REPORT # 00-04

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# OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

PROGRAM EVALUATION REPORT

# School District Finances

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FEBRUARY 2000

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# Office of the Legislative Auditor

State of Minnesota • **James Nobles, Legislative Auditor**

**February 2, 2000**

Members
Legislative Audit Commission

Last year, many school district officials informed legislators about budget problems their districts were experiencing. In allocating funds for the next two years, the 1999 Legislature gave K-12 education high priority. However, some legislators wondered how significant and widespread school district financial problems were and raised concerns about how previous funding increases had been used by school districts. As a result, in late April, the Legislative Audit Commission directed us to study financial and staffing trends in Minnesota's school districts.

We found that, although fund balances declined in most school districts last year, the overall financial condition of most districts improved during the 1990s. There was modest revenue growth, which was used to increase district fund balances and to provide additional funding for regular instruction, special education, and instructional support. In the last three years, school districts generally used the growth in spending to reduce the number of students per teacher. Salaries did not contribute to the statewide growth in spending, although they may have been a factor for some districts.

While most school districts enjoyed improving financial conditions during the 1990s, some districts did not. There is no single factor that explains why some districts experienced budgetary problems. But some of the problems may be due to declining enrollment, which is affecting an increasing number of school districts.

This report was researched and written by John Yunker (project manager), David Chein, and Judy Randall, with research assistance from Beth Haney. We received full cooperation from the Department of Children, Families & Learning and many school districts around the state.

Sincerely,

*/s/ James Nobles*

James Nobles
Legislative Auditor

*/s/ Roger Brooks*

Roger Brooks
Deputy Legislative Auditor

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**Evaluation Report Summary: PE00-04**

**OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

# School District Finances

February 2, 2000

## Major Findings:

**There is not a statewide financial crisis in K-12 education, but some school districts are experiencing financial difficulties.**

- The financial condition of school districts has generally improved during the 1990s. (p. 43 and p. 75 in the full report)*
- Although over one-third of the districts report making budget cuts this year (p. 69), the statewide teacher-student ratio is expected to hold at or near the high reached last school year. (p. 71)
- More districts added academic courses or programs this school year than eliminated them. (p. 70)
- Inflation-adjusted general fund revenues per student increased modestly during the 1990s, with most of the growth occurring after 1993. (pp. 25-26)
- Districts used the growth in revenues to increase fund balances and to provide more funding for instruction and related activities. (p. 31 and p. 33)
- Part of the growth in spending resulted in increased teacher-student ratios in kindergarten and other elementary grades, particularly in the last few years. It is unclear how staffing ratios in secondary schools have changed. (p. 50)
- Spending on special education also increased during the 1990s due to a substantial increase in the number of students with emotional or behavioral problems, rising transportation expenses, and growth in programs for preschool children. (p. 31)
- Average salary growth has not been a major cause of statewide spending growth. Even though many individual teachers have received salary increases in excess of inflation, the statewide average teacher salary has decreased slightly in inflation-adjusted dollars. Retirements, the hiring of additional teachers, and a slight inflation-adjusted decline in salary schedules have kept statewide average salaries from growing. (pp. 52-57)
- While no single factor explains why some districts have experienced declining fund balances or had to cut spending, the factors may include declining enrollment, low staff turnover, growing special education or transportation costs, inadequate management practices or fund balance policies, and the less favorable impact of state funding formulas on some districts. (pp. 78-80)

*For the full evaluation report, *School District Finances* (#PE00-04) which includes the agency's response, call 651/296-4708 or download from:

**www.auditor.leg.state.mn.us/ped/2000/PE0004.htm.**

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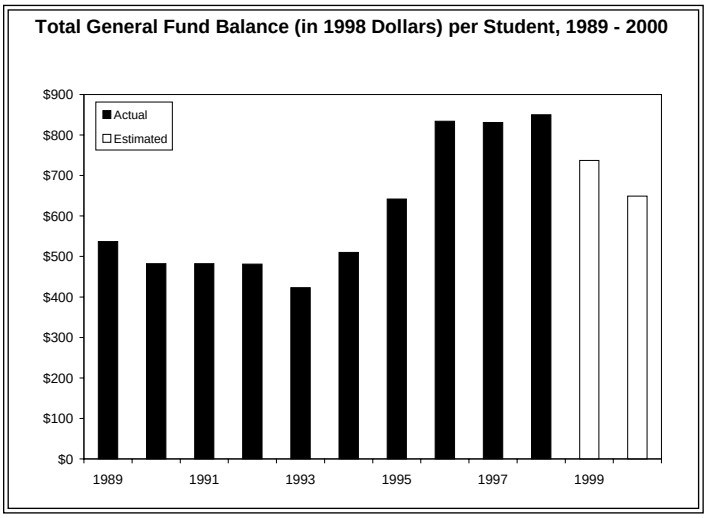
# Report Summary:

**Although fund balances declined in 1999, they have generally grown during the 1990s.**

School districts are generally in better financial shape than they were ten years ago. Inflation-adjusted spending per student increased modestly during the 1990s. In addition, fund balances and teacher-student ratios rose statewide. Despite this general improvement, some districts experienced financial problems due to a variety of factors. Declining enrollment seems to be affecting more districts in the last two years and causing some of the financial stress.




## School District Finances Improved During the 1990s

School districts generally experienced improving financial conditions between 1989 and 1998. Inflation-adjusted general fund revenues per student increased modestly. The growth in revenues was used to significantly increase fund balances and to provide some growth in spending. The number of teachers and other licensed staff per 1,000 students also rose to levels not seen for at least 20 years.

Most of the improvement in school district finances has occurred since 1993. For the first few years of the 1990s, fund balances declined and the number of districts in statutory operating debt increased. Inflation-adjusted spending per student also dropped slightly. Since 1993, there has been a reversal of the trends experienced during the early 1990s. Financial conditions in 1998 were much better than at the start of the decade.

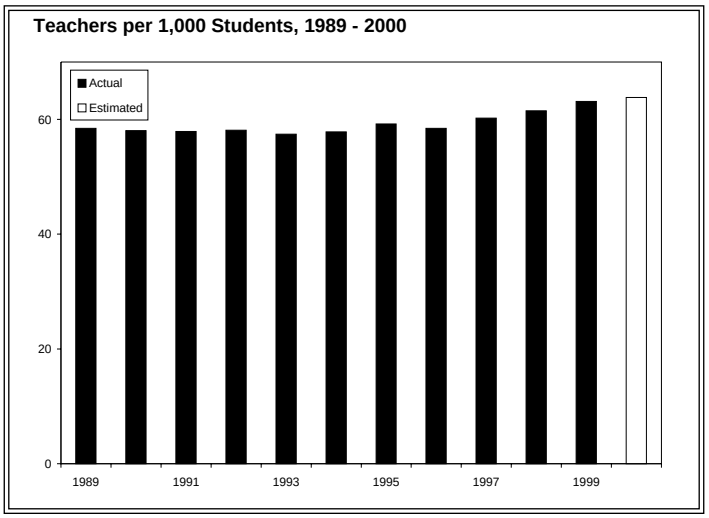
Some worsening of financial conditions occurred during 1999 and may be occurring this school year as well. Fund balances decreased during 1999, and school districts project a further decline this year. In addition, the number of districts in statutory operating debt increased. Despite this worsening of financial conditions, districts are generally in better shape than they were ten years ago.

Over one-third of school districts reported that they made budget cuts this year. However, spending per student does not appear to have decreased. Preliminary estimates indicate that the number of teachers and other staff per student will be near the highs reached in 1999. In addition, during the current school year, more districts added academic courses or programs than eliminated them.

## Districts Have Placed Additional Resources into Instruction

Most of the growth in school district general fund spending during the 1990s has gone into increasing instructional staff and other instructional resources. In recent years, districts have responded to legislative funding initiatives to reduce class sizes in kindergarten and certain other elementary grades. As a result, there are fewer students per teacher in elementary schools. It is unclear how the number of students per teacher have changed in secondary schools.

Special education spending has also grown during the 1990s. A substantial




**Spending growth has been used to increase instructional resources.**

increase prior to 1996 in students identified as having emotional or behavioral disorders is the most significant factor behind the growth in special education spending. Other factors include rising transportation expenses, growth in programs for preschool children, increased spending on support services such as those provided by social workers and psychologists, and substantial growth in the numbers of autistic children and children with various health impairments.

Spending on instructional support activities has also risen over the last ten years. Instructional support includes expenditures on curriculum development, computer assisted instruction, libraries and media centers, and assistant principals.

## Salaries Have Not Been the Source of Statewide Spending Growth

During the 1990s, average salaries of teachers and other licensed staff declined slightly in inflation-adjusted dollars. The decline in average teacher salaries occurred even though many individual teachers saw their salaries increase faster than inflation. The hiring of new teachers in response to enrollment growth and to reduce class sizes helped to keep the average teacher salary from growing faster than inflation. In addition, teacher salary schedules tended to increase a little slower than inflation.

While salary growth has not been a source of statewide spending growth, it has been more of a factor for some districts. Four-fifths of districts that consolidated between 1989 and 1999 experienced an increase in average inflation-adjusted salaries for licensed staff. A majority of other districts outside the Twin Cities metropolitan area also experienced growth in average salaries.

## Some Districts Have Experienced Financial Problems

While most school districts have enjoyed improving financial conditions during the 1990s, some districts have not. About one-sixth of the districts experienced a decrease in inflation-adjusted expenditures per student between 1989 and 1998, and about one-third had declining fund balances per student. Others have needed to make budget cuts in order to maintain their fund balances. The number of students per teacher rose in about one-fourth of all school districts.

There is no single reason that explains why some districts have experienced financial and budget difficulties and other districts have not. Differences in management practices, fund balance policies, the growth in costs, and the impact of state funding formulas all have an effect on the financial health of districts. In addition, districts vary in the extent to which they can afford to keep pace with salary settlements in other districts. A district having low staff turnover is more likely to experience financial problems, particularly if it attempts to match salary settlements in other districts.

Declining enrollment may also explain some of the problems experienced by districts during the 1990s as well as the greater number of concerns expressed by districts this last legislative session. While enrollment has increased during the

**Declining enrollment is one of the factors contributing to financial problems in some districts.**

1990s, more districts are beginning to see their enrollment reach its peak and begin to decrease. Preliminary estimates suggest that, in the last two years, close to two-thirds of all school districts experienced a decline in enrollment. While enrollment in charter schools, home schools, and other alternatives to public school enrollment has increased, this factor does not appear to be the primary reason why enrollment is declining in many districts.

Declining enrollment puts financial and budgetary pressure on districts because school districts must cut the least senior and lowest paid teachers first. As a result, districts may have to make larger percentage reductions in staff than the decline in enrollment and revenues. It can also be difficult for districts with declining enrollment to make cuts in building and transportation expenditures proportionate to enrollment decreases.

### Some Important Questions Remain

Some important questions cannot be answered by an examination of financial and staffing trends.

Although spending has grown modestly during the 1990s, it is unclear whether current spending is adequate to educate today's students or whether public schools are making the most of the revenue available to them. Clearly, school districts are now facing a student population that is more challenging to serve than students ten years ago. In addition, expectations that citizens and policy makers have for the performance of public schools have risen. But, whether funding is adequate to serve the current student population and meet expectations is not an easy question to answer.

It is also difficult to say what level of funding schools will need in the future to maintain their current staff-student ratios and performance levels. Much will depend on the salaries necessary to attract and retain quality teachers and other staff. In addition, future trends in other costs and in the size and composition of the student population will be important.

## Summary of Agency Response:

In a letter dated January 21, 2000, Commissioner Christine Jax of the Department of Children, Families, and Learning wrote: "In our view, the report accurately and fairly portrays the major trends in school district finances since 1989."

She also said the department was "pleased that many districts reported that they will lower elementary class sizes this year. We are concerned, however, that more districts did not report that they will lower elementary class sizes, given the major increase in class size reduction recommended by the Governor and enacted by the 1999 Legislature."

In conclusion, the Commissioner said that while "there is no evidence of a statewide financial crisis in K-12 education, we need to find ways to measure if Minnesota districts are making the most of current revenues, to tie spending to measures of student success and to develop other accountability indicators. . . ."

# Introduction

**K-12 education is the largest budget expense for state and local governments.**

Many observers consider elementary and secondary education to be the most important function of state and local governments. It is clearly the largest single activity funded by state and local governments, accounting for almost one-fourth of their expenditures and over 40 percent of their employees in Minnesota. Close to one-third of the state's budget provides funding for educating students in grades K-12. An effective K-12 education system, along with strong higher education programs, is also very important to a state's prosperity. A well-educated work force can attract private firms to a state, foster economic growth, and help make its citizens less dependent on government social services.

By virtue of its size and significance, elementary and secondary education receives considerable attention from policy makers, researchers, and the general public. Over the last two decades, policy makers and others have become increasingly concerned about the effectiveness of public schools and the adequacy and equity of educational funding.

This report does not address these broader questions about K-12 education but does attempt to shed some light on financial and staffing trends in Minnesota's public school districts. During the 1999 session, legislators heard from many school officials that inadequate funding was causing them to eliminate academic programs and trim other expenses. Legislators were concerned about the impact of budget problems on educational staffing and programs. However, they also raised questions about the extent to which past increases in state funding for education have increased salaries rather than classroom resources. As a result, the Legislative Audit Commission directed our office to study the financial and staffing trends of public school districts. In particular, this report addresses the following questions:

- **How has public school enrollment changed over the last decade?**
- **Over the last ten years, how have school district revenues and expenditures changed relative to enrollment and inflation?**
- **How have district fund balances varied over the last decade?**
- **How have staffing levels and salaries changed over time? Have the additional resources provided to school districts been used to increase classroom staffing levels rather than to increase salaries?**
- **How have past trends varied depending on the size, location, and other characteristics of school districts?**

- **To what extent are school districts currently experiencing budget difficulties? Are districts reducing the number of instructional staff relative to enrollment?**

- **Why are some districts having financial problems?**

To answer these questions, we analyzed data obtained from the Department of Children, Families and Learning (CFL). The data were used to examine historical trends in school district revenues, spending, staffing, salaries, fund balances, and enrollment. We also surveyed all public school superintendents across the state to collect information on school district staffing and financial plans for the 1999-2000 school year. Through the survey, superintendents provided us with their perspectives on the financial challenges faced by their districts. We received timely responses from 274 school districts (79 percent), which, as a group, have about 89 percent of the state's public school enrollment. The information from the survey was supplemented by in-depth interviews with school district officials in 18 districts around the state. We also used data and information from other state and federal agencies, education organizations within Minnesota, and education researchers.

**This report examines the finances of Minnesota's public school districts.**

This report focuses entirely on the finances of Minnesota's 349 public school districts. We do not examine the finances of charter schools in this report. In addition, the report concentrates primarily on revenues and spending that flow through the general funds of public school districts. General funds account for more than 90 percent of all operating fund expenditures and 95 percent of state aid received by school districts. Although we present historical information on other funds, we analyze this information in less detail.

Chapter 1 of this report presents background information on Minnesota's public school districts including information on their structure, enrollment, and finances. The chapter also discusses some of the concerns that school administrators have about the funding of public schools. Chapter 2 analyzes trends in revenues, spending, and fund balances and highlights those factors that have contributed the most to past spending increases. Chapter 3 reviews trends in salaries and staffing and examines whether past increases in educational funding have been used to increase staffing, particularly in the classroom, or have been used instead to increase employee salaries. Chapter 4 analyzes the extent to which school districts appear to be experiencing financial difficulties during the current school year. In light of the results contained in previous chapters, Chapter 5 discusses whether Minnesota school districts are experiencing a financial or resource crisis and why some districts have experienced more problems than others.

Two appendices provide additional information. Appendix A indicates which school districts were in statutory operating debt in recent years. Appendix B lists the school districts that responded to our survey, as well as those that did not respond.

