formulas to a new funding framework that would hold school district harmless from substantial losses in revenues.*

#### **3. Interim Funding**

- *Until such time as a new funding framework is implemented, existing funding formulas need to be increased at least by an amount sufficient to adequately fund the basic cost of education.*

- *The general education funding formula increase of 1% for the 2008-2009 school year will not be adequate to fund the increased costs of educational programs. This formula amount needs to be increased in the 2008 session to an amount that reflects, at a minimum, an inflationary increase over the 2007-2008 formula amount of \$5,124.*

## ***Proposal #2 – Mandate Reduction and Simplification of Education***

### ***Finance System***

#### ***Background***

Minnesota's school finance system is very complex. The complexity makes it difficult to explain financial decisions and budgets to the public, and causes expenses for school district administration and accounting services to be greater than necessary. A few components of the aid formulas, such as special education excess cost and equity revenue, are so complex and/or so volatile that it is virtually impossible for school district personnel to predict revenues from those sources.

Some complexity is essential if the distribution of revenue is to be at all sensitive to local needs, demographic variations, tax base differences and preferences, distribution of children with severe disabilities, and so on. Minnesota's school finance system seems to be more complicated than the systems of other states.

We recognize that the new school finance proposal supported by the state's education organizations may well address many of these complex issues. This new proposal should be given full consideration as any new funding system is developed.

Within the finance system, there are areas that should be considered for simplification. MASBO has identified some of the areas, as follows:

- **Reporting requirements.** The Legislature should strive to eliminate reports that are of little value, and the Minnesota Department of Education (MDE) should streamline reporting procedures whenever possible. Reporting requirements require staff time at the school district and at the MDE to prepare reports and to review them. MASBO believes that the Superintendents Report on Projected Expenditures and Student Passage Rates is of little value and should be discontinued. Initially designed to provide information on the level of funding necessary to reach a high level of students passing the basic standards tests, this report is based on subjective estimates made in each district with no consistency between districts. No apparent use is made of the reports, and there is no evidence that the reports are read.
- **Data reporting systems.** The Department of Education collects data through six major electronic reporting systems:
  - UFARS (Uniform Financial Accounting and Reporting System, which collects revenue and expenditure data);
  - EDRS (Education Data Reporting System, which collects salary and pupil projection data);
  - STARS (Staff Automated Reporting System, which collects data on licensed and unlicensed staff); and
  - MARSS (Minnesota Automated Reporting Student System, which collects enrollment and demographic data)
  - EMAP (Electronic Minnesota Accountability Plan), which collects data for the NCLB/ESEA consolidated application process.
  - Career and Technical, which collects budget and expenditure data for the Career and Technical program.

There is overlap among these systems, particularly between UFARS, EDRS, STARS, and EMAP. MASBO recommends that the Department of Education make a concerted effort to

consolidate these four systems, by eliminating EDRS and using UFARS and STARS to collect salary data needed for categorical aid programs.

- **Reserve requirements.** Reflecting the complex categorical funding formulas, districts must maintain a number of designated reserves that must be held separately and used only for specific purposes. Maintaining these reserves adds complexity and sometimes causes confusion for members of the public. In many cases, maintenance of the reserves is valid and necessary, but many others have outlived their usefulness. Reserve requirements that have no current dedicated revenue streams and that should be abolished are:
  - Reserve For Area Learning Center Programs
  - Reserve For Contracted and State Approved Alternative Programs
  - Reserve For Cooperative Programs
  - Reserve For First Grade Preparedness
  - Reserve For Graduation Standards Gifted And Talented
  - Reserve For Certain Teacher Programs

Reserve requirements that have current dedicated revenue streams, but are cumbersome to administer and serve no practical purpose and should be abolished are:

- Reserve For Staff Development
  - Reserve For Gifted and Talented
  - Reserve For Safe Schools – Crime Levy
  - Reserve For Learning and Development
  - Reserve For Basic Skills Programs
  - Reserve For Deferred Maintenance
  - Reserve For Career & Technical
- **Health and safety approval process.** The process for gaining approval of health and safety projects has grown complex and time consuming.

