



Minnesota Backslide: School Aid Cuts on the Horizon Executive Summary

Despite increases in recent years, real per pupil state aid to Minnesota school districts has declined since 2003. In inflation-adjusted dollars, 93% of all 330 Minnesota school districts receive less aid per pupil today than in fiscal year (FY) 2003. (Unless otherwise noted, amounts in this report are adjusted for inflation and expressed in constant FY 2019 dollars.¹) In over three-quarters of all districts, the loss exceeds five percent of FY 2003 per pupil aid; in nearly half of all districts, the loss exceeds ten percent. This decline in state aid translated into significant property tax hikes and—in many instances—reduced funding for public education. To compound matters, projections based on current state law indicate a significant decline in real per pupil school aid for FY 2020 and 2021.

During the 2001 legislative session, the state made numerous changes to the property tax and state aid system, and virtually eliminated the statewide general education property tax levy. The revenue that school districts lost due to the near elimination of the general education levy was replaced with a large increase in state operating aid. These changes were implemented in FY 2003.

In FY 2003, state aid comprised nearly 92% of total per pupil operating revenue of \$12,327. Facing subsequent state budget deficits created in large part by lost revenues from tax cuts in previous years and an aversion to tax increases, the Legislature and Gov. Tim Pawlenty reduced real per pupil state aid to school districts.

Over the next decade, total real per pupil state aid declined by \$2,063 or 18.2 percent. Nearly half of this decline occurred from FY 2003 to 2005, with aid losses slowing in subsequent years. School districts recouped about half of the total aid loss through increases in local property tax levies.

The Legislature and Governor Mark Dayton approved a significant increase in school funding, which boosted per pupil state operating aid by nearly 10% from FY 2014 to 2016. The increased aid—combined with little change in levies—resulted in a significant increase in total per pupil operating revenue over these two years and replaced nearly half of the net loss in aid to school districts from FY 2003 to 2014.

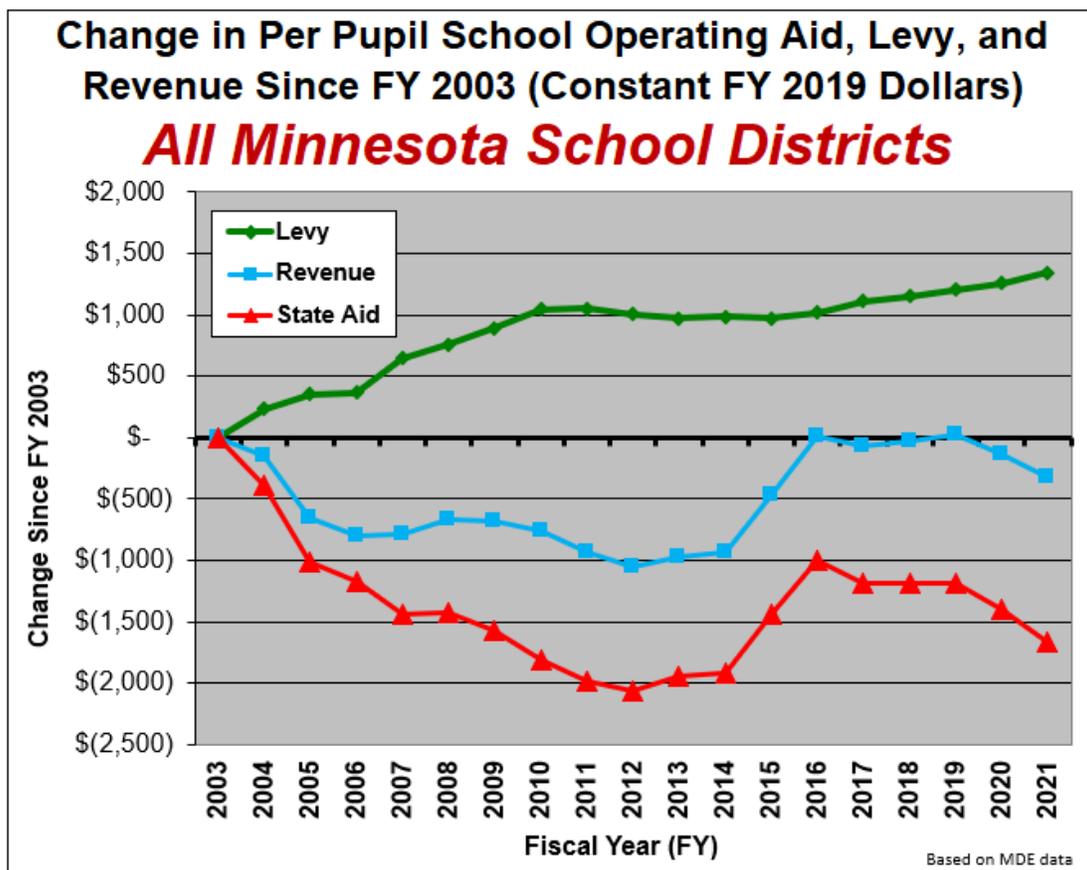
In over 97% of all districts, school property tax levies are higher today than in FY 2003. In most districts, the levy increase is large, as a combination of voter-approved property tax increases or board-authorized levy hikes replaced lost state aid. In three-quarters of all districts, per pupil operating levies more than doubled over this period. In over half of all districts, they more than tripled.

During the 2018 legislative session, Governor Dayton proposed a one-time “[emergency aid](#)” increase of \$138 million to Minnesota public schools. This proposal would have boosted statewide school aid by \$156 per pupil in FY 2019, a 1.5% increase above the current law level. However, the legislature rejected the Governor’s proposal.

¹ Inflation adjustments in this report are based on the Implicit Price Deflator for State and Local Government Purchases.

This report makes no attempt to identify all of the various factors that contribute to changes in state aid over time. However, one overarching trend is worth noting: while state policymakers often provided a nominal increase in state assistance to school districts, in most years since FY 2003 these increases have not been sufficient to keep pace with inflation in the cost of the goods and services that school districts must purchase. The result has been a decline in the real purchasing power of the dollars that school districts received from the state. This in turn has led to a combination reductions in the inflation-adjusted revenue of school districts and increases in school property taxes. This condition exists because state funding for Minnesota school districts is not routinely adjusted for inflation.

Because school operating aid is not explicitly adjusted for inflation, the real per pupil purchasing power of these dollars is expected to decline again in FY 2020 and 2021 under current law. FY 2021 per pupil aid is expected to be \$481 or 4.7% less than it was in FY 2019. Meanwhile, per pupil levies are expected to increase by \$137 or 6.2% and per pupil operating revenue is projected to decline by \$344 or 2.8%. To keep pace with inflation, the nominal FY 2019 per pupil state aid to public schools will need to increase by approximately three percent in each of the next two years, based on current inflation projections. Any growth less than this will result in further erosion of the purchasing power of school operating aid.



Full report, appendices, and fact sheets for individual school districts are available online at www.northstarpolicy.org/school-aid-report