# 1 Background


**SUMMARY**

***Between 1989 and 1999, the landscape of Minnesota public school districts changed considerably: total enrollment increased and schools became more racially diverse; special needs populations grew faster than total enrollment; and the number of school districts declined by 20 percent. At the same time, half of Minnesota's school superintendents say that their district has made budget cuts over the last four years. District officials attribute their financial difficulties to a number of factors, including inadequate revenue growth, restrictions on the uses of additional revenue, increasing costs, and declining enrollment.***


This report focuses on the finances of Minnesota's 349 public school districts and analyzes changes in the spending, staffing, salaries, and financial condition of districts during the 1990s. To better understand the trend data presented in subsequent chapters, this chapter provides background information on the structure, enrollment, and finances of school districts. We also review the concerns that school district officials have about funding for public schools. In particular, this chapter addresses the following questions:

- **How has the number of Minnesota school districts changed over the last decade?**
- **How have total enrollment in public school districts and participation in other education alternatives changed over the last ten years? How has the composition of enrollment in public schools changed?**
- **What are the sources of revenue for school districts and how do districts spend their resources?**
- **What concerns do school districts have about the funding for K-12 education?**

This chapter relies on enrollment and financial data provided by the Department of Children, Families and Learning (CFL). In addition, we use information from a questionnaire we sent to all Minnesota school districts and from in-depth interviews we conducted with officials from 18 school districts.[1]

*1* We met with officials from Bemidji, Blue Earth, Burnsville, Chisholm, Duluth, Faribault, Fergus Falls, Inver Grove Heights, Lake Benton, Lesueur-Henderson, Minneapolis, Minnetonka, Murray County Central, Red Wing, Robbinsdale, Rochester, St. Paul, and White Bear Lake school districts.

# PUBLIC SCHOOL DISTRICTS

When analyzing financial trends in K-12 education, it is important to recognize that significant changes in district organization occurred over the last decade. During the early 1990s, the Legislature passed several financial incentives to encourage public school districts to consolidate.[2] In addition, some districts viewed consolidation as a means to improve program offerings and realize economies of scale. As a result, the district structure in Minnesota changed as smaller public school districts responded to these incentives and consolidated into larger districts.

Minnesota has 20 percent fewer school districts than existed 10 years ago. In fiscal year 1989, Minnesota had 435 public school districts.[3] In 1999, there were 350 public school districts in Minnesota.[4] Figure 1.1 illustrates those districts that consolidated between 1989 and 1999. As Figure 1.1 shows, all of the district consolidations between 1989 and 1999 took place outside the seven-county Twin Cities metropolitan area.[5] Throughout this report, we often compare districts that consolidated between 1989 and 1999 with those that did not.

# ENROLLMENT

No analysis of K-12 trends would be complete without an examination of enrollment trends. The last ten years have seen not only significant growth in total enrollment but substantial changes in the composition of public school enrollment. In addition, there has been increasing participation in educational alternatives such as charter schools, home schooling, and post-secondary enrollment options programs.

**Public school enrollment has been growing since the mid-1980s.**

## Public School Enrollment

Over the last 25 years, public school enrollment has fluctuated by over 200,000 students. Figure 1.2 illustrates the changes in enrollment since the early 1970s. In 1972, when many of the "baby boom" generation were of school age, Minnesota's public school enrollment was over 910,000 students. Between 1972 and 1985 the state went through a period of declining enrollment so that by 1985 public school enrollment had declined to nearly 700,000 students, a decrease of over 23 percent. Since 1985, public school enrollment has been on the rise. In 1999, public school enrollment reached over 850,000 students, an increase of 21 percent from its 1985 level. Because this report focuses on the past ten years, it is worthwhile to note that:

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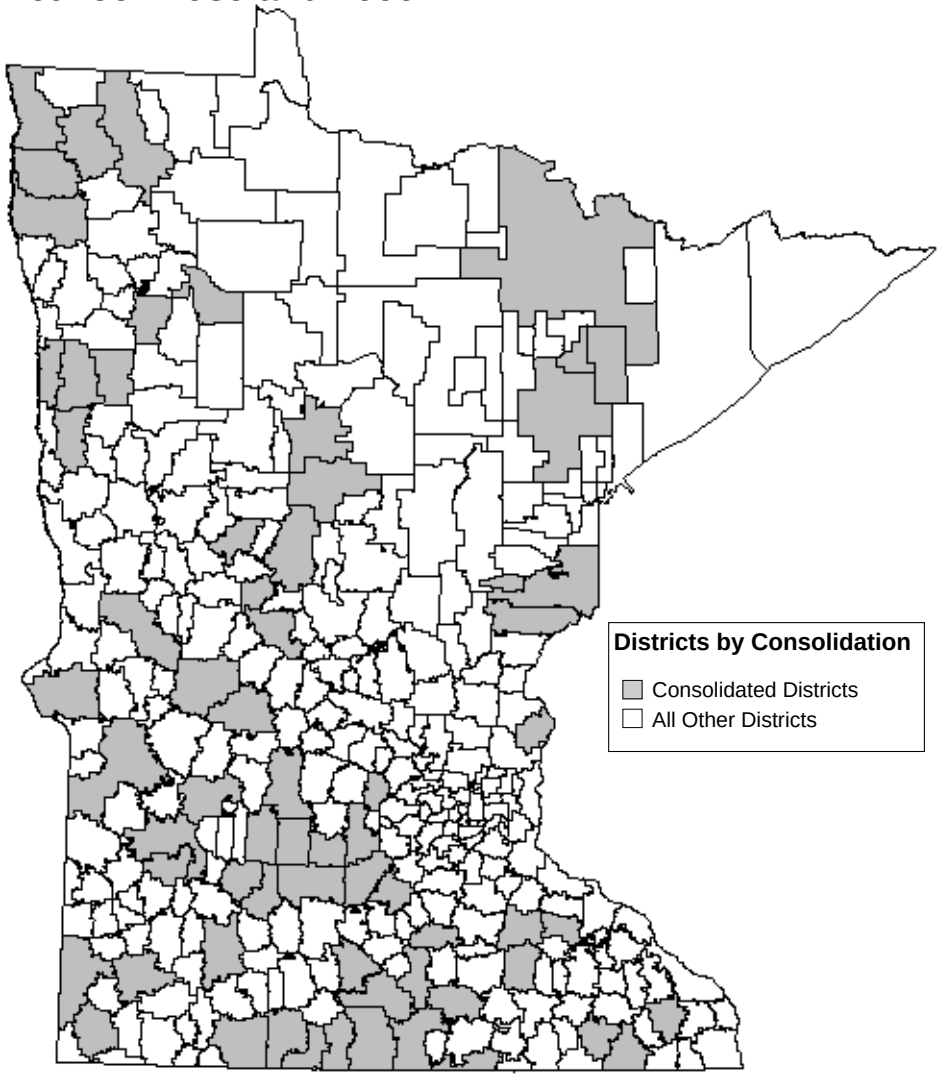
*2* *Minn. Stat.* §123A.485.

*3* Fiscal year 1989 runs from July 1, 1988 through June 30, 1989. Throughout this report, years or fiscal years refer to the corresponding school years. For example, "fiscal year 1989," "FY1989," and "1989" are used to refer to the 1988-89 school year.

*4* In 2000, there are 349 public school districts.

*5* Throughout the remainder of this report, "Twin Cities area" refers to the seven-county Twin Cities metropolitan area.

**Figure 1.1: School Districts That Consolidated Between 1989 and 1999**




SOURCE: Office of the Legislative Auditor, based on information provided by Children, Families & Learning.

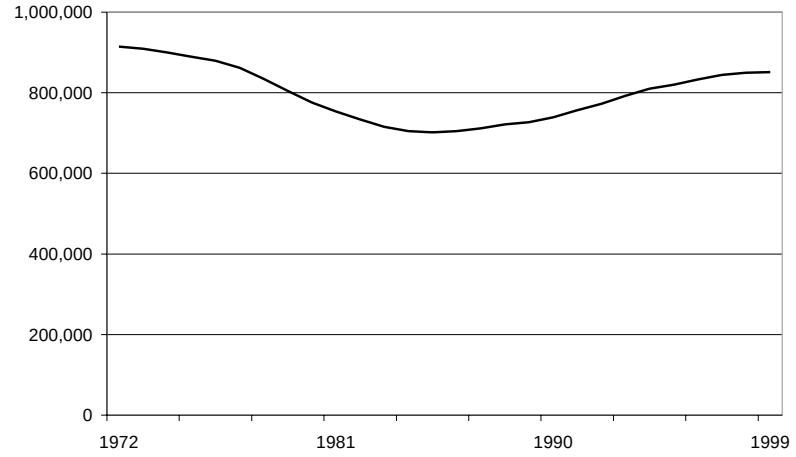
**Consolidations during the 1990s have reduced the number of school districts by 20 percent.**

- **Between 1989 and 1999, public school enrollment statewide increased about 17 percent.**

Specifically, public school enrollment statewide increased from about 727,000 students in 1989 to over 851,000 students in 1999.[6] During this period, the percentage of students in grades 7 through 12 increased from 44 percent of the student population to 47 percent, while the percentage of students in kindergarten through sixth grade decreased from 55 percent to 52 percent. This change in the

*6* Public school enrollment figures cited here do not include charter school enrollment.

**Figure 1.2: Total Enrollment in Minnesota Public School Districts, 1972-99**




NOTE: Enrollment figures are based on fall headcounts and do not include charter school enrollment.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

composition of enrollment suggests that as older students graduate, total public school enrollment will decline.[7]

Although public school enrollment has increased 17 percent statewide, not all Minnesota public school districts have experienced this enrollment growth. In fact:

- **Between 1989 and 1999, 38 percent of school districts experienced declining enrollment.**

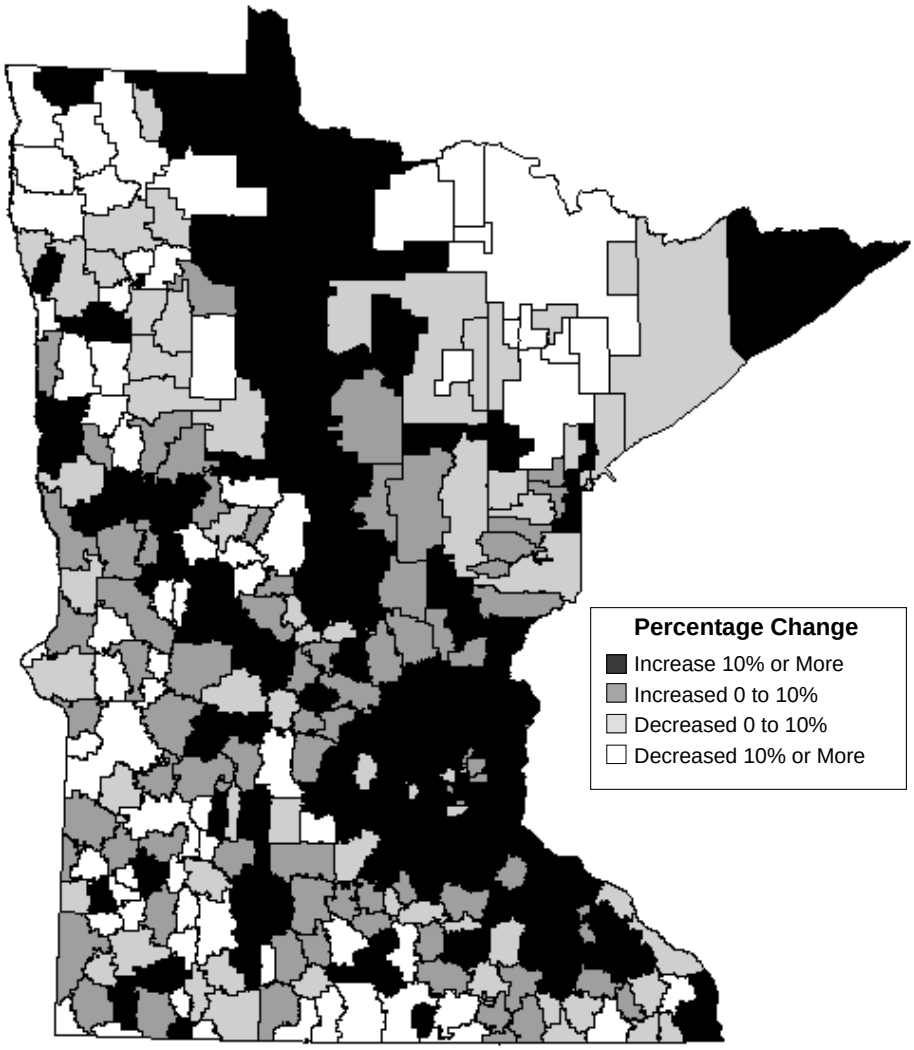
**Most school districts had increasing enrollment in the 1990s.**

Over the past ten years, enrollment declines have been concentrated in districts outside the Twin Cities area. Figure 1.3 illustrates the change in enrollment across the state between 1989 and 1999. Most of the districts that experienced declining enrollment, and all of the districts that experienced enrollment declines greater than 10 percent, are outside the Twin Cities area. Over this period, 43 percent of the districts in outstate Minnesota had declining enrollment compared with 8 percent in the Twin Cities area.

Small districts outside the Twin Cities region were already experiencing enrollment declines early in the decade. An increasing number of districts have experienced declines throughout the 1990s. Table 1.1 shows that:

*7* The State Demographic Center expects enrollment to decline by 4 percent between 2001 and 2009. Martha McMurray, *Minnesota School Enrollment Trends*, State Demographic Center, working paper 99-15, (St. Paul, April 1999), 3-4.

**Figure 1.3: Percentage Change in Enrollment, 1989-99**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

**Enrollment growth has been strong in the Twin Cities metropolitan area.**

- **About half of Minnesota school districts experienced declining enrollment between 1994 and 1999.**

Most of the districts that had declining enrollment between 1994 and 1999 are smaller districts outside the Twin Cities region. In addition, 72 percent of consolidated districts experienced declining enrollment during this time period, while 46 percent of all other districts experienced similar enrollment changes.

Enrollment trends are important in understanding school district finances because a large part of state education aid is linked to enrollment. When a district has a decline in enrollment, it will typically receive less revenue than it received in the

**A growing number of districts are experiencing declining enrollment.**

## Table 1.1: Enrollment Changes by District Size and Location, 1994-99

| District Size and Location | *N* | Percentage of Districts: Enrollment Decline | Percentage of Districts: Enrollment Growth |
|---|---|---|---|
| Minneapolis and St. Paul | 2 | 0% | 100% |
| Twin Cities Area, 5,000 or More Students | 23 | 4 | 96 |
| Twin Cities Area, Less Than 5,000 Students | 23 | 9 | 91 |
| Outstate Minnesota, 2,000 or More Students | 48 | 46 | 54 |
| Outstate Minnesota, 1,000 to 1,999 Students | 89 | 46 | 54 |
| Outstate Minnesota, 500 to 999 Students | 79 | 58 | 42 |
| Outstate Minnesota, Less Than 500 Students | 84 | 77 | 23 |
| All Districts | 348 | 51% | 49% |
| Consolidated Districts | 64 | 72% | 28% |
| Other Districts | 284 | 46% | 54% |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

prior year. As a result, declining enrollment may cause districts to make budget adjustments.

# Enrollment Options

Since the mid-1980s, the Minnesota Legislature has adopted a number of school reform initiatives to provide students with alternatives to traditional public schools. These educational alternatives include open enrollment, area learning centers, charter schools, home schooling, and post-secondary enrollment options. Each of these alternatives provides students with a different educational opportunity. Open enrollment allows K-12 students to enroll in public schools located outside their resident district. Area learning centers provide individualized learning programs specifically for "at-risk" students and are operated by public school districts. Charter schools are locally designed and operated schools that are sponsored by either a school district or CFL.[8] Home schools are operated by parents and guardians. Finally, the post-secondary enrollment options program allows public school students in grades 11 and 12 to enroll in post-secondary courses.