First, school boards must annually approve a voluminous health and safety plan for the district, known as “Attachment 99.” This document contains far more detail than any governing board needs to review. To the extent that so detailed a plan is even necessary, MASBO sees no reason to require school board approval.

Secondly, the process for approval of specific projects has become far too laborious. The Department of Education requests far more information than necessary, and more than it has the staff to process in a timely fashion. As a result, school district personnel become frustrated as they encounter delays, and further frustrated over the amount of district staff time it takes to move through the approval process. Health and Safety projects are critical to the welfare of school occupants—students, staff, and parents—and districts have a limited time each summer to get these projects done. Administrative delays only make it harder to get the job done in the field.

- **Excessively complicated formula.** Sometimes school aid formulas are too complex for the uninitiated to comprehend; this is unfortunate, but sometimes necessary. However, when an important aid program is so complicated that professionals in the field are confused by it, the formula should be eliminated or replaced.

#### **Special Education Excess Cost**

The special education excess cost formula is a prime example. Many school district finance professionals are surprised—sometimes pleasantly, sometimes unpleasantly—to learn of a significant change in revenue available through this formula. Sometimes this discovery comes as much as two years AFTER the books have been closed for the school year in question. Further, the aid program is so volatile that even the Department

of Education cannot accurately predict a district's revenues. School districts must have simpler, more reliable, and more predictable revenue sources than this formula provides.

### **Transportation Expenditures**

Beginning with the 2005-2006 school year, Minn. Statute section 123B92, Subd. 5 requires school districts to allocate student transportation expenditures among transportation categories based upon miles, hours, or routes. This law change is intended to prevent some school districts from overstating transportation special education expenses eligible for the special education funding formula. However, districts with transportation contracts with private companies may be able to more accurately allocate transportation costs based upon transportation contract rates. When districts contract with private companies for transportation costs, they should be allowed to use the contract rates to allocate costs. A procedure should also be established to prevent any district from reporting excess transportation expenses as eligible for the special education funding formula.

### **Pension Subtraction**

A final component of the school finance formula that is an unnecessary complication is the "pension subtraction." This particular provision is a very difficult concept to explain to members of the public. In 1997, the Legislature amended the Public Employee Retirement Association (PERA) and the Teachers Retirement Association (TRA) contribution rates, resulting in a net savings in pension contribution outlays for school districts. However, under a 1997 law, the amount of the 1997 savings for each district is subtracted from general education aid that is due the district. The same amount is subtracted each year, totaling \$27 million statewide. (2006 Legislation reduces this subtraction by .5% of the TRA salaries paid in fiscal year 2007 for each district.) Since 1997 PERA rates have again increased, and will increase .25% each year through 2010, so the 1997 savings for school districts will be eliminated. This subtraction should be phased out, in the interests of simplicity and fairness, just as other "grandfather" provisions like the "interest lost" levy and transition revenue is phased out.

- **Recent Legislation** The 2007 legislature enacted several recommendations from the MASBO platform. Unfortunately, two mandates were added that pose a great burden for school districts to implement. 1) The Health and Human Services Omnibus Finance bill of 2007 requires school districts to provide information to each student on the availability of health care coverage through the health care programs and to provide an application and application assistance to families who qualify for a free or reduced priced lunch. As administered by the state, districts are also required to ensure that applications and information on application assistance are available at every early childhood education, preschool, daycare and Head Start program in the district. Districts must also designate an enrollment specialist to provide application assistance and follow-up services with families who are eligible for the free or reduced priced lunch program or who have indicated an interest in receiving information. This unfunded mandate is costly in terms of both dollars and staff time. 2) M.S.62L.02 as revised in 2007 changes the definition of dependent child for purposes of health insurance coverage. While the new definition broadens the number of young adults eligible for health insurance coverage, it creates a problem for school districts and other employers. Since the new definition does not match the federal definition, the cost of coverage will likely create a taxable event for the employee. The problem is: how can the employer know whether a particular individual qualified as a dependent as defined by the Federal tax code, and once that is determined, how does the employer calculate and assess the taxable cost to the employee? Determining eligibility and calculating and implementing taxable income to employees will place a great administrative burden on school districts.

