



## **Minnesota Association of School Business Officials Position Paper Balancing the State's Budget – 2009-2011**

### **Background**

The November 2008 economic forecast indicates that the state will face a shortfall of at least \$4.847 billion in the 2009-2011 biennium. Because the Minnesota Constitution requires that each biennium's budget be balanced, the state must find ways in this legislative session to reduce expenses and increase revenues to offset the projected deficit.

The percentage of the State's budget spent for K-12 Education, while significant, has decreased in recent years. Only a few years ago, K-12 Education represented 45% of the State budget. For the current biennium it is 40% of the budget, and is forecast to shrink to 38% of the budget in the next biennium, even though enrollment is projected to increase. At the same time, there are other areas of the state budget growing at a faster rate than K-12.

The December 2008 report of the Minnesota Budget Project called "The Lost Decade: Taking a Closer Look at Minnesota's Public Investments in the 2000s" confirms that state investments in E-12 education have declined slightly since 2003. While in 1987, Minnesota was ahead of the national average on per-pupil spending by 11%, by 2006, our spending was just average. Even more alarming, among the thirty-seven states that report graduation rates, Minnesota ranks dead last in graduation rates of black students.<sup>[1]</sup>

Up to 85% of K-12 resources in school districts are used to pay salaries and benefits of staff who provide direct instructional services to students, or to support the students or instructional staff. If K-12 funding is cut, districts will have little choice but to cut the services they provide to students. Additionally, about 20% of district expenses are to provide special education services which are mandated by federal and state law. Because of these mandates, special education programs would be exempt from most cuts.

Minnesota school districts are constrained by PELRA laws that set the parameters for collective bargaining and permit public employees to strike. These laws hamper the ability of school districts to limit salary increases, regardless of economic circumstances of the state or the district.

The revenue that school districts receive through the general education formula has decreased by \$1,087 per pupil unit between 1991 and 2008, when adjusted for inflation.<sup>[2]</sup> As a result, districts have been forced to be creative in reducing expenses and enhancing revenues. According to MDE, the average referendum revenue per pupil has increased from \$231 to \$919 (not adjusted for inflation) over the same period in attempts to offset real revenue losses. Districts have banded together to provide cooperatively operated programs for special education services, purchasing cooperatives, on-line learning, staff development, transportation, food service, building operations, and technology. They have established and nurtured foundations as fundraising resources, increased grant-writing, and sought partnerships with businesses. More cooperative ventures like these can and should be encouraged.

At the state and national level, the point is being made that the need is great to "create" or "grow" jobs in order to right the economy. A significant factor in job growth is a well-trained workforce, which can only be achieved by continued and increased investment in education. The findings of a recent report on State Budget Trends states: "Historically, Minnesota has had a very well educated population, with a high percentage of the population having a high school diploma. High school graduation rates, however, are declining in Minnesota and throughout the United States. This decline will threaten our ability to compete in the global economy."<sup>[3]</sup> Now, more than ever, it is imperative that sufficient resources be provided to K-12 Education in order to meet both state and NCLB standards.

Since the early 1980's the school district property tax recognition shift and the aid payment percentage shift have been a significant part of balancing the state budget every time a major shortfall has occurred. These tax and payment shifts are a one-time fix and will require additional

future resources to buy back, thereby deferring to a future generation the real cost of funding education today. In addition, the shifts increase real costs for districts in borrowing costs, especially in markets unfavorable to short term borrowing.

## **Recommendations**

MASBO makes the following recommendations regarding budget cuts for the 2009-2011 biennium:

- *Provide financial incentives to school districts to combine.*
- *Provide additional opportunities for cooperative purchasing, and incentives for business/district partnerships.*
- *Give school districts flexibility in spending mandated set-asides, such as 2% staff development, or learning and development funds. Eliminate unnecessary reserves such as those for Alternative Learning Centers. For the next two years, allow districts to: use operating capital for general expenditures; transfer debt service excess to the general fund, and, by board resolution, opt out of other statutory set asides and transfer fund balance reserves to the general fund. This would increase revenue available to meet the operating needs of districts using existing resources.*
- *Freeze salary schedules for 2009-2010, and 2010-2011 at the 2008-2009 levels, and freeze district insurance contributions at the current contract levels (2008-2009). Incremental steps and lateral movement will be allowed honoring the continuing contract statute. Younger teachers would receive salary increases while older teachers (longevity type) would not receive increases unless eligible for a longevity increment. Alternately, remove the right to strike for at least two years for all public employees, and allow binding arbitration at the request of either party, and require the arbitrator to take districts' financial condition into consideration.*
- *Eliminate state support to nonpublic schools for textbooks, nurses and counselors. The constitutional mandate of a free and uniform system of schools does not require support of a nonpublic system.*
- *Since districts are restricted by law and contracts as to when layoffs may occur, enact changes early in the legislative session to give districts the opportunity to act early and responsibly.*

- 1 The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, provides independent research, analysis and advocacy on budget and tax issues, emphasizing their impact on low-and moderate-income Minnesotans and the organizations that serve them.
- 2 Association of Metropolitan School Districts "Minnesota K12 General Education Formula History", August 12, 2008.
- 3 The graduation rates cited are provided by the Office of the State Demographer. There is currently not a clear consensus on the methodology for measuring graduation rates. The federal government is working on rules to standardize the methodology. The Minnesota Department of Education is moving toward the use of the National Governors Association Graduation Rate. The NGA rate is a four-year, on-time graduation rate agreed to by all 50 states. This methodology results in lower graduation rates than those provided above. More information can be found on the MDE website at [www.education.state.mn.us](http://www.education.state.mn.us).

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