While public school enrollment has increased over the last ten years, participation in educational alternatives has also grown. Table 1.2 illustrates how enrollment in these alternatives changed between 1989 and 1999. The data show that more students are using educational alternatives since 1989. It appears that the growth in these enrollment options has occurred largely at the expense of private schools. Between 1989 and 1999, total enrollment increased 18 percent and total public school district enrollment increased 17 percent, while private school enrollment increased only 7 percent.

*8* Charter schools are considered to be public schools but are not operated by any of the 349 public school districts.

**Participation in enrollment options has grown during the 1990s.**

## Table 1.2: Educational Alternatives Enrollment, 1989-99

| Enrollment Options | Enrollment 1989 | 1994 | 1999 | Percentage Change 1989-99 |
|---|---|---|---|---|
| Area Learning Centers | 1,407 | 10,463 | 11,453 | 714% |
| Open Enrollment[a] | 350 | 15,999 | 23,951 | 6,743 |
| All Other Public School Enrollment | 725,193 | 783,230 | 816,133 | 13 |
| Total Public School District Enrollment | 726,950 | 809,692 | 851,537 | 17 |
| Charter Schools | - | 357 | 4,918 | N/A |
| Home Schooling | 2,900 | 7,671 | 13,638 | 370% |
| Post-secondary Enrollment Options | 5,901 | 6,233 | 7,100 | 20 |
| Private Schools | 82,165 | 81,697 | 87,764 | 7 |
| Total Enrollment | 817,916 | 905,650 | 964,957 | 18% |

NOTE: Charter schools first became an educational alternative in 1993. Post-secondary enrollment options and open enrollment data are based on cumulative headcount figures. All other data are based on October 1st headcounts.

[a]1994 open enrollment data include charter school enrollment that occurred after October 1, 1993. As a result, the 1994 open enrollment data may be somewhat overstated.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# Demographic Changes

While total student enrollment increased between 1989 and 1999, we found that:

- **Between 1989 and 1999, the number of students with special needs grew faster than total enrollment.**

Specifically, between 1989 and 1999, the number of students that primarily speak another language increased over 230 percent, the special education population increased over 30 percent, and the low-income population (students who qualify for a free or reduced-price lunch) increased 54 percent.[9] In addition to the growth in these special needs populations, the percentage of minority students increased over 100 percent between 1989 and 1999. Table 1.3 illustrates how these various populations have grown over the past ten years.

Although the number of limited English proficiency (LEP) students increased dramatically over the past ten years, over 56 percent of school districts had no limited English proficiency students in fiscal year 1999. The large increase in the LEP population was concentrated in just over 40 percent of Minnesota's school districts. Both Minneapolis and St. Paul, which combined accounted for over 60 percent of the LEP population in both 1989 and 1999, experienced increases of over 230 percent in their LEP populations. The increases for other groups identified in Table 1.3 occurred statewide, although the rate of increase in

*9* Special education data include nonpublic school students. The criteria for being counted as a free or reduced-price lunch student were expanded in 1998 which may contribute to a small portion of this increase.

**The number of students with special needs has grown significantly.**

## Table 1.3: Number of Special Population Students, 1989-99

| | 1989 | 1999 | Percentage Change 1989-99 |
|---|---|---|---|
| Limited English Proficiency | 9,415 | 31,152 | 231% |
| Minority | 62,619 | 127,292 | 103 |
| Low Income | 144,329 | 222,184 | 54 |
| Special Education | 82,647 | 108,951 | 32 |
| Total Public School Enrollment | 726,950 | 851,537 | 17% |

NOTE: Students may be counted in more than one category. Special education numbers include nonpublic students; LEP, low-income, and minority numbers represent public students only. Special education numbers include children from birth to age 21.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

low-income students in Minneapolis and St. Paul was more than twice that experienced throughout the rest of the state.

The increase in these special populations has some implications for school district finances. The data presented above indicates that schools must serve increasingly diverse and complex student populations. While districts receive additional revenues based on their special education expenditures and their LEP and low-income populations, it is fair to ask whether their overall revenues have increased sufficiently to address the needs of a growing and more diverse student population.

# FINANCES

As mentioned in the introduction to this report, K-12 education is the largest and perhaps the most significant activity of state and local governments. In 1998, public school districts in Minnesota spent $6.5 billion or approximately $7,700 per student.[10] In addition, Minnesota public school districts employed approximately 52,300 full-time equivalent teachers and another 7,100 licensed professional staff. We estimate that school districts employed 43,000 additional non-licensed staff during 1998.

The following section briefly examines the finances of public school districts in Minnesota. Throughout this report, our focus will be on the general fund revenues and expenditures of school districts because the general fund is the largest and most significant of the accounting funds used by school districts. In 1998, the general fund accounted for 92 percent of school district operating expenditures and 95 percent of the state aid received by districts.[11] The main

*10* This figure excludes $0.6 billion in building construction expenditures since including both construction and debt service expenditures would count the same spending twice.

*11* If building construction expenditures are excluded to avoid double counting, then general fund spending accounted for 83 percent of all school district spending in 1998. The remaining expenditures are largely for debt service, food service, and community service programs.

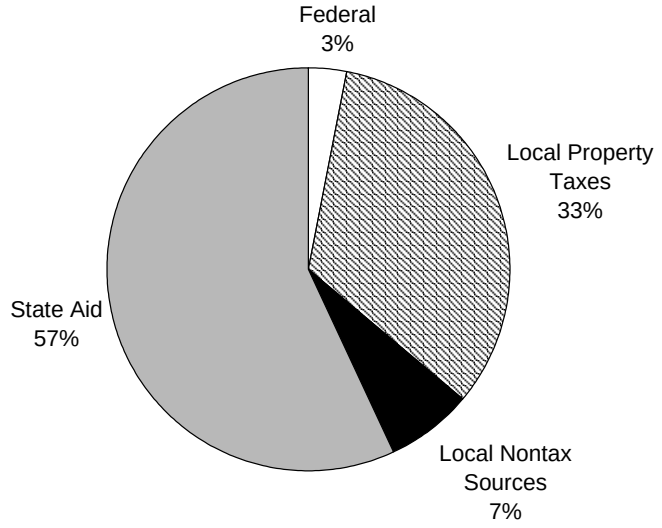
activities of K-12 education such as instruction, pupil support services, operations and maintenance, and administration are funded out of the general fund.

# Revenues

Revenues for public school districts primarily come from three sources: state, local, and federal governments. As Figure 1.4 shows, state aid provided more than half of the general fund revenues for school districts in 1998, while local property taxes produced one-third of the revenues. Federal aid and other local revenue sources, such as fees, admission charges, tuition, interest earnings, rent, and gifts, accounted for the remaining revenue.

**State aid provided more than half of the general fund revenues for school districts in 1998.**

**Figure 1.4: Source of General Fund Revenues, 1998**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

Most of the state and local tax revenues received by school districts are determined through a fairly complex set of funding formulas and provisions.[12] Revenue from these sources depends significantly on a district's total enrollment. Other important factors include a district's expenditures on special education, the number of students with special needs, the training and experience of the district's teachers, the geographic density of the district, and the age of a school district's buildings.

A school district can raise additional revenues for operating purposes by receiving approval from its voters for an "excess levy" referendum. The amount that can be

*12* For more information on the Minnesota K-12 funding provisions, see Minnesota House Research Department, *Minnesota School Finance: A Guide for Legislators, December 1998* (St. Paul, 1998) and Minnesota House of Representatives Fiscal Analysis Department, *Financing Education in Minnesota, 1999 – 2000* (St. Paul, 1999).

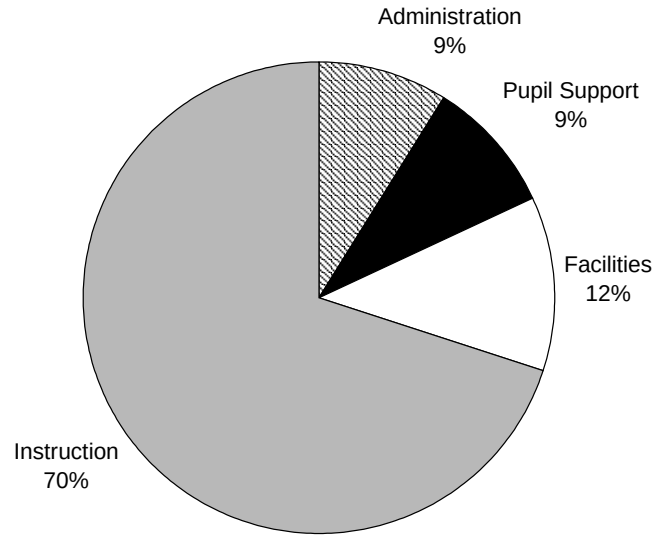
levied in this manner, however, is limited under state law. Funding for major building construction projects also generally requires voter approval.

# Expenditures

Instruction and instruction-related activities account for a significant portion of school district spending. As Figure 1.5 shows, 70 percent of 1998 general fund spending went for instruction, while administration and pupil support activities each accounted for 9 percent of expenditures.[13] Spending on facility-related items such as operations and maintenance, equipment, and repairs represented 12 percent of total spending.

**Seventy percent of general fund expenditures went for instruction in 1998.**

**Figure 1.5: General Fund Expenditures by Program, 1998**



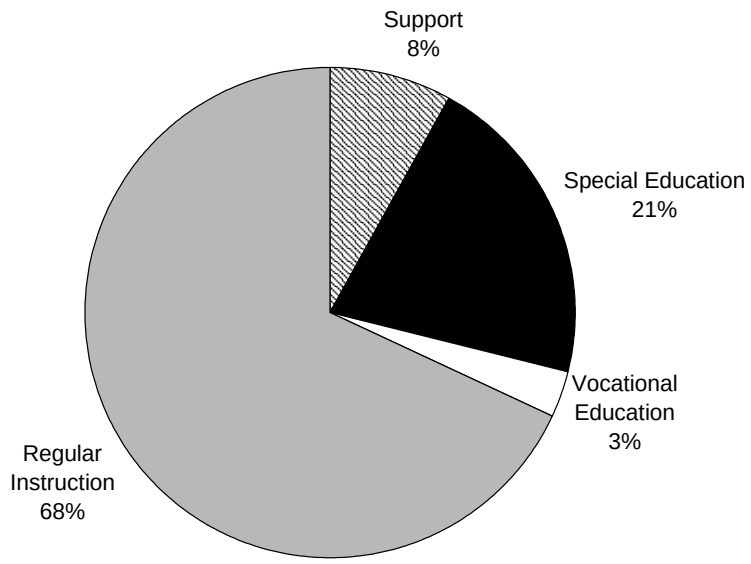

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

About two-thirds of the instructional spending, or close to half of all general fund spending, goes for regular instruction. This category includes classroom instruction as well as spending for students with limited English proficiency, students needing help with basic skills, and gifted and talented students.[14] As Figure 1.6 shows, 21 percent of instructional spending in 1998 was for special education programs. These programs serve students who are mentally retarded; are emotionally or psychologically disabled; have special learning or behavior problems; or have physical, hearing, speech, or visual impairments. The

*13* Pupil support services include transportation, psychological and social work services, health services, and counseling and guidance services.

*14* Athletics and both co-curricular and extra-curricular activities are also included in the regular instruction category. In 1998, these activities accounted for 2 to 3 percent of general fund spending.

**Figure 1.6: General Fund Instructional Expenditures by Type, 1998**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

**Regular instruction accounted for two-thirds of 1998 instructional expenditures.**

remaining instructional spending went for instructional support services and vocational education.[15]

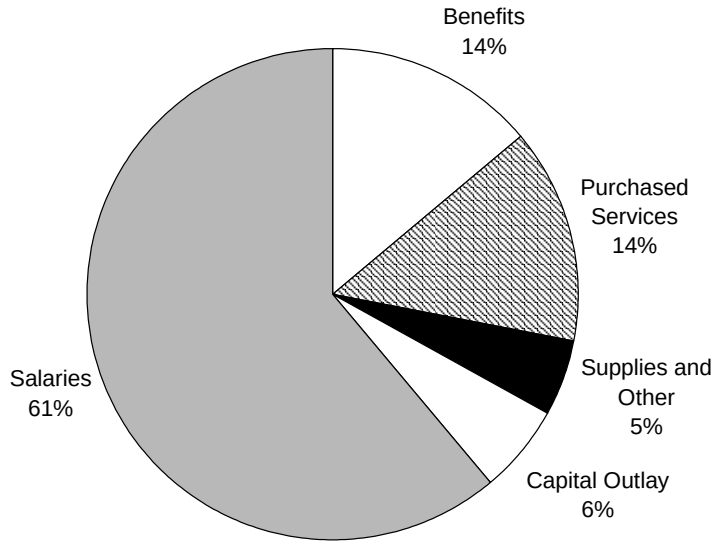
In discussing school district finances, it is important to recognize that K-12 education is a very labor-intensive enterprise. As Figure 1.7 indicates, three-fourths of general fund spending in 1998 was used to pay for the salaries and benefits of school district personnel. In addition, 14 percent of spending was for purchased services. A portion of that spending is personnel-related since it sometimes is used to purchase educational services from other institutions such as special education cooperatives, intermediate school districts, and various public and private agencies.[16] Capital outlay spending for ongoing repairs and maintenance projects, buses, and computers and other equipment accounted for 6 percent of general fund spending. Supplies and materials, including textbooks and other instructional materials, constituted about 5 percent of general fund spending in 1998.

*15* Instructional support includes expenditures for assistant principals, curriculum development, libraries and media centers, staff development, computer assisted instruction, and audio visual support.

*16* Purchased services also include consulting services, insurance, data processing services, communication and utility services, repair and maintenance services, contracts with transportation providers, leases and rentals, and travel expenses.

**Three-fourths of general fund expenditures are for personnel costs.**

**Figure 1.7: General Fund Expenditures by Object of Expenditure, 1998**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# SCHOOL DISTRICT CONCERNS

Over the past few years, many school districts indicated that they experienced financial difficulties. Between 1997 and 2000, about half of Minnesota school districts made budget cuts. In addition, some districts made budget cuts earlier in the 1990s, and others said that they might make budget cuts in the near future if their financial situation does not improve.

In our survey and interviews, school district officials attributed the financial difficulties to a variety of factors. Some of the more significant factors are listed in Table 1.4. Inadequate revenues, growing employee salary and benefit costs, increasing special education costs, and declining enrollment were the factors most often cited as contributing to districts' financial pressures.

## Revenues

School district officials had several concerns regarding education revenues. Many superintendents indicated on the survey and in interviews that general education revenues were inadequate to meet their needs and had not kept up with inflation. Some superintendents commented that increases in the general education formula allowance were offset by decreases in other funding, such as the phasing out of

## Table 1.4: Factors Contributing to School Districts' Financial Pressure, 2000

| | |
|---|---|
| Revenues | |
| | Inadequate Revenue Growth |
| | Growth in Restrictions on Revenue Use |
| | Unsuccessful Referendum Renewal |
| Expenditures | |
| | Increase in Employee Salaries and Benefits |
| | Growth in Special Education Costs |
| | Increase in Transportation Costs |
| Enrollment | |
| | Declining Enrollment |
| | Loss of Enrollment to Other Schools |
| | Inaccurate Enrollment Projections |
| Other | |
| | Complexity of Funding Formula |
| | Timing of Funding Decisions |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

**School district officials attribute their financial difficulties to a variety of factors.**

teacher training and experience revenue.[17] One district we visited attributed losses of over $4 million per year to the phase-out of this revenue.

Superintendents also expressed concern regarding the growth in restrictions on the use of general fund revenues. Many officials felt that most of the growth in general fund revenues has been for mandated activities like special education, or has been targeted for specific purposes such as class size reduction, basic skills improvement, or technology. As a result, they believe that other general fund programs and activities have faced budget reductions. For example, one district noted that it was required to use funds for elementary class size reduction even though it had a $1 million budget shortfall that would necessitate cuts in other programs.