## **Proposal**

MASBO recommends the following changes to simplify the school finance formulas:

1. *Reporting Requirements—Discontinue the required reports for Superintendent’s Report on Projected Expenditures and Student Passage Rates.*
2. *Data Reporting Systems—Require the Minnesota Department of Education to minimize overlap among the six major finance-related reporting systems, particularly between UFARS and EDRS.*
3. *Reserve Requirements—Abolish obsolete reserve requirements that no longer have dedicated revenue streams, and also abolish reserve requirements that needlessly complicate accounting and hinder districts’ flexibility.*
4. *Health and Safety Approval Process—Direct the Minnesota Department of Education to eliminate requirements for school board approval of detailed, technical documents such as Attachment 99; reduce the quantity of information required on health and safety projects; and streamline/speed up the approval process*
5. *Excessively Complicated Formula — Simplify or replace portions of the formula that are excessively complicated, such as special education excess cost aid and transportation cost allocation. Also, eliminate the pension subtraction, in the interests of both fairness and simplicity.*
6. *Health & Human Services - Rescind or fully fund the requirement that school districts notify all students on the availability of health care coverage.*
7. *Definition of Dependent Child – Revert to the federal definition of eligible dependent child to eliminate the administrative burden of implementing the coverage and tax consequences of the definition change.*

## ***Proposal #3 - Special Education Costs***

### **Background**

The 2007 Legislature made great progress towards adequately funding special education programs. The state's appropriation for special education aid for 2000-01 was not sufficient to fully fund the calculated aid formula, and the problem worsened each year. By 2006-07 the appropriation was only 79% of the amount needed to fully fund the regular special education aid formula, and only 50% of the amount needed to fund excess cost aid.

The 2007 Legislature substantially increased the special education aid appropriation to recognize seven years of inflation and to come closer to the amount needed to fully fund the formula. In addition, the 2007 Legislature converted the special education aid formula from a reimbursement formula for expenses incurred in the second previous year to a formula that funds current expenditures. Still, the appropriation for 2007-08 is only expected to fund 89% of the amount needed to fully fund the regular special education aid percentages specified in statute, and the appropriation for 2008-09 is only expected to fund 88%. The excess cost aid appropriation shortfall is even worse, with the proration expected to be 80% in 2007-08, and 71% in 2008-09. The situation will worsen going forward if future appropriations are not adjusted to fully consider rising costs. MASBO members fear that shorting the appropriation for special education will become a way to balance the state budget when state revenue shortfalls occur. Special education aid is the second largest aid program for Minnesota school districts, and it is critically important that it be fully funded so districts can count on this revenue when they develop their budgets.

School districts provide valuable services to special education students according to state and federal mandates, and the level of mandated services has steadily increased over the past 30 years. Students today come to school with more serious and costly needs, and the transportation costs to get them to school are increasing as well. The level of funding must keep pace with the increasing demand for services and the costs for these services.

### **Proposal**

*MASBO makes two recommendations with respect to special education funding:*

- 1. Establish an open and standing appropriation in the State budget to fully fund the legislatively set special education formulas, both the regular formula and the excess cost formula.*
- 2. Increase the level of funding for special education programs to the extent needed to phase out the general education cross-subsidy of special education. Special education funding could be increased by raising the percentage of salary of essential personnel that will be paid by the state, and by adding employee benefits to the reimbursable costs.*

## **Proposal #4 – Property Tax Relief/Equalizing Factors for Aid Formulas**

### **Background**

For many of the state's equalized aid and levy formulas, state law specifies an "equalizing factor," which is used to determine what proportion of each district's revenue will come from state aid and property tax levies.

In the early 1990s, the State made policy decisions regarding the relative levels of equalization for various aid and levy formulas. For example, the equalizing factor for referendum revenue was set at the same level as for general education. For debt service and health and safety revenue, the equalizing factor was set at 50 percent of the general education equalizing factor, based on the rationale that the state should not pay as high a percentage of the cost of these programs. These ratios remained fairly steady for several years.

Since fiscal year 1998, however, the equalizing factors for the first tier of debt service aid, health and safety, and referendum revenue have either stayed the same or declined. At the same time, property values statewide have risen dramatically. For example, in just the six years from 2000 to 2006, the state total of adjusted net tax capacity increased by 90.3%. As a result, the percentage of funding provided by the state in these categories has steadily eroded.