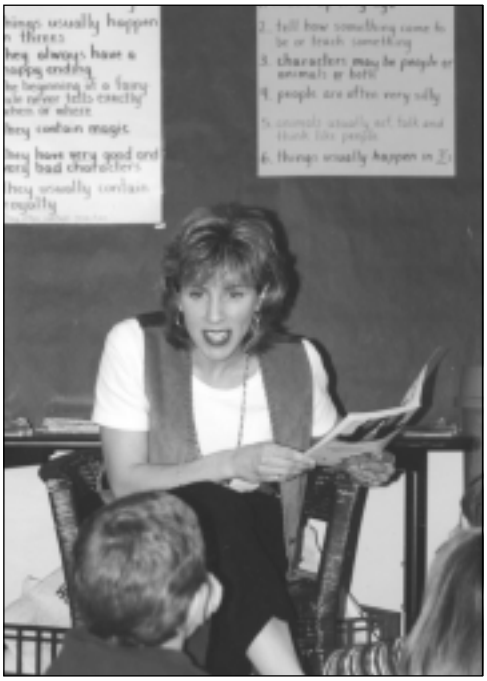
School district officials also indicated that the funding provided for operating capital expenditures, such as technology, equipment, building maintenance, and textbooks, is not adequate given the rapidly rising costs in these areas. Several commented that they have to either defer maintenance on buildings and equipment; defer purchases of technology, textbooks, and buses; or use other general fund money for capital needs. When districts are forced to make cuts, many look first to non-instructional areas such as building maintenance before they consider cuts in instructional programming. The danger is that cutting

*17* This component of the school funding formula provides additional revenue for school districts with teachers whose years of experience and post-graduate education exceed statewide averages. The 1996 Legislature required that, for future years, the training and experience of all existing teachers be calculated at their 1997 level and that teachers hired after 1997 be permanently counted as having minimum training and experience. As a result, training and experience revenue cannot increase and, in fact, it decreases as teachers retire.

preventive maintenance will result in more costly repairs or construction in the future.[18]

# Expenditures

In our survey and interviews, school district officials identified several types of expenditures that contribute to the financial pressures their school districts face. Employee salaries and benefits, special education costs, and transportation costs were among those most frequently mentioned.



Some districts feel that personnel costs have contributed to their financial difficulties.

Several school district officials commented on the difficulty they had in attracting well-qualified teachers and filling some vacancies for the 2000 school year.[19] This teacher shortage has put pressure on salary settlements. Districts feel the need to pay competitive salaries in order to attract quality teachers and retain those they already employ. Some districts have even started using signing bonuses and other salary incentives to attract teachers. However, school district officials also feel that teacher salary increases often squeeze their budgets and force them to make cuts in other areas. Several district officials told us they had no leverage when bargaining with the teachers' union because their community would not tolerate a strike.

School district officials also viewed employee benefits, particularly health insurance, as a contributor to their school district's financial pressures. Superintendents from the school districts we visited reported that, on average, their insurance rates increased by 14 percent for fiscal year 2000. A few outstate Minnesota districts indicated that they have limited ability to negotiate for lower rates since only one company bids for their insurance contract.

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*18* The Office of the Legislative Auditor will be issuing a separate report on best practices for meeting maintenance needs of local government buildings, including school buildings.

*19* Recent studies by University of Minnesota researchers identified teacher shortages in specific subject areas for 2000. A report by the Center for School Change found that although there is not a broad based teacher shortage, shortages are expected in special education, math, and industrial education. A study by researchers from the College of Education and Human Development found that all types of school districts – urban, suburban, and rural – are facing teacher shortages in math, science, technology, special education, and English as a second language. See Joe Nathan, Debra Hare, and Stella Cheung, *Asking the Right Questions: Minnesota Teacher Supply and Demand* (Center for School Change, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis, March 1999) and Steven R. Yussen, Jane Grey Browning, and Jeanette Colby, *Teachers for Our Schools* (College of Education and Human Development, University of Minnesota, Minneapolis, Fall 1999).

In addition, some district officials told us that they expect the cost of severance pay packages to grow significantly as large numbers of teachers retire over the next few years. This growth may cause some districts to cut other expenditures in order to finance the negotiated severance pay provisions.

Many district officials noted that special education costs are growing rapidly. They feel that the state's special education funding is inadequate and that districts must use general purpose funds to pay for some of the costs of special education. This "cross-subsidization" of special education takes resources away from general education programs and services.[20] In addition, some superintendents believe that the two-year lag in special education funding puts a strain on their budgets.[21] As special education costs continue to increase, they feel that payments based on expenses from two years ago are not adequate to fund current special education needs.

Some districts indicated that rising transportation costs are a source of financial stress.

Finally, several superintendents said that transportation costs also contribute to the financial pressure their districts face. District officials indicated that a shortage of bus drivers has caused costs to increase. Others commented that because transportation costs have risen faster than general fund revenues, they have had to use revenues that should be used for education programs to fund transportation.

# Declining Enrollment

We reported earlier that although statewide enrollment increased by 17 percent between 1989 and 1999, enrollment decreased in 50 percent of the state's school districts between 1994 and 1999. As we discuss in Chapter 4, over 60 percent of districts expect enrollment to decline between 1998 and 2000.

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*20* A recent study by the Department of Children, Families and Learning found that some general education revenue is used to pay for special education programs. Depending on how one defines cross-subsidization, the statewide amount of cross-subsidization in 1998 ranged between $230 and $330 million. When averaged across all students enrolled in Minnesota public schools, the amount of cross-subsidization was between $270 and $390 per student. See *Special Education Cross-Subsidies Report, FY 1998* (Department of Children, Families and Learning, Office of Program Finance, Roseville, September 1999).

*21* Most of the revenue that a school district receives for special education is based on a percentage of the special education costs incurred two years prior to the year the funds are received. The amount of revenue is adjusted for overall enrollment growth over the two-year period. In addition, some districts receive excess cost aid from the state to cover a portion of their unreimbursed current year costs. This aid is targeted to districts with high unreimbursed costs relative to their general education revenues.

**Some district officials cite declining enrollment as a contributor to their financial difficulties.**

Many district officials indicated that declining enrollment is a major contributor to their financial difficulties. Under the state's education funding formula, as a school district's enrollment declines, so does its revenue. However, districts are not always able to cut their expenditures or staff commensurate with the revenue loss. For example, if kindergarten enrollment declined by 20 students, the school could eliminate a kindergarten teaching position. However, if grades kindergarten through six each declined by three students, it would be difficult for the district to cut a teacher. When districts do make staffing cuts, they must lay off the least senior teachers first. These teachers are usually the lowest paid, thus making it more difficult for districts to reduce expenditures.

A few district officials also indicated that inaccurate enrollment projections had contributed to their financial difficulties. Because education funding is largely tied to enrollment, overestimating enrollment figures means overestimating revenues. However, school districts set budgets and hire staff before the school year begins and must rely on enrollment and revenue projections to make decisions. If district officials estimate these figures incorrectly, the district could experience some financial difficulties.

## Other Factors

School district officials also had concerns about the complexity of the school funding formula. They felt that the intricacies of the formula, and the fact that it changed so frequently, made it hard to predict revenues. Similarly, district officials had concerns about the timing of legislative school funding decisions. Superintendents felt that, in general, funding decisions are made too close to the beginning of the school year. This makes it difficult for districts to plan budgets, hire staff, and adequately prepare for the upcoming year.

Some district officials also considered increased participation in educational alternatives, such as charter schools, home schools, open enrollment, and post-secondary enrollment options, a source of their financial problems. These districts viewed the increase in education alternatives as a contributor to their flat or declining enrollment. However, most district officials indicated that although the number of students participating in these alternatives has increased, it does not significantly affect their enrollment. Finally, some school districts identified problems with renewing a referendum and cited this as a contributing factor to their financial difficulties. If a district is surprised by an unsuccessful referendum renewal, they are faced with an unexpected revenue shortfall.

# SUMMARY

K-12 education is the largest activity funded by state and local governments. State aid comprised over half of the general fund revenues for school districts in 1998 and local property taxes provided one-third. Instruction and instruction-related activities accounted for 70 percent of the general fund spending in 1998, two-thirds of which was spent on regular instruction.

Over the last ten years, the number of school districts has declined while total public school enrollment has increased. At the same time, the composition of the enrollment has changed. Special needs populations have grown faster than overall enrollment, and the student body has become more racially diverse. In addition, more students are taking advantage of educational alternatives such as charter schools, home schools, open enrollment, and post-secondary enrollment options.

About half of Minnesota's school superintendents say that their district has made budget cuts over the last four years. School superintendents attribute their financial difficulties to a number of factors including inadequate revenue growth, restrictions on the uses of additional revenue, increasing costs, and declining enrollment. They believe that a teacher shortage in some subject areas and the current collective bargaining structure are contributing to higher salary costs. In addition, growing health insurance costs and an increase in pay for bus drivers caused by a labor shortage are also causing their spending to grow.

In the remainder of this report, we examine the trends in school district revenues, expenditures, fund balances, staffing, and salaries during the 1990s. We also use data from our survey of school district superintendents to examine the extent to which school districts are experiencing financial and budget difficulties during the current school year.

# 2 Financial Trends


**SUMMARY**

***Financial conditions for Minnesota school districts have generally improved during the 1990s although most of the improvement has occurred since 1993. From 1989 to 1993, inflation-adjusted general fund spending per student was relatively constant, while inflation-adjusted fund balances per student declined somewhat. From 1993 to 1998, general fund spending per student increased modestly (9 percent), and fund balances rose to a level significantly higher than that reached in 1989.***


Key to understanding the financial challenges faced by public schools in Minnesota is an understanding of recent financial trends. This chapter examines trends in public school district revenues, expenditures, and fund balances over the last ten years. In particular, we address the following questions:

- **How have revenues for public school districts changed over the last decade? Has the state placed more restrictions on the use of educational revenues? Are school districts relying increasingly on local referendums to provide revenue?**

- **How much have K-12 expenditures changed over the past ten years when adjusted for inflation and enrollment increases? What factors have accounted for the change in spending?**

- **How have school district fund balances and other indicators of financial health changed over the last ten years?**

- **How have financial trends for different types of school districts varied from the statewide trends?**

In this chapter, we focus entirely on the finances of Minnesota's public school districts. Most of the data used in this chapter were obtained from the Department of Children, Families and Learning (CFL).

## BACKGROUND

Revenues and expenditures of school districts are recorded in eight different funds. They include the general fund, food service fund, community service fund, building construction fund, debt service fund, trust fund, agency fund, and internal service fund. The first three are considered operating funds because they provide

the revenues for the ongoing activities of school districts. The others are considered nonoperating funds because they deal with large capital expenditures, record transactions relating to certain assets held in trust by a school district, or account for internal cost reimbursement.

**This chapter focuses on school districts' general fund activity.**

The primary focus of this report and most of this chapter is on the revenues and expenditures that flow through school districts' general funds.[1] The general fund accounts for most of the operating expenditures of school districts and most of the state aid received by districts. In addition, the general fund provides the resources for the main activities of K-12 education and is the greatest source of concern to school district administrators.

Other operating funds include the food service fund and the community service fund. The food service fund records the financial activities related to the preparation and service of milk, meals, and snacks. The community service fund finances enrichment programs for community members of all ages but can be used for K-12 summer school activities that are not for credit. These funds each account for less than 4 percent of school district operating expenditures.

The largest nonoperating funds are the building construction fund and the debt service fund. The building construction fund records all aspects of a school district's building construction program that are financed by bonds or capital loans. The debt service fund records revenues and expenditures related to a school district's bonded indebtedness. For example, principal and interest paid to bondholders are expenditures from this fund.

Other nonoperating funds include the trust fund, agency fund, and internal service fund. The trust fund records revenues and expenditures for trust agreements. These include scholarships or other gifts for which a school board serves as the trustee. The agency fund accounts for assets a school district holds for another party, such as the deferred compensation accounts of employees. The internal service fund accounts for the financing of goods or services provided by one department of a school district to another or to other governmental units on a cost-reimbursement basis.

Spending from nonoperating funds is typically much lower than spending from operating funds. In 1998, operating fund spending per student in average daily membership (ADM) was $6,975. Expenditures from the building construction fund and the debt service fund were $762 and $666 per ADM respectively. Spending per student from the trust fund was $21. In addition, it should be pointed out that spending from the building construction and debt service funds should not be added together. To a large extent, expenditures from these two funds represent a double counting of the same spending. While the building construction fund counts spending on a new or remodeled building when it

*1* Throughout this report, we have included the former pupil transportation and capital expenditure funds in the general fund for purposes of analyzing trends. These two funds were folded into the general fund in 1997.

occurs, the debt service fund counts the principal and interest payments made on the bonds used to pay for that construction activity.[2]

# REVENUES

**State aid and local property taxes provide most of the general fund revenues for school districts.**

State aid provides a significant share of the general fund revenue received by school districts. As noted in Chapter 1, state aid provided 57 percent of general fund revenues in 1998. Local property taxes, which are for the most part regulated by state law, provided 33 percent of general fund revenues. The remaining revenues came from the federal government (3 percent) and various local sources such as fees, admission charges, rent, interest earnings, and gifts (7 percent).

Most of the aid to school district general funds is provided through the general education revenue program. The amount of general education revenue received by a school district depends on a number of factors including enrollment, the number of students with special needs (including those eligible for free or reduced-price lunches and those with limited English proficiency), the training and experience of the district's teachers, the geographic density of the district, the age of a school district's buildings, and certain transitional or "grandfather" factors. In addition to general education revenue, districts receive categorical state aid to be used for specific purposes. The most significant categorical aid provides funding for special education programs.[3]

Basic education revenue provides most of the general education revenue received by school district general funds. Basic revenue consists of a "formula allowance" set by the Legislature ($3,740 in fiscal year 2000) multiplied by the actual number of "pupil units" during the year. Pupil units (also referred to as weighted average daily membership) are derived by weighting the "average daily membership" of a district.[4] Students are weighted based on their grade level. For 2000, students are weighted as follows: kindergarten students are each counted as 0.557 pupil units, students in grades 1 through 3 are counted as 1.115 pupil units, students in grades 4 through 6 are counted as 1.06 pupil units, and students in grades 7 through 12 are each counted as 1.3 pupil units.[5]

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*2* Certain expenditures in the debt service fund can even duplicate one another. The repayment of bonds issued to finance a construction project would show up as an expenditure in the debt service fund. If these bonds are later refinanced, the repayment of the refinancing bonds would also be counted as an expenditure of the fund. Thus, the part of the principal remaining at the time of refinancing would eventually be counted twice as an expenditure of the fund.

*3* For more information, see Minnesota House Research Department, *Minnesota School Finance*, 1998 and Minnesota House of Representatives Fiscal Analysis Department, *Financing Education in Minnesota*, 1999.

*4* Average daily membership is equal to the sum of all pupils, for all school days in the district's school year each pupil is enrolled, divided by the number of days the schools are in session. See Minnesota House Research Department, *Minnesota School Finance*, 1998, 13. For 2000 and later, districts must use "adjusted marginal cost pupil units" which are equal to the sum of 0.9 times the pupil units for the current school year and 0.1 times the pupil units for the previous school year. *Minn. Stat.* §126C.05, subd. 5.

*5* *Minn. Stat.* §126C.05, subd. 1.

For each district, the shares of general education revenue that come from state aid and local property taxes depend on the district's property tax base. Districts with lower property tax bases, and thus lower tax capacity, receive a larger share of their general education revenue from state aid and a smaller share from local property taxes than districts with higher tax capacity.

In addition to general education revenue and categorical state aid, a district can raise funding for operations through an excess levy referendum. This allows the voters of a school district to increase their property taxes in order to provide additional funding for their district. However, for many districts, there is a cap on a district's referendum revenue per student equal to the greater of (1) the district's 1994 referendum revenue per student, or (2) 25 percent of the formula allowance less $300.[6] As a result, districts that did not have referendum revenue in 1994 or had a small amount of referendum revenue may be subject to a lower cap than some districts that had an excess levy in effect in 1994.

The state provides a portion of the revenue approved through a district's levy referendum. This aid is called referendum revenue equalization aid. Similar to general education revenue, the portion of referendum revenue provided by the state depends on a district's property tax base. However, the state will equalize referendum revenue only up to a maximum of $350 per pupil in 2000.[7]

School districts finance capital projects in several different ways. Ongoing capital needs such as maintenance, repairs, and equipment are typically financed out of the general fund using operating capital revenue. The amount of operating capital revenue received by a district depends on its enrollment and the age of its buildings. Because operating capital revenue is one of the components of general education revenue, the shares of this revenue coming from state aid and local property taxes depend on the size of a district's property tax base. Operating capital revenue must be used for specified capital purposes and not general operating expenditures. However, other general fund monies may be used for capital purposes to supplement operating capital revenue.

Major building construction and remodeling projects are usually initially financed through the sale of bonds, although capital loans are sometimes used instead. Most projects costing more than $400,000 must be reviewed by CFL. A project receiving a favorable review must then be approved by a majority of voters in a local referendum. A project receiving an unfavorable review must be approved by 60 percent of voters if a school district wishes to proceed with the project.[8] The debt service on bonds issued for major capital projects is primarily financed through local taxes, which pay for 71 percent of debt service costs. State aid provides about 20 percent of the funding for school district debt service.[9]

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*6* *Minn. Stat.* §126C.17, subd. 2. Districts that qualify for sparsity revenue are not subject to the cap. Effective in 2001, the cap will be the greater of the district's 1994 referendum revenue per student, or 25 percent of the formula allowance.

*7* *Minn. Stat.* §126C.17, subd. 5.

*8* If CFL issues a negative review on a project, then the project cannot proceed.

*9* For more details on state aid and local levies that finance school district capital projects, see Minnesota House Research Department, *Minnesota School Finance*, 1998, 40-49.

# General Fund

From 1989 to 1998, the general fund revenues of Minnesota school districts increased 75 percent from approximately $3.2 billion to $5.6 billion.[10] State aid received by the general funds of school districts rose 73 percent, from $1.9 billion to $3.2 billion. Local tax revenue grew from $1.1 billion to nearly $1.9 billion – an increase of 64 percent.

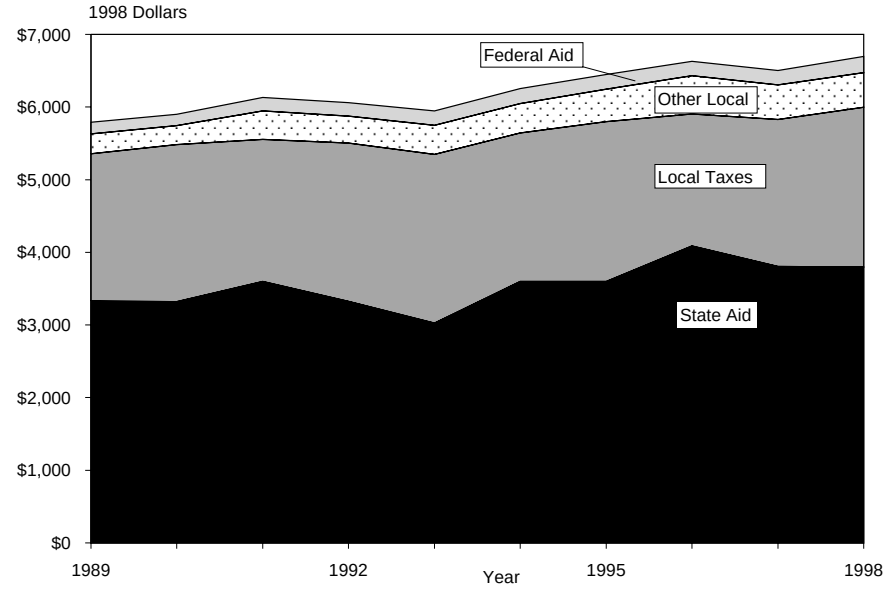
While these increases appear significant, it is important to recognize that some of the growth in revenues was used to meet the needs of a growing student population. Some of the revenue increase was also necessary to meet increased costs due to inflation. When adjusted for these factors, the growth in revenue appears more modest. In particular:

- **Inflation-adjusted general fund revenues per student increased close to 16 percent between 1989 and 1998.**

Figure 2.1 illustrates the inflation-adjusted growth in revenues. During this period, general fund revenues per student grew from about $5,800 to almost $6,700.[11] All major categories of revenue increased between 1989 and 1998, although as Table 2.1 shows, some increased more than others. State aid

**General fund revenues per student grew modestly during the 1990s.**

**Figure 2.1: General Fund Revenues per Student by Source, 1989-98**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

*10* Unless otherwise noted, calculations involving the general fund include the pupil transportation and capital expenditure funds that were folded into the general fund beginning in fiscal year 1997.

*11* Throughout this report, we used the Consumer Price Index for Wage Earners (CPI-W) to adjust for inflation.

## Table 2.1: General Fund Revenue Growth, 1989-98

| | Revenues per Student (1998 $) | | Percentage |
|---|---|---|---|
| | 1989 | 1998 | Change |
| General State Aid | $2,864 | $3,131 | 9% |
| Categorical State Aid | 464 | 668 | 44 |
| State Subtotal | 3,328 | 3,799 | 14 |
| Local Referendum Levies | 240 | 292 | 22 |
| Other Local Property Taxes | 1,787 | 1,906 | 7 |
| Other Local Sources | 224 | 431 | 92 |
| Local Subtotal | 2,251 | 2,628 | 17 |
| Direct Federal Aid | 19 | 19 | 2 |
| Federal Pass-Through Aid | 141 | 202 | 43 |
| Federal Subtotal | 160 | 221 | 38 |
| Miscellaneous | 50 | 46 | -7 |
| Total | $5,789 | $6,694 | 16% |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

increased 14 percent while local property tax revenue rose only 8 percent. The growth in local tax revenue consists of a 22 percent increase in local referendum levies and a 7 percent increase in other local property tax revenue. Federal aid, which provides only about 3 percent of general fund revenue to school districts, grew 38 percent. Other local sources of revenue nearly doubled and was the fastest growing major revenue category. This category, which accounted for only 6 percent of general fund revenues in 1998, includes tuition received by school districts from other districts, fees, event revenues, interest earnings, rent, and gifts.

**Most of the revenue growth came after 1993.**

There are a number of other revenue trends worth noting. First:

- **Most of the growth in general fund revenues during the 1990s occurred after 1993.**

Figure 2.1 shows that revenue growth from 1989 to 1993 was quite modest. The growth in revenues per student over those four years totaled less than 3 percent. Revenue growth was relatively modest due to the recession experienced during the early 1990s in Minnesota and elsewhere and the reluctance of state policy makers to provide additional aid during a state budget crunch. The share of revenues provided by state aid declined from 57 percent in 1989 to 51 percent in 1993. By 1998, the state's share of general fund revenue was once again close to 57 percent.

Second:

- **Available evidence suggests that some of the growth in revenues has been for mandated or restricted purposes.**

Table 2.1 shows that categorical state aid appropriated for specific purposes such as special education has increased much faster than general purpose state aid. About 43 percent of the growth in state aid can be attributed to the growth in categorical aids.

**Some of the revenue growth was for mandated or restricted activities.**

In addition, the Legislature has targeted an increasing portion of general purpose state aid for specific purposes such as elementary class size reduction, basic skills improvement, and technology. Available data from CFL show that about three-fourths of the growth in general education revenue per student between 1992 and 1998 was accounted for by the increase in funds targeted to specific purposes such as those listed above.

However, it is unclear whether general education revenue has become more or less restricted in its use. Beginning in 1997, the Legislature also provided districts with greater flexibility in using transportation revenues. This category of revenues moved from being restricted to only transportation uses to being available for any activity financed out of the general fund. If one considers this increased flexibility, then the restricted portion of general fund revenues decreased between 1992 and 1998. Many school district administrators would dispute whether the removal of restrictions on transportation funding has provided them much increased flexibility. They say that they have little room to find economies in the operation of bus routes.

Finally:

- **Referendum revenue has grown significantly in its importance to school districts, although statewide it accounted for less than 7 percent of general fund revenues in 1998.**

From 1989 to 1998, the percentage of school districts with a referendum levy increased from 55 to 80 percent. Statewide, the amount of revenue raised from local referendum levies and referendum equalization state aid increased 87 percent in inflation-adjusted dollars, from $240 per student to $448 per student. The share of general fund revenues provided by referendum revenue increased from 4.1 percent to 6.7 percent during this time period.

Much of the growth in referendum revenue occurred during the early 1990s when overall revenue growth was relatively low. Referendum revenue per student increased 74 percent between 1989 and 1994 but only 7 percent between 1994 and 1998. The introduction of state referendum equalization aid in 1994 does not appear to explain the large growth in referendum revenue between 1989 and 1994. Over three-fourths of the growth was due to an increase in local property tax levies. Between 1994 and 1998, it appears that growth in state aid was responsible for the increase in referendum revenue. During that period, referendum aid per student increased 296 percent, while referendum property tax levies per student declined 23 percent.

# Other Funds

As Table 2.2 shows, revenues for funds other than the general fund also increased between 1989 and 1998. Inflation-adjusted revenues per student for the food

## Table 2.2: Revenue Growth for Other Funds, 1989-98

| Fund | Revenue per Student (1998 $) 1989 | 1998 | Percentage Change |
|---|---|---|---|
| Food Service | $242 | $273 | 13% |
| Community Service | 194 | 284 | 47 |
| Building Construction | 380 | 749 | 97 |
| Debt Service Fund | 265 | 966 | 265 |
| Debt Service Fund (Excluding Refinancings) | 263 | 499 | 90 |
| Trust and Agency Funds | 36 | 101 | 180 |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

service fund increased 13 percent. The two main sources of revenue for this fund are food sales and federal aid, which in 1998 respectively accounted for 57 percent and 39 percent of the fund's revenues. Sales revenue per student increased 17 percent between 1989 and 1998, while federal aid per student was up 13 percent.

Revenues per student for the community service fund increased 47 percent between 1989 and 1998. The main sources of revenue for the community service fund include fees and other local nontax revenues, state aid, and local taxes. In 1998, local sources accounted for about two-thirds of this fund's revenue statewide, while state aid provided 28 percent. From 1989 to 1998, local nontax revenues per student rose 74 percent, while local tax revenue and state aid per student grew 36 percent and 22 percent respectively.

**Revenues for major capital projects grew faster than general fund revenue.**

Building construction revenues per student increased 97 percent during this period, reflecting the growth in construction activity due to increasing enrollment and the desire to update and upgrade facilities. Most of the revenue received by this fund consists of the proceeds from bonds issued or loans taken out by school districts. State aid and local taxes combined typically provide only about 1 or 2 percent of the revenues deposited in the building construction fund.

Between 1989 and 1998, debt service fund revenues per student increased 265 percent. However, much of this increase was due to increased bond refinancing activity. If that activity is excluded, then debt service fund revenues increased 90 percent, mirroring the general increase in construction activity reflected in building construction fund revenues. Other than revenues from refinancing, the main sources of revenue for the debt service fund are local taxes and state aid, which accounted in 1998 for 71 percent and 20 percent, respectively, of remaining debt service fund revenues. From 1989 to 1998, local tax revenues per student grew 96 percent, while state aid per student increased 55 percent.

# EXPENDITURES

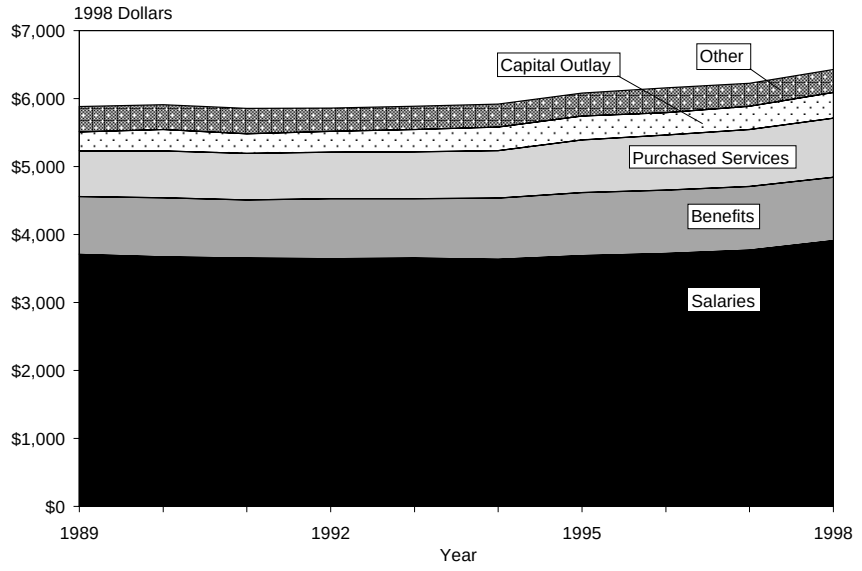
## General Fund

Between 1989 and 1998, general fund expenditures of Minnesota school districts grew 63 percent, increasing from $3.3 billion to $5.4 billion. However, some of the growth in expenditures can be attributed to increased enrollment and inflation. When adjusted for enrollment changes and inflation, spending appears to have grown modestly. In fact:

- **Inflation-adjusted general fund expenditures per student increased 9 percent between 1989 and 1998.**

Figure 2.2 shows the inflation-adjusted growth in spending. General fund expenditures per student grew from almost $5,900 to more than $6,400.[12] As Table 2.3 shows, some types of expenditures grew faster than others. Direct expenditures on employees increased less than the average rate of increase for general fund expenditures. Salary expenditures, which account for more than 60 percent of general fund spending, grew only 5 percent when measured on a per

**Figure 2.2: General Fund Expenditures per Student by Object of Expenditure, 1989-98**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

*12* We used average daily membership (ADM) served by public school districts to calculate spending per student. It could be argued that some of the growth in spending from 1989 to 1998 occurred because an increasing share of Minnesota's K-12 enrollment was in grades 7-12 and secondary education is generally more costly than elementary education. Weighting average daily membership in a manner similar to that used in distributing state aid to school districts does not affect the results much. Between 1989 and 1998, general fund spending per weighted ADM increased about 8 percent.

## Table 2.3: General Fund Expenditures per Student (in 1998 Dollars) by Object of Expenditure, 1989-98

| | 1989 | 1998 | Percentage Change |
|---|---|---|---|
| Salaries | $3,709 | $3,912 | 5% |
| Fringe Benefits | 851 | 929 | 9 |
| Purchased Services | 670 | 870 | 30 |
| Supplies and Materials | 300 | 278 | -7 |
| Capital Outlay | 279 | 378 | 35 |
| Other | 76 | 60 | -20 |
| Total | $5,885 | $6,425 | 9% |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

student basis. Fringe benefit expenditures, which represent 14 percent of spending, increased 9 percent per student. Spending per student on employee benefits such as health care, dental insurance, life insurance, and long-term disability rose 49 percent between 1989 and 1998, and Social Security and Medicare costs increased 17 percent. However, a 20 percent reduction in district spending for employee pension contributions helped to moderate the growth in fringe benefit spending.[13]

**Spending on capital outlay and purchased services grew faster than payroll expenditures.**

The fastest growing types of expenditures were capital outlay and purchased services, which rose 35 percent and 30 percent respectively. Spending per student on supplies and materials declined 7 percent. Some of the growth in capital outlay was probably due to increased purchases of computers, telecommunications equipment, and other advanced technology equipment. However, changes in the accounting system during the 1990s prevent us from determining the sources of the increase and their approximate size.