These trends have had several effects on school districts.

1. While the state now pays 100 percent of basic general education revenue, the state share of other revenue categories – especially debt service and health and safety – has declined dramatically.
2. For the revenue categories with lower equalizing factors (health and safety, first tier of debt service aid, and second tier of referendum aid) many districts no longer qualify for state aid, because their tax capacity per pupil unit has grown, while the equalizing factors have declined. Even districts which still receive aid receive a much smaller proportion than they did five years ago.
3. Since revenue and tax rates for these categories of levies vary among districts, the inevitable result of these changes is greater disparity among districts in total school tax rates.

There does not appear to be a valid state policy rationale for these trends. Instead, they appear to be unintended results of an attempt to simplify the system.

### **Proposal**

*MASBO proposes that the equalizing factors for debt service, health and safety, and referendum revenue be increased so that state aid represents approximately the same percentages of these revenue categories that existed in fiscal year 1998. In future years, the equalizing factors should be adjusted each year at the same percentage rate as the growth in market values.*

*The additional state aid required for this proposal should be viewed by the State as a property tax relief cost, and not as additional school district revenue.*

## **Proposal #5 – Funding Capital Projects**

### **Introduction:**

The Minneapolis I35 bridge collapse on August 1<sup>st</sup> reinforces the need for all levels of government to develop a financial plan to adequately maintain public facilities, highways and roads.

While public education may not be faced with a dramatic consequence such as a bridge collapse, adequate funding for maintenance of school facilities is a major issue that must be addressed. Funding for maintenance and repair programs has been a long-standing problem. The Minnesota Department of Education, in a study completed in the late 1990's, projected that \$2.4 billion in district facility repair and replacement work was needed by the year 2009. Given that capital funding formulas have not changed since the time of that study the number has undoubtedly grown.

The growing inventory of deferred maintenance is exacerbated by state set funding limits. Once a school is built local districts have very limited access to adequate facility maintenance funding. If not eligible for the Alternative Facilities Bond and Levy Program, a district must depend upon voter support to fund major facility maintenance projects. The need for voter approval should be limited to providing funds for new construction or for funds to change the purpose for which the building was constructed, not for maintaining the building once constructed. Local school boards should have access to adequate financial tools to equip the classrooms and to fund the recurring cost to maintain the facilities constructed with voter support.

### **Background:**

An adequate maintenance budget not only provides for a more habitable facility, but also protects the investment of the public in the property. Improved access to resources to fund deferred maintenance projects will save taxpayer dollars by avoiding payment of interest on long-term debt, provide a better learning environment for students, enhance local control, and give school boards the ability to properly maintain safe school facilities.

### **Two Percent of Replacement Cost Minimum Required Facility Maintenance Budget:**

The National Research Council<sup>1</sup> states

*"An appropriate budget allocation for routine Maintenance and Repair (M&R) for a substantial inventory of facilities will typically be in the range of 2 to 4 percent of the aggregate current replacement value of those facilities."*<sup>2</sup>

Based on a replacement cost of approximately \$200 per square foot, local districts should budget annually for facility maintenance at a minimum 2% of replacement cost or \$4.00 per square foot.

*"Although a building's performance inevitably declines because of aging, wear and tear and functional changes, its service life can be optimized through adequate and timely maintenance and repairs. Conversely, when maintenance and repair activities are continuously deferred, the result can be an irreversible loss of service life."*<sup>3</sup>

<sup>1</sup> The National Research Council

The National Research Council is part of the National Academies, which also comprise the National Academy of Sciences, National Academy of Engineering and Institute of Medicine. They are private, nonprofit institutions that provide science, technology and health policy advice under a congressional charter. The Research Council was organized by the National Academy of Sciences in 1916 to associate the broad community of science and technology with the Academy's purposes of further knowledge and advising the federal government.

<sup>2</sup> National Research Facilities Corporation, Facilities Maintenance Management w/ Change 1 (4/21/04) "Backlog of Maintenance and Repair (BMAR)"

<sup>3</sup> The National Research Facilities Corporation, Facilities Maintenance Management, (4/21/04) "Backlog of Maintenance and Repair (BMAR)"

Current Formulas Fall Short:

With the exception of districts eligible for the alternative facility levy and bond program, current resources available to schools to fund facility maintenance come nowhere near two percent (2%) of replacement cost. Consider the following:

- **Operating Capital:** Operating capital revenue, which is used to fund both facility and equipment needs, has remained essentially unchanged since 1992 while the costs to maintain facilities have dramatically increased. For example, the cost to replace a roof has increased from less than \$4 to more than \$10 per square foot over this period. Replacing a single classroom unit ventilation system has risen from \$12,000 to \$25,000 over the same period. Districts are trying to fund projects at 2007 costs with 1992 dollars and by necessity are trading off the cost of a significantly expanded technology program and classroom equipment and textbook purchases, against facility maintenance needs such as roof replacement, exterior tuck pointing, mechanical system maintenance, electrical system updates, window replacement, painting, etc. resulting in an ever increasing backlog of deferred maintenance costs. It is impossible for school districts to adequately fund building maintenance costs using a formula based on 1992 purchasing power.

Operating capital revenue, to fund *both* equipment purchases and facility maintenance, currently provides an average \$206 per pupil or \$1.18 per square foot. Updating the formula to 2007 dollars, based on the change in the PPI (Producer Price Index) for Construction Material and Components, would require that the average revenue per pupil be increased to \$315 per pupil unit.

- **Capital Facility Bonds:** To secure adequate funds for a project districts will borrow against future year budgets by issuing *capital facility bonds*. Currently such bonds are limited to a maximum maturity of ten years, a significant limitation for districts funding more expensive projects.
- **Health and Safety Levy:** This is very narrowly defined, highly controlled source of funding and does not provide resources for non-life safety needs such as roof repairs, depth of swimming pools, electrical system updates, boiler maintenance or replacement, replacement of steam traps, etc. Use of the levy is strictly limited to life safety projects each of which must be specifically approved by the MDE.
- **Alternative Facilities Bonding and Levy Program:** This program is currently limited to 20 larger districts meeting the statutory requirement (MS 123B.59), representing 41% of state enrollment or 36% of total square footage. A district qualifies if it has over 1,850,000 square feet of space and the average age of building space is 15 years or older or over 1,500,000 square feet and the average age of building space is 35 years or older. Under this program qualifying districts may use the funds for health and safety projects without restriction as to project size; eliminate disabled access barriers; and fund deferred capital expenditures and maintenance projects necessary to prevent further erosion of facilities. During fiscal year 2007-2008 qualifying districts are spending on the average \$2.57 per square foot under this program.

Districts must provide the MDE a ten year plan, updated annually. Use of this levy is highly controlled and is limited to projects approved by the MDE.

In order that all districts have access to adequate money to fund deferred maintenance, it is essential the square footage limitation be lifted and the average age component be reduced from 35 years to 25 years. In a 25 year-old building, the need for repair and replacement accelerates. Roofing, lighting systems, floor coverings and HVAC systems are now beyond their life expectancy. According to the MDE building age report the average age of Minnesota schools is about 31 years, a point when maintenance expenses begin to grow. When a building reaches 25 years, it is at a point where proportionally more maintenance is required to keep the facility in good condition.

Elimination of the 1.5 million square footage requirement and reduction of the age component would provide districts with aging buildings the financial tools to maintain them.

- **Deferred Maintenance Levy:** This levy was implemented by the 2005 legislature providing up to \$60 per pupil unit to fund deferred maintenance needs, with a lesser amount if the average age of the district's facilities is less than 35 years. The 20 districts qualifying for the alternative facility program do not qualify for this funding. The average age of school buildings in Minnesota is a bit over 31 years, dropping the funding from a maximum of \$60 to an average of \$48 per pupil unit or \$.25 per square foot, well short of the resources needed to adequately cover facility maintenance needs.
- **Instructional Lease Revenue:** Providing up to \$100 per resident pupil unit, this levy is unchanged since the early 1990's. Proceeds are used to fund the cost of lease payments or lease purchase payments to provide facilities for instructional programs. Lease costs follow construction costs which have increased by approximately 60% since 1990. In addition, districts are under considerable community pressure to provide all day kindergarten but do not have the adequate space. Special education students, due to lack of classroom space, are shuttled off to corners, conference rooms and closets. As with other capital funding levies access to this levy is tightly controlled by the MDE. The purchasing power of the levy cap must be brought up to 2007 dollars, and in addition, further increased to accommodate the demands of all day kindergarten and special education.