The trend in spending generally reflected the trend in revenues. Namely:

- **There was modest growth in general fund spending between 1989 and 1998, and most of it occurred during the latter part of this period.**

From 1989 through 1994, inflation-adjusted spending per student was nearly constant and varied less than 1 percent from 1989 spending per student. Almost all of the growth in spending per student occurred after 1994, and nearly all of the growth in salary expenditures per student occurred in 1997 and 1998.

The trend in expenditures can also be examined at the program level, although some caution is needed in interpreting the results due to changes in how school districts have categorized expenditures during the 1990s. Table 2.4 shows that:

- **The fastest growing programs have been instructional support, special education, and regular instruction.**

*13* Growth in health care insurance costs appear to be responsible for most of the growth in fringe benefit expenditures.

## Table 2.4: General Fund Operating Expenditures per Student (in 1998 Dollars) by Program, 1989-98

| | 1989 | 1998 | Percentage Change |
|---|---|---|---|
| Regular Instruction | $2,541 | $3,022 | 19% |
| Special Education | 748 | 934 | 25 |
| Operations and Maintenance | 511 | 536 | 5 |
| Pupil Support | 503 | 550 | 9 |
| District Administration and Support | 495 | 533 | 8 |
| Instructional Support | 218 | 311 | 43 |
| Vocational Education | 131 | 129 | -2 |
| Other | 460 | 33 | -93 |
| Total[a] | $5,606 | $6,047 | 8% |

[a]Operating expenditures exclude capital outlay expenditures.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

**Much of the spending growth went into instruction and instructional support.**

Operating expenditures per student for instructional support grew 43 percent from 1989 to 1998 in inflation-adjusted dollars, while spending per student on regular instruction grew 19 percent. Regular instruction, which accounted for nearly half of all operating expenditures in 1998, includes all spending on elementary and secondary classroom instruction except spending for vocational instruction or special education. Instructional support includes expenditures for activities that help teachers provide instruction. It specifically includes curriculum development, libraries, media centers, audio visual support, computer assisted instruction, and assistant principals.

Special education also experienced significant growth. From 1989 to 1998, inflation-adjusted spending per student on special education grew 25 percent. More than 40 percent of the growth in special education spending can be attributed to increased spending on students with emotional/behavioral disorders (EBD). The number of EBD students rose 65 percent between 1989 and 1998, with most of the increase occurring before 1996. The growth in programs for preschool handicapped children, rising transportation expenditures for children needing specialized transportation, and increased spending on support services such as those provided by social workers and psychologists account for another 40 percent of the growth in special education spending.[14]

The data in Table 2.4 should not be interpreted too precisely because of changes some school districts made in how they categorized fringe benefit spending. In 1989, a significant number of school districts placed all fringe benefits in the "other" program category rather than allocating them to each of the program categories as was the practice of most districts. By 1998, this misclassification of

*14* Minnesota schools have also experienced significant growth in the numbers of autistic and other health impaired students, which increased almost 647 percent and 1,097 percent, respectively, between 1989 and 1998. Despite this huge growth, services for these students accounted for only about 8 percent of the growth in special education spending over this period.

fringe benefits was no longer a problem. If we could properly allocate all 1989 fringe benefits to the proper program categories, it would probably not change our conclusions about which program categories were the fastest growing. However, it might lower the growth rate for each category shown in Table 2.4 by 4 to 8 percentage points.

# Other Funds

Spending from most other funds increased at least as fast as spending from the general fund. As Table 2.5 shows, inflation-adjusted spending per student increased 9 percent in the food service fund – the same rate of increase experienced by the general fund. Community service fund spending per student grew 46 percent. Reflecting enrollment growth and the upgrading and remodeling of existing facilities, spending per student in the building construction fund and debt service fund rose 113 percent and 167 percent respectively.[15] Only spending from the trust and agency funds declined, but these funds represent less than 1 percent of all spending by school districts.

**General fund spending grew slower than spending from most other funds.**

## Table 2.5: Expenditure Growth by Fund, 1989-98

| Fund | Expenditures per Student (1998 Dollars) 1989 | 1998 | Percentage Change |
|---|---|---|---|
| General | $5,885 | $6,425 | 9% |
| Food Service | 248 | 272 | 9 |
| Community Service | 190 | 278 | 46 |
| Building Construction | 357 | 762 | 113 |
| Debt Service | 249 | 666 | 167 |
| Trust and Agency | 34 | 27 | -21 |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# FUND BALANCES

Fund balances at the end of a fiscal year, particularly balances in the general fund and other operating funds, are often used to assess a school district's financial health. A fund balance is the difference between a fund's assets and its liabilities. Assets include cash and investments, accounts receivable, and the value of inventories of certain items. The value of capital assets such as buildings, facilities, land, and equipment are not counted as assets for the purpose of computing school district fund balances. Liabilities include short-term debt and accounts payable.[16]

*15* Refinancing of previously issued bonds was also responsible for some of the growth in debt service fund spending.

*16* Some items such as property taxes receivable in a future year appear as both an asset and a liability and tend to cancel each other out.

In this section, we examine a number of different ways that fund balances and other financial indicators can be used to assess a district's financial health. The focus in this section is, however, on statewide trends rather than trends for individual school districts. As we will see, fund balance trends are similar to those for revenues and expenditures.

# Fund Balances per Student

One way of measuring statewide trends in fund balances is to calculate inflation-adjusted fund balances per student. Table 2.6 shows that, on a statewide basis:

- **Inflation-adjusted total fund balances per student increased significantly for all funds between 1989 and 1998.**

Total fund balances in the general fund increased 58 percent, from $537 per student in 1989 to $850 per student in 1998. Fund balances per student in the food service fund more than doubled and community service fund balances increased 35 percent. Balances in the nonoperating funds also increased significantly. These results are consistent with revenue and expenditure trends that show revenues have increased faster than expenditures in most funds.

**Revenue growth permitted school districts to increase their fund balances between 1989 and 1998.**

Because state accounting regulations require school districts to reserve or designate portions of their total fund balances for certain types of future spending, it is also useful to examine how the unreserved and undesignated portions of their total fund balances have changed. Table 2.6 shows that the unreserved/undesignated fund balances have grown during the 1990s for all but one of the funds. Unreserved/undesignated balances per student in the general fund increased 33 percent, from $405 in 1989 to $537 in 1998, while unreserved/undesignated balances for the food service fund and all nonoperating

## Table 2.6: Total and Unreserved Fund Balances (in 1998 Dollars) per Student by Fund, 1989-98

| | 1989 | 1993 | 1998 | Percentage Change 1989-98 |
|---|---|---|---|---|
| Total Fund Balances | | | | |
| General | $537 | $423 | $850 | 58% |
| Food Service | 14 | 28 | 31 | 119 |
| Community Service | 43 | 49 | 58 | 35 |
| Building Construction | 429 | 614 | 793 | 85 |
| Debt Service | 139 | 426 | 897 | 543 |
| Trust and Agency | 18 | 31 | 37 | 105 |
| Unreserved/Undesignated Fund Balances | | | | |
| General | $405 | $212 | $537 | 33% |
| Food Service | 14 | 27 | 30 | 115 |
| Community Service | 42 | 48 | 9 | -80 |
| Building Construction | 194 | 334 | 693 | 258 |
| Debt Service | 139 | 426 | 361 | 159 |
| Trust and Agency | 15 | 29 | 36 | 140 |

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

funds more than doubled. The only exception to this general trend was the community service fund. Unreserved/undesignated fund balances in this fund declined 80 percent even though total fund balances increased 35 percent. This anomaly is due to a change in accounting practices that resulted in most of the balances in the community service fund being reserved for future spending on community service activities.

Table 2.6 also shows that:

**The growth in general fund balances occurred after 1993.**

- **Fund balances for the general fund declined from 1989 to 1993 before increasing sharply by 1998.**

Between 1989 and 1993, total fund balances per student declined 21 percent in the general fund while unreserved/undesignated fund balances in the general fund fell 48 percent. However, from 1993 to 1998, total balances per student grew 101 percent and unreserved/undesignated balances rose 153 percent. These trends, along with the trends in revenues and expenditures observed earlier, suggest that the early 1990s was a period of worsening financial health for most Minnesota school districts. General fund spending declined slightly while fund balances declined significantly. Since 1993, the financial health of districts has been on the rise. Spending has increased modestly and fund balances have more than doubled.

# Fund Balances as a Percentage of Expenditures

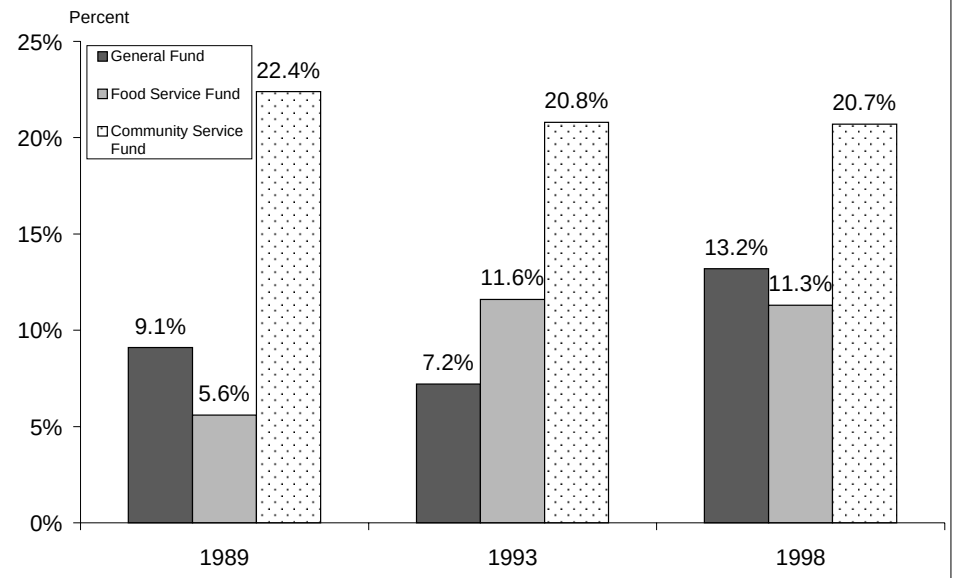
Another way of measuring the size of a district's fund balance is to calculate the fund balance as a percentage of fund expenditures. This measure is particularly useful for operating funds because operating expenditures tend to change gradually. It is less useful for nonoperating funds like the building construction fund, which can experience dramatic changes in spending from year to year in a district. Figure 2.3 illustrates how total fund balances as a percentage of expenditures have changed for each of the operating funds. In particular:

- **Between 1989 and 1998, total fund balances for the general fund and the food service fund increased significantly as a percentage of fund expenditures.**

Total fund balances in the general fund increased from about 9 percent of fund expenditures in 1989 to 13 percent in 1998. Fund balances in the food service fund rose from less than 6 percent of fund expenditures to more than 11 percent. There was a slight decline for the community service fund, which had fund balances decrease from 22 percent of fund expenditures to about 21 percent.

Figure 2.4 provides more detail on the change in fund balances for the general fund. It shows how both the reserved and unreserved portions of total fund balances have changed as a percentage of general fund expenditures. Unreserved/undesignated fund balances declined from 6.9 percent of expenditures in 1989 to 3.6 percent in 1993 but increased to 8.4 percent in 1998. The trend in the unreserved portion of fund balances is similar to the trend for the general

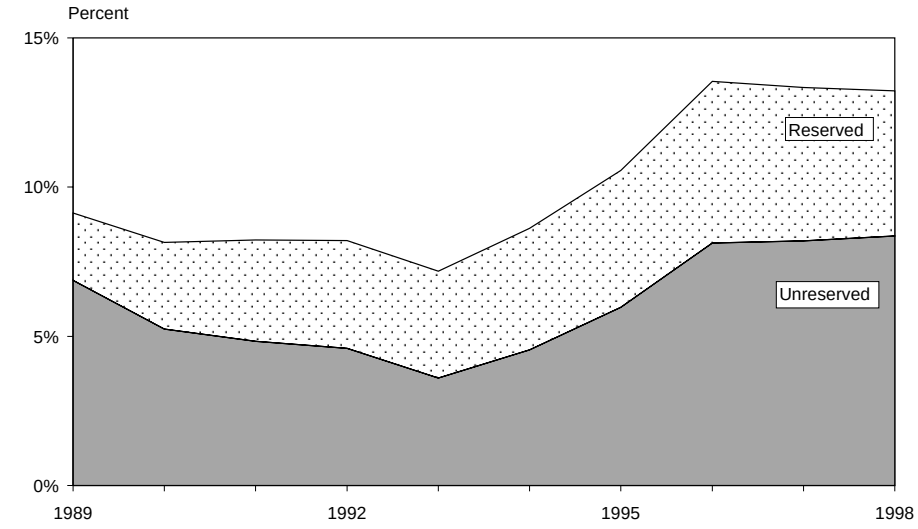
**Figure 2.3: Total Fund Balances as a Percentage of Expenditures for the Operating Funds, 1989-98**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

**General fund balances as a percentage of expenditures also increased between 1989 and 1998.**

**Figure 2.4: Reserved and Unreserved Fund Balances in the General Fund as a Percentage of Expenditures, 1989-98**



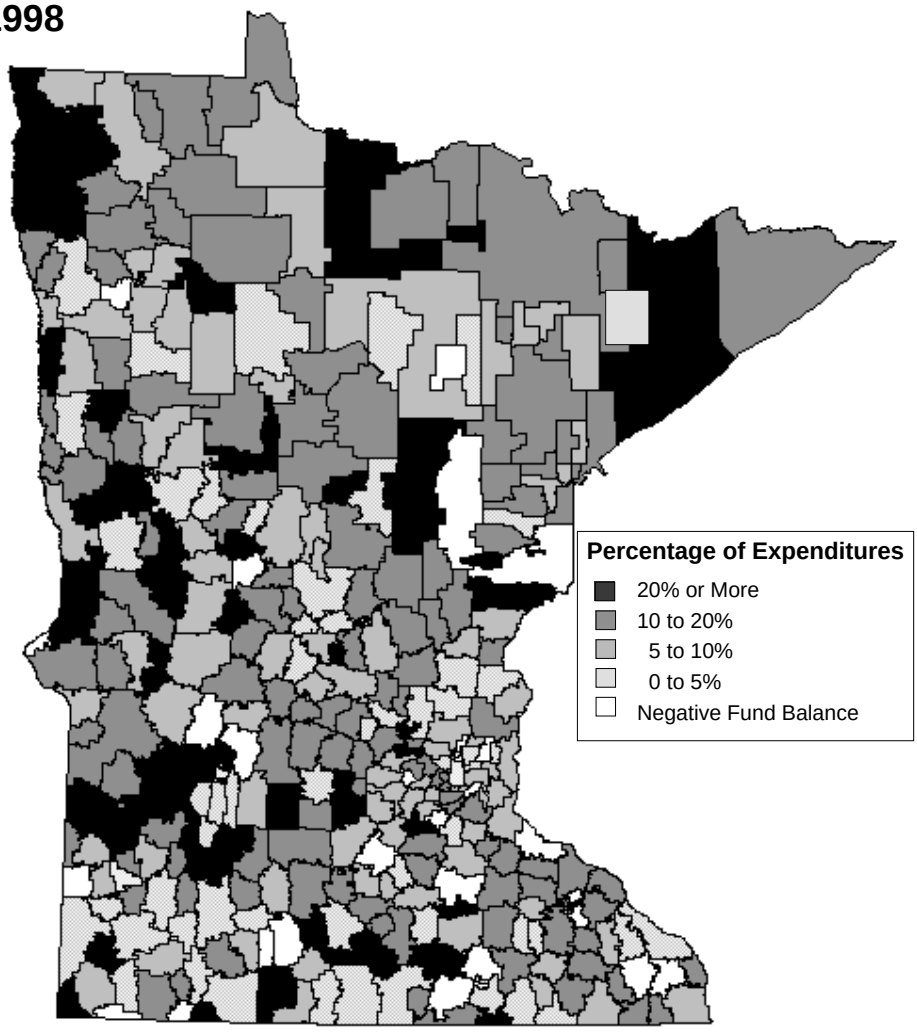

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

fund's total fund balances. However, the reserved portion of the fund balances has tended to increase throughout the 1990s. Reserved balances as a percentage of general fund expenditures increased from 2.3 percent in 1989 to 3.6 percent in 1993 and 4.9 percent in 1998. In part, this relatively steady growth may reflect changes in the accounting system that have resulted in additional categories of fund balances being reserved for specified purposes.

On average, unreserved/undesignated fund balances as a percentage of general fund expenditures are larger for outstate districts than districts in the Twin Cities metropolitan area. In addition, outside of the Twin Cities area, smaller districts tend to have larger fund balances. Figure 2.5 shows the differences in fund balances across the state.

**Smaller outstate districts tend to have larger general fund balances as a percentage of expenditures.**

**Figure 2.5: Unreserved/Undesignated Fund Balances as Percentage of Annual Expenditures, 1998**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# Net Unappropriated Operating Fund Balance

A third way of measuring school district financial health in Minnesota is through calculation of the net unappropriated operating fund balance (NUOFB). A school district's NUOFB is defined by state law as the total fund balances in the general, food service, and community service funds less balances reserved for statutory operating debt reduction, bus purchase, severance pay, reemployment insurance, maintenance levy reduction, operating capital, disabled access, health and safety, encumbrances, and certain programs funded out of revenues from taconite companies.[17] In effect, the NUOFB includes the unreserved/undesignated fund balances in these three funds as well as the reserved or designated balances not listed above.

The NUOFB is the primary measure CFL uses to track fund balances. Not only is the calculation of the NUOFB required in order for CFL to comply with laws governing the monitoring of districts in statutory operating debt, but it also provides a more comprehensive measure of operating fund balances by including other funds besides the general fund. In addition, it includes certain reserved fund balances that might be appropriately considered as available for general use. By law, the NUOFB is used to identify school districts that are in statutory operating debt and are thus required to submit a plan to CFL explaining how they will eliminate their deficit. Districts with a year-end negative fund balance exceeding 2.5 percent of their annual operating expenditures are considered to be in statutory operating debt.

Figure 2.6 shows how the NUOFB as a percentage of operating fund expenditures has changed over the last ten years. The trend for the NUOFB is similar to the trend for general fund balances shown in the previous figure. In particular:

- **Net unappropriated operating fund balances as a percentage of expenditures declined during the early 1990s but increased significantly by 1998.**

In 1989, the NUOFB was 6.6 percent of operating fund expenditures. By 1993, it had declined to 4.8 percent of expenditures. Since then, it has risen to 9.4 percent.

Figure 2.7 shows how the number of districts in statutory operating debt changed between 1989 and 1998. At the end of 1989, 40 school districts were in statutory operating debt. The number increased to 54 by the end of 1994 but dropped to only 10 by the end of 1998. Similar to the fund balance data presented above, Figure 2.7 indicates that the early 1990s was generally a period of worsening financial health and the period since then has been one of greatly improving financial health.

Although a small number of districts have remained in statutory operating debt or had negative net unappropriated operating fund balances for a number of years, it should be noted that most districts typically do not remain in statutory operating

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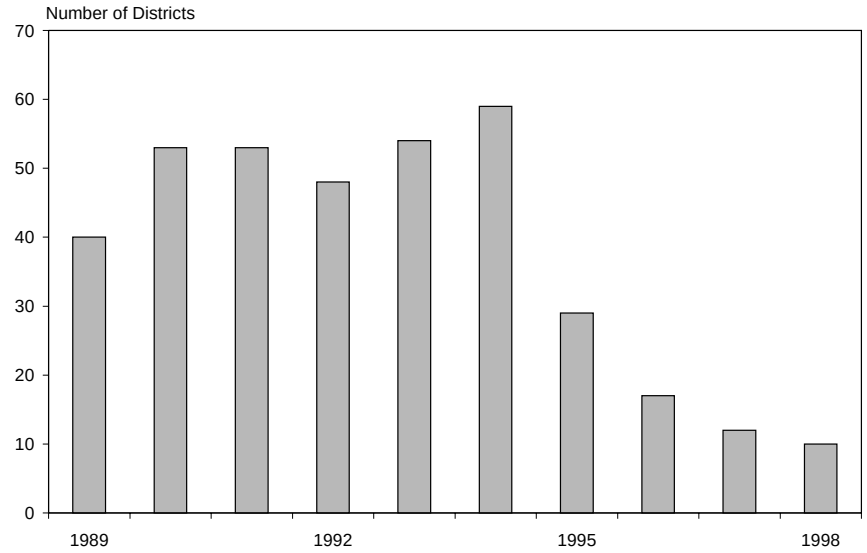
*17 Minn. Stat.* §126C.01, subd. 11.

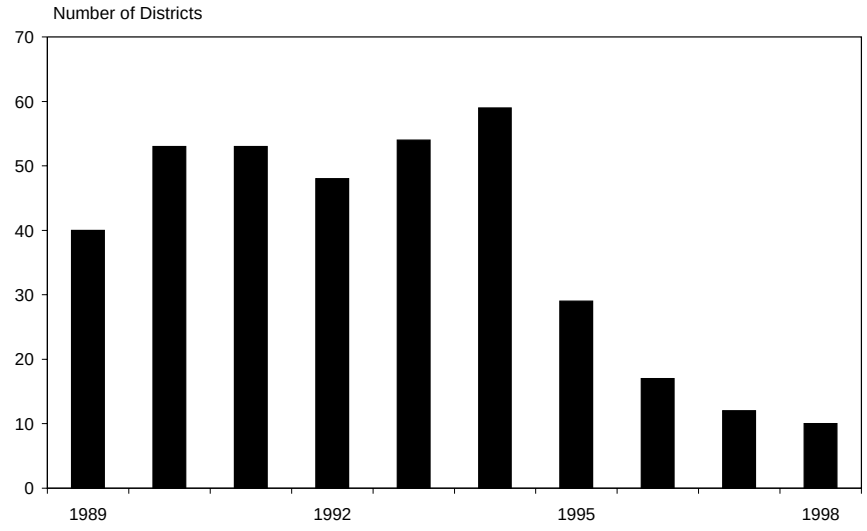
**Between 1989 and 1998, the number of districts in statutory operating debt declined.**

## Figure 2.7: School Districts in Statutory Operating Debt, 1989-98




SOURCE: Department of Children, Families & Learning, *School District Profiles, 1997-98,* (Roseville: 1999), 13.

## Figure 2.7: School Districts in Statutory Operating Debt, 1989-98




SOURCE: Department of Children, Families & Learning, *School District Profiles, 1997-98,* (Roseville: 1999), 13.

debt for long periods of time. They tend to get out of statutory operating debt by reducing expenditures or sometimes by consolidating with another district.[18] Nine of the 12 districts in statutory operating debt at the end of 1997 were out of statutory debt by the end of 1998. Two consolidated with other districts, four had positive fund balances at the end of 1998, and three had negative fund balances that were small enough to get them out of statutory operating debt.[19]

# Other Financial Indicators

**Other financial indicators have also shown improvement during the 1990s.**

There are two other indicators that CFL uses to track the financial health of school districts. One is the short-term debt ratio, a measure of a school district's short-term indebtedness as a percentage of its available cash and investments. Lower short-term debt ratios indicate better financial conditions than higher ratios. The second is the quick ratio, which is a district's net cash and investments divided by its current payables. A higher quick ratio indicates better ability to meet short-term obligations than a lower quick ratio.

Both of these indicators have shown improvement during the 1990s.[20] In 1991, the statewide short-term debt ratio was 49 percent. This ratio increased to 68 percent by 1993 indicating an increase in short-term debts relative to available cash and investments. However, by the end of 1998, the short-term debt ratio had declined significantly to 8 percent. The quick ratio declined from 2.1 in 1991 to 1.8 in 1993 but increased to 3.2 by the end of 1998. The overall growth in the quick ratio signals an increase in available cash and investments relative to bills that are currently payable.

# Discussion

Overall, significant improvement in fund balances and other financial indicators occurred between 1989 and 1998. We believe that the statewide average fund balances achieved in 1998 are at adequate levels, although fund balances may be inadequate for some districts and more than sufficient for others.

It is difficult to say exactly what constitutes an adequate fund balance. Some school district administrators feel that, for the general fund, an unreserved/undesignated fund balance equal to 6 to 8 percent of fund expenditures is an adequate or better than adequate balance. However, administrators with whom we talked offered a wide variety of perspectives. Some were uncomfortable even with unrestricted balances exceeding 10 percent of expenditures, while others seemed comfortable – although not pleased – with relatively low or negative balances.

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*18* On several occasions, the Legislature has also permitted districts with statutory operating debt to levy a property tax to help eliminate operating debts.

*19* Appendix A lists the districts in statutory operating debt at the end of 1997 and 1998, as well as those projected to be in statutory operating debt at the end of 1999.

*20* Data on the short-term debt ratio and the quick ratio were not available from CFL for 1989 and 1990. Unlike CFL, we included the capital expenditure fund when calculating these ratios, since it later became part of the general fund.

It should be recognized that having a negative fund balance at the end of the year is not necessarily a death knell for a school district. It simply means that the district must do more short-term borrowing to pay its bills on time. The additional borrowing results in higher interest expenditures, which, in turn, reduce the amount of resources available for spending on educational programs.

A fund balance that is negative and gets worse every year is a more severe problem, since a district would incur increasing interest costs and ultimately jeopardize its ability to offer adequate educational programs. Minnesota law is designed to ensure that districts with a negative net unappropriated operating fund balance of sufficient magnitude address these problems through good fiscal planning.

# DISTRICT VARIATION

**Not all districts have experienced improving financial conditions during the 1990s.**

Throughout much of this chapter, we have discussed the statewide financial trends experienced by Minnesota school districts as a whole. It is important to recognize, however, that the trends experienced by individual school districts can vary significantly from the average statewide trends. For example, while general fund revenues per student increased 16 percent statewide from 1989 to 1998, inflation-adjusted revenue changes for individual school districts ranged from an 81 percent increase to a 25 percent decrease. Ten percent of school districts experienced a decrease in revenues per student, while 22 percent of districts had an increase in excess of 20 percent. Similarly, while there was a significant statewide increase in net unappropriated operating fund balances per student, about one-third of the districts experienced a decline in the NUOFB per student. This was offset by another one-third of the districts in which the NUOFB per student more than doubled.

The map in Figure 2.8 shows the percentage change in general fund revenues per student between 1989 and 1998. The map does not indicate a clear geographical pattern in revenue trends. In most parts of the state, there are districts with varying degrees of change in revenues over this time period.[21]

However, Table 2.7 provides more insight into the variation in financial trends during the 1990s by examining financial trends for school districts based on their location and enrollment. In particular, it shows that:

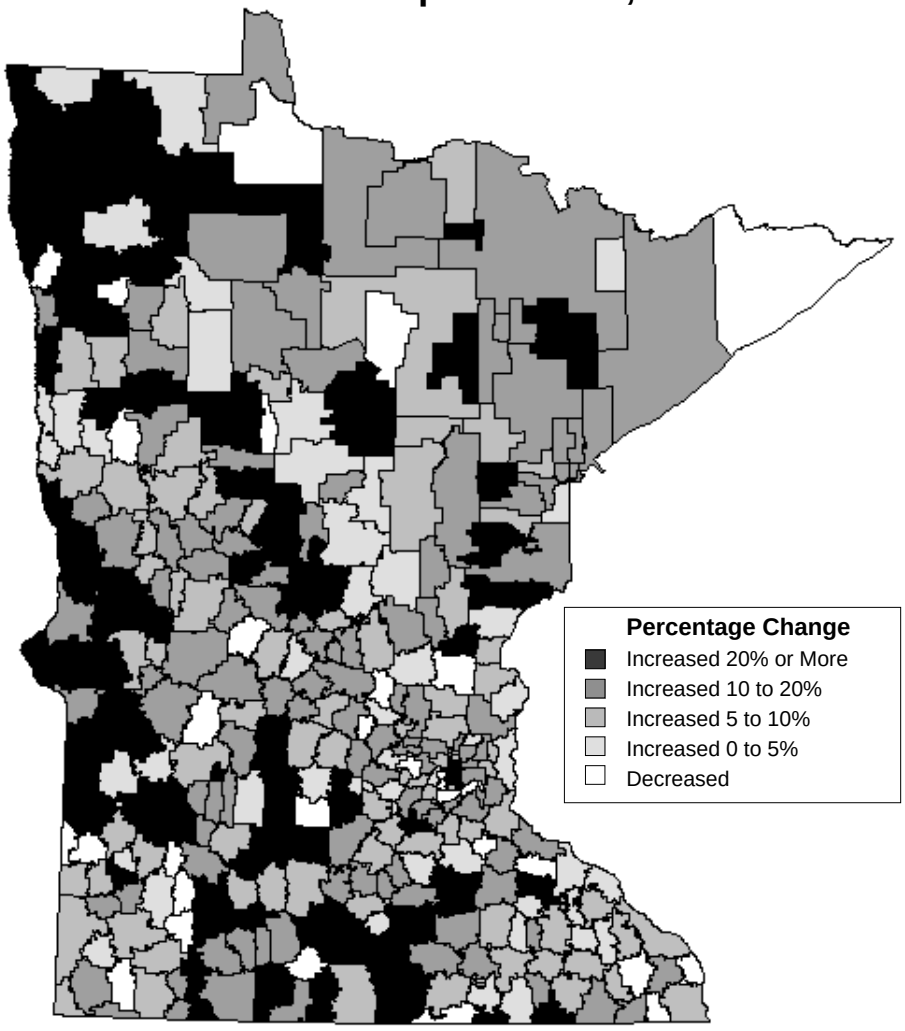
- **Districts that consolidated during the 1990s experienced above average increases in general fund revenue, spending, and fund balances per student.**

General fund revenue per student grew 25 percent in consolidated districts compared with 11 percent in all other districts. The average expenditure growth in consolidated districts was also more than twice the rate of growth in other districts. On average, net unappropriated operating fund balances per student rose 70 percent in consolidated districts compared with 31 percent for other districts.

*21* Maps of the percentage change in expenditures per student and fund balances per student display a similar absence of a noticeable geographical pattern.

**There is no clear geographical pattern in the revenue and other financial trends experienced during the 1990s.**

## Figure 2.8: Percentage Change in Inflation-Adjusted General Fund Revenues per Student, 1989-98




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

It is not entirely clear why districts that consolidated during the 1990s seem to have fared better than other districts. In part, this trend may be due to the additional funding consolidating districts receive from the Legislature. In addition, districts that consolidated may have received additional sparsity aid due to their consolidation.