Inadequate maintenance of schools can impact the school climate and student learning. Poor lighting, poor indoor air quality, lack of reliable mechanical and adequate electrical systems, leaky roofs, and energy inefficient buildings all have a negative impact on the student learning environment.

### ***Proposal***

MASBO offers the following proposals to provide locally elected school boards with the resources needed to protect the public's investment and to provide a quality learning environment for students.

1. *Update the Operating Capital per pupil allocation (not increased since 1992) to 2007 dollars (average of \$315 per pupil unit); in subsequent years annually increase the Operating Capital allowance based upon the Bureau of Labor Statistics Producer Price Index for Construction Materials and Components.*
2. *Expand the Alternative Facilities Bond and Levy Program by eliminating the 1.5 million square foot limitation and reducing the average age component from 35 years to 25 years. Fully equalize the alternative facilities levy.*
3. *Increase the maximum maturity of Capital Facilities Bonds from 10 years to 15 years.*
4. *Expand the Health and Safety program or provide separate programs to address energy efficiency improvements for school buildings and ADA improvements.*
5. *Update the cap on the lease levy authority (not changed since the early 1990's) to 2007 dollars from \$100 to \$175 per resident pupil unit for local school districts and increase the levy for districts belonging to an intermediate agency from \$25 to \$50. In subsequent years increase the allowances by an inflation factor to accommodate increased costs of acquiring instructional lease space.*

## **Proposal #6 – Medical Insurance**

### **Background**

Like many other costs, medical insurance costs are rising in all Minnesota school districts. Many districts have experienced double-digit increases of over 30% per year during the past several years. Factors contributing to these increases are similar to many businesses and organizations – higher claims resulting from an aging population, technology improvements, mandated benefits, and higher prescription drug costs.

Many school districts have reduced policy and contract benefits in an attempt to control health care costs. These changes require employees of the district to contribute more toward the cost of health care so that future premium increases are limited. School districts are affected more than other public organizations because of the demographics of their employees and their retirees who are covered by their health plans. Retirees, women in childbearing years, and an older population in the school workforce have resulted in many high usage claims for school districts.

School districts are required by Minnesota Statute 471.61 to allow retirees and their dependents to continue in group medical and dental insurance plans indefinitely. Under this same Statute, school districts are required to pool their retirees in the same group as active employees until the retirees are eligible for Medicare benefits. M.S. 471.61 also specifically excludes school districts from the list of governmental subdivisions eligible to levy for health insurance premium increases (cities and county governments can levy for premium increases). School districts should be able to levy for these premium increases as in the same manner as these other governmental units.

These mandates result in districts having higher claims costs - further adding to premium increases. Since 2007, cities, counties and school districts are required under GASB 45 to recognize the liability of future retirees' insurance payments. In addition, GASB 45 requires cities, counties and schools to recognize the actuarial age-related impact retirees have on group health rates (implicit rate subsidy).

Despite the efforts of school districts to control their health care costs by reducing benefits and limiting or freezing contribution dollars, many districts are still experiencing large rate increases because of high claims, increased cost of prescription drugs, and retiree costs which are out of the district's control. **Reductions in health care costs should be a result of systemic changes, not those changes which target one group.**

### **Proposal**

*MASBO acknowledges the findings and conclusions of the Post Retirement and Active Employee Health Care Task Force Report dated December 2000, the Towers Perrin Statewide Health Care report dated December 1999, and more recently the governor's veto of the mandatory statewide school district health insurance bill in 2007. The two reports studied health care in the Minnesota public sector. The governor's veto message addressed many of the issues and problems that would occur with a mandatory statewide health insurance program that was studied in the 2004 Reden and Anders Task Force Report. To assist school districts in this area, MASBO makes the following recommendations with respect to Medical Insurance:*

1. *GASB 45, requiring cities, counties and schools to actuarially calculate the liability for retiree health care, identifies the impact on group health rates of the state mandate (M.S. 471) to offer health insurance coverage to retirees. Local school districts should be authorized to levy for the actuarially determined "implicit rate subsidy" that is created by retiree participation in the*

*group health plan and for any other costs of mandated retiree insurance, including contractual costs.*

*2. Allow school districts the authority to levy under M.S. 471.61 for health insurance premium increases just as other governmental units are authorized to do.*

*3. The State should fund a statewide reinsurance plan for high claims for school districts (claims greater than \$25,000 for groups of 100 or less participants on a sliding scale up to \$150,000 for groups of 1500 or more participants, depending on School District size).*

## ***Proposal #7 – Funding Options for Other Post-Employment Benefits***

### ***Background***

Under accounting standards, health insurance and other benefits paid to retirees are referred to as “other post-employment benefits” or OPEB. New governmental accounting standards (GASB Statements No. 43 and 45) will significantly change how the costs of OPEB are measured and reported on financial statements for school districts and other governmental units. The new standards are being phased in over the next three years.

For some school districts, the new accounting standards will require that significant liabilities and costs be recognized in the districts’ financial statements.

There are some steps that districts can already take to reduce their OPEB costs, chiefly by negotiating reductions in benefits for retirees, transitioning coverage from defined benefit plans to defined contribution plans, and reducing premium costs through changes in health plans.

However, there are other methods of reducing OPEB liabilities which would require changes in state law.

- The most pressing change needed is authority for school districts and other government units to establish irrevocable trusts to fund OPEB. The GASB standards strongly encourage the establishment of such trusts; if a district sets funds for OPEB aside in an irrevocable trust, they are allowed to change the actuarial assumptions and reduce their liability. However, a recent Attorney General’s letter stated that such trusts are not permissible under Minnesota law.
- The ultimate costs of these liabilities could be reduced if OPEB funds could be invested in higher yielding investments that are currently permitted for pension funds, but not for other governmental funds. MASBO believes that the Legislature should give governmental units options to invest directly in investments currently authorized for state pension funds. One reasonable option would be to allow political subdivisions to transfer funds to the State Board of Investment to be invested in a broader choice of investments.
- Current law requires that retirees participating in the district’s health insurance plan be included in the same “pool” as active employees for purposes of determining premiums. This is likely to increase the premium paid for active employees. The new accounting standards require that this “implicit rate subsidy” be measured and included in the district’s liability, even if the district does not pay for the retiree health coverage.

A bill to authorize school districts to establish irrevocable OPEB trusts was introduced in the Legislature in 2007 and was included in the Omnibus Tax Bill, after review and approval by a number of committees in both the House and the Senate. The bill allowed such trusts to be formed either through an agreement with a private sector trustee, or through the Public Employee Retirement Association. This provision also allowed OPEB funds to be invested in higher yielding investments similar to pension funds. Unfortunately, the tax bill was vetoed for reasons unrelated to the OPEB trust issue, so the issues of trust formation and broadened scope of permissible investments remain unresolved for political subdivisions in Minnesota.

### ***Proposal***

*MASBO proposes the following changes in state law, to give school districts and other local governments more flexibility in reducing OPEB liabilities and costs.*

1. *Local governments must be given clear statutory authority to set up irrevocable trusts to set aside funds to cover OPEB liabilities.*
2. *Local governments should be allowed to invest the funds in OPEB trusts through a trustee or through the State Board of Investment in a broader range of investments, consistent with the investments allowed for pension funds.*
3. *Insurance laws should be changed to allow retirees to be separated from active employees in calculation of premiums.*
4. *School districts should be given levy authority to recover the costs of mandated retiree insurance (similar to the Health Benefits Levy and the Health Insurance Levy of 1992 and 1993).*

*Since large school districts must report their OPEB obligations for the first time in Fiscal Year 2008, it would be beneficial to enact OPEB legislation in a separate bill early in the 2008 Legislative Session, so the affected districts have time to establish trust mechanisms.*