However, the amount of additional funding does not appear to explain the extent to which their revenues and expenditures have risen. Based on CFL data, we calculated that districts that consolidated had revenue growth of more than $600 per student (in 1998 dollars) in excess of the 11 percent average growth that other districts experienced. Declining enrollment might provide an explanation for this trend. As we observed in Chapter 1, consolidated districts are more likely to have experienced declining enrollment than other districts of similar size. As enrollment in these districts decreased, they did not cut spending commensurate

## Table 2.7: Financial Trends by Size and Location of School District, 1989-98

| Type of School District | Average Change in General Fund Revenue per Student, 1989-98[a] | Average Change in General Fund Spending per Student, 1989-98[a] | Median Change in Net Unappropriated Operating Fund Balance per Student, 1989-98[a] |
|---|---|---|---|
| Consolidated Districts[b] | | | |
| Outstate Minnesota, 2,000 or More Students | 11% | 15% | 94% |
| Outstate Minnesota, 1,000 to 1,999 Students | 22 | 19 | 76 |
| Outstate Minnesota, 500 to 999 Students | 30 | 20 | 56 |
| Outstate Minnesota, Less Than 500 Students | 37 | 32 | 75 |
| All Consolidated Districts | 25% | 21% | 70% |
| All Other Districts | | | |
| Minneapolis and St. Paul[c] | 21 | 14 | 393 |
| Twin Cities Area, 5,000 or More Students | 8 | 7 | 31 |
| Twin Cities Area, Less Than 5,000 Students | 6 | 4 | 40 |
| Outstate Minnesota, 2,000 or More Students | 11 | 9 | 27 |
| Outstate Minnesota, 1,000 to 1,999 Students | 10 | 9 | 48 |
| Outstate Minnesota, 500 to 999 Students | 10 | 8 | 62 |
| Outstate Minnesota, Less Than 500 Students | 14 | 13 | 12 |
| All Other Districts | 11% | 9% | 31% |
| All Districts | | | |
| Minneapolis and St. Paul | 21 | 14 | 393 |
| Twin Cities Area, 5,000 or More Students | 8 | 7 | 31 |
| Twin Cities Area, Less Than 5,000 Students | 6 | 4 | 40 |
| Outstate Minnesota, 2,000 or More Students | 11 | 9 | 31 |
| Outstate Minnesota, 1,000 to 1,999 Students | 15 | 13 | 56 |
| Outstate Minnesota, 500 to 999 Students | 14 | 10 | 59 |
| Outstate Minnesota, Less Than 500 Students | 16 | 15 | 15 |
| All Districts | 13% | 11% | 35% |

[a]Revenues, expenditures, and fund balances were adjusted for inflation prior to calculating the percentage change between 1989 and 1998.

[b]Consolidated districts are districts that consolidated between 1989 and 1998.

[c]The higher than average results for central city school districts are largely due to Minneapolis. St. Paul's increases in revenues, spending, and fund balances per student were 16 percent, 10 percent, and 7 percent respectively.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

with the decline in enrollment. The result was an increase in spending per student. However, it is hard to reconcile this explanation with the higher growth in fund balances experienced by consolidated districts.

Table 2.7 also indicates that, compared with other districts, large central city school districts (Minneapolis and St. Paul) and school districts in outstate Minnesota with enrollments of less than 500 students had above average increases in revenues and expenditures per student. Meanwhile, other Twin Cities metropolitan area school districts, particularly those with lower enrollments, had below average increases. Increases in the NUOFB per student were above average in the central city school districts, small Twin Cities area districts, and outstate Minnesota school districts with enrollments between 500 and 1,999 students. Districts in outstate Minnesota with enrollments under 500 had the smallest median increase in fund balances per student, although their fund

balances were well above the statewide average at the beginning and end of the 10-year period.

It should be noted that the Minneapolis and St. Paul school districts experienced significantly different trends. In Minneapolis, revenues per student increased 27 percent from 1989 to 1998, while revenues in St. Paul were up 16 percent. Expenditures per student grew 19 percent in Minneapolis compared with 10 percent in St. Paul. The NUOFB per student rose 779 percent in Minneapolis but only 7 percent in St. Paul.

Overall, the St. Paul school district's experience was much closer to statewide averages for revenues and expenditures and well below the average statewide growth in fund balances. The larger figures for Minneapolis are due in part to some special circumstances. Between 1989 and 1998, Minneapolis voters approved an operating referendum levy. Without revenues related to that action, the Minneapolis school district's increase in revenues per student would have been 18 percent – a figure close to that for St. Paul. Furthermore, one of the reasons for Minneapolis' very large percentage growth in fund balances per student is that Minneapolis had a very low fund balance in 1989 and was still paying off statutory operating debts incurred prior to 1977.

# SUMMARY

Through 1998, the 1990s have seen improvement in the financial health of Minnesota's public school districts. General fund revenues per student increased 16 percent in inflation-adjusted dollars from 1989 to 1998 permitting a modest 9 percent growth in general fund expenditures per student and a more than 50 percent improvement in total year-end fund balances per student. The number of school districts in statutory operating debt declined from 40 in 1989 to 10 in 1998. In our opinion, the statewide level of fund balances was adequate or better at the end of 1998, although not all school districts had adequate fund balances.

**Since 1993, the financial health of school districts has improved.**

The improvement in overall financial health has largely come since 1993. Between 1989 and 1993, general fund expenditures remained relatively constant. In addition, total year-end fund balances per student (in 1998 dollars) declined by 21 percent in the general fund. However, from 1993 to 1998, inflation-adjusted expenditures per student increased 9 percent, and inflation-adjusted fund balances per student doubled.

From 1989 to 1998, payroll expenditures increased at a slower rate than overall expenditures. Salary expenditures per student increased only 5 percent compared with the overall spending increase of 9 percent. Fringe benefit expenditures, despite a substantial increase in the cost of employee health care coverage, increased only 9 percent. Lower public pension contributions by school districts helped to keep down the growth in fringe benefit expenditures.

Much of the growth in operating expenditures appears to have been used for instruction and related activities. The fastest growing programs in K-12 education during the 1990s were instructional support, special education, and regular instruction. School district spending on community education programs also grew

significantly, but these programs serve community members of all ages and much of their growth was financed from local sources.

Capital expenditures increased much faster than operating expenditures during the 1990s. Within the general fund, capital outlay spending per student grew 35 percent from 1989 to 1998. Expenditures from both the building construction fund and the debt service fund more than doubled. Among the factors responsible for the growth in capital spending are the need to accommodate growing enrollments in many districts, preventive maintenance needs, the perceived need to upgrade and modernize older school facilities, and the purchase of computers.

# 3 Staffing and Salaries


**SUMMARY**

***The growth in K-12 spending during the 1990s was used, in part, to increase the number of teachers and pupil support staff. While individual teachers may have received salary increases in excess of inflation, statewide average teacher salaries did not keep pace with inflation. Inflation-adjusted average salaries declined 4 percent due to salary schedules lagging slightly behind inflation. The hiring of new teachers at lower salaries to accommodate enrollment growth and reduce elementary class sizes also contributed to this decline.***


In recent years, there has been much attention focused on two aspects of school district finances: class size and teacher salaries. Over the last few years, the Legislature has provided additional revenue to help districts reduce class size.[1] During the 1999 session, legislators also held several discussions regarding teacher salaries and their relationship with district revenues and expenditures. Reports of salary settlements over the past eight years have suggested that teacher salaries and benefits are increasing faster than inflation. Observers have often interpreted these settlement reports to indicate that additional education funding has been primarily used to increase teacher salaries and benefits, not classroom resources.

This chapter examines how salaries and fringe benefits for teachers and other licensed staff have changed between 1989 and 1999. We also examine whether the growth in K-12 spending has been used to increase the number of teachers and other licensed staff in public school districts. Throughout this chapter, our discussion is confined to licensed staff because reliable statewide data on other types of staff are not available.[2] This chapter addresses the following questions:

- **How has the number of licensed staff and teachers per student changed over the past ten years?**

- **How have average salaries for licensed staff and teachers changed over the past ten years? How have fringe benefits changed over this time period?**

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*1 Minn. Stat.* §126C.12. A district is required to reserve a portion of its general education revenue to "reduce and maintain the district's instructor to learner ratios in kindergarten through grade 6 to a level of 1 to 17 on average."

*2* Licensed staff include teachers, librarians, guidance counselors, psychologists, social workers, nurses, superintendents, assistant superintendents, principals, assistant principals, supervisors, coordinators, and other administrators. Nonlicensed staff include teacher aides, custodians, bus drivers, clerical staff, food service workers, and others.

- **To what extent are salaries putting pressure on school district expenditures?**

To answer these questions, we analyzed staff and salary data from the Minnesota Department of Children, Families and Learning, the Minnesota School Boards Association, and Education Minnesota.

# BACKGROUND

When discussing school district staff and salary trends it is important to recognize that, in 1999, 88 percent of licensed staff were teachers. As a result, overall licensed staff and salary trends largely mimic those for teachers. In order to better understand this chapter, it is useful to first discuss how teacher salaries are determined and examine the difference between reported teacher settlements and actual school district payroll costs.

## Teacher Salaries

**A teacher's salary increases with additional training and years of experience.**

Individual teacher salaries in Minnesota are generally determined by a district *salary schedule* or *grid* and are based on a teacher's years of experience and level of training. Each school district has a salary grid that is arrived at through negotiations with the teachers' union. Teacher salaries increase as years of experience and the level of training (determined by the number of educational credits earned) increase.[3]

There are two ways to analyze changes in teacher salaries over time. One method is to look at how the schedule as a whole has shifted between years by comparing the salary for a specific cell in one year to the salary for that same cell in another year. Although this method will not illustrate how a specific teacher's salary has changed, it will show how the average starting teacher's salary has changed. The second method is to follow specific teachers through their careers and analyze how their salaries have changed over time. For example, a starting teacher with a Bachelor's degree would be in the BA lane, step one in 1989. In 10 years, this teacher would be at step 11, and may have earned some additional educational credits and thus moved to a higher-paying lane. In this chapter, we use both of these methods to examine teacher salaries.

## Salary Settlements

People frequently compare the percentage increase in teacher salary and benefit settlements with the percentage increase in education revenues using data on settlements from either the Minnesota School Boards Association (MSBA) or Education Minnesota. Table 3.1 lists the settlements MSBA and Education

*3* Each year of experience is commonly referred to as a *step*, while each level of training is commonly referred to as a *lane*. The intersection of a step (a specified number of years of experience) and a lane (a specified level of training) is commonly referred to as a *cell*. These terms will be used throughout the remainder of this chapter.

## Table 3.1: Percentage Change in Teacher Salary and Benefits Packages, 1989-99

| | Salary and Benefits | | |
|---|---|---|---|
| Biennium | MSBA | Education Minnesota | CPI |
| 1989-91 | 10.2% | 11.2% | 10.3% |
| 1991-93 | 8.7 | 8.8 | 6.1 |
| 1993-95 | 6.7 | 7.2 | 5.4 |
| 1995-97 | 7.4 | 7.9 | 5.6 |
| 1997-99 | 8.9 | 9.0 | 3.2 |

NOTE: MSBA is the Minnesota School Boards Association. The CPI is based on the Bureau of Labor Statistics, Consumer Price Index for Urban Wage Earners, U.S. City Average, not seasonally adjusted. MSBA and Education Minnesota use slightly different criteria for calculating salary and benefits packages.

SOURCE: Office of the Legislative Auditor's analysis of Minnesota School Boards Association and Education Minnesota data.

**Contract settlement data do not provide a good measure of the increase in school district payroll costs.**

Minnesota reported for the past ten years. This comparison often suggests that salary and fringe benefit costs are increasing faster than both revenues and inflation. This comparison is, however, somewhat misleading because the salary and benefit settlement data do not provide a good measure of the percentage increase in salary and fringe benefit payroll costs for districts. Salary settlements are generally reported to include increases to the salary schedule, increases in benefits, and the step and lane changes expected to occur given the existing staff at the time of the settlement.[4] The data provide a reasonable measure of how much the average teacher's salary and benefit package will increase if all teachers in the prior year return for the next two years. However, because of retirements and other turnover, we found that:

- **The increase in salary and benefit costs for a district is generally less than the salary settlement data indicate.**

For example, a report that a school district settled for a 3 percent increase for each year of the biennium means that the costs associated with the increase in the schedule as a whole, plus the increase each current teacher experiences due to step and lane increases and any increase in benefits, are 3 percent more this year than the previous year. The 3 percent really serves as a "worst-case scenario" for the district in terms of expected payroll costs. Before the next school year, it is likely that some teachers will retire and others will simply leave the district. When the district hires teachers to replace those that left, they often hire teachers with less training and fewer years of experience. As a result, the district's payroll costs are less than the original 3 percent settlement estimate because the teachers with less experience cost the district less than the teachers that retired. It should also be pointed out that the portion of the increase due to step and lane increases would

*4* MSBA and Education Minnesota use slightly different criteria for calculating average salary and benefit packages. MSBA includes social security and teachers retirement contributions, while Education Minnesota does not. MSBA also includes increases associated with expected step and lane changes, while Education Minnesota only includes step changes. Finally, Education Minnesota weights average salaries by the number of employees in the school district, while MSBA does not.

have occurred under the terms of the old contract, even if the schedule as a whole had not increased.[5]

The reporting of salary settlements often leads to misunderstandings and concerns regarding how much districts are spending on teacher salaries. This chapter addresses some of these concerns by examining the changes in teacher salaries from several different angles. In this chapter, we look at both how an individual teacher's salary has changed over the last ten years and how the average salary paid by a school district has changed over the same time period. However, in order to better understand salary changes between 1989 and 1999, it is useful to first look at how staffing has changed over this time period.

# STAFFING TRENDS

**During the 1990s, the number of licensed staff grew faster than enrollment.**

When discussing school district finances, considerable attention is focused on the number of students per classroom or alternatively the number of staff per student in a school or district. We found that:

- **The number of licensed staff per 1,000 students increased by 8 percent between 1989 and 1999.[6]**

Put another way, the number of licensed staff in Minnesota grew 26 percent between 1989 and 1999, while fall headcount enrollment grew only 17 percent. Figure 3.1 illustrates the average number of licensed staff per 1,000 students for 1989 through 1999. The figure shows that the growth in licensed staff occurred primarily in the last three years.

Table 3.2 shows how the number of licensed staff per 1,000 students changed between 1989 and 1999 for five categories of licensed staff. As noted earlier, in 1999 almost 88 percent of licensed staff were teachers. Six percent were pupil support personnel, 5 percent were administrators, and 1 percent were supervisors or coordinators.

Table 3.2 shows that the number of supervisors and coordinators per 1,000 students, which include vocational and special education supervisors as well as coordinators and evaluators, increased 30 percent between 1989 and 1999. However, the number of administrators per student decreased 5 percent during the same time period. As a result, administrative and supervisory positions per student as a whole saw no change between 1989 and 1999. The number of pupil support service providers per student, which include guidance counselors, psychologists, social workers, nurses, and library/media specialists, increased 9 percent between 1989 and 1999. However, the increase in social workers

*5* In contrast, when the state of Minnesota reports contract settlements with its unions, it includes only the percentage increase in its salary grid, not the increases due to step increases of employees or higher health insurance premiums.

*6* This calculation is based on headcounts of students. Weighting fall enrollment as average daily membership (ADM) is weighted in funding formulas to calculate pupil units does not significantly change the trends in staffing ratios. If fall enrollment is weighted by grade level using the 1999 weights, licensed staff per 1,000 students increased 6 percent between fiscal years 1989 and 1999.

**The growth in the staff-student ratio occurred primarily in the last three years.**

## Figure 3.1: Licensed Staff per 1,000 Students, 1989-99


NOTE: The data only include public school licensed staff.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

## Table 3.2: Licensed Staff per 1,000 Students, 1989-99

| Licensed Staff Category | 1989 | 1999 | Percentage Change 1989-99 |
|---|---|---|---|
| Administrators[a] | 3.84 | 3.65 | -5% |
| Supervisors/Coordinators | 0.66 | 0.86 | 30 |
| Subtotal | 4.50 | 4.51 | 0% |
| Pupil Support | 4.03 | 4.38 | 9 |
| Teachers | 58.46 | 63.13 | 8 |
| All Licensed Staff | 67.00 | 72.01 | 8% |

NOTE: Data are for public school licensed staff only and do not include nonlicensed, private school, or charter school staff.

[a]Administrators include superintendents, assistant superintendents, principals, assistant principals, directors, and other administrators.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

accounts for nearly all of this growth. Psychologists and nurses also increased during this time period while guidance counselors and library/media specialists decreased. The increase in social workers may be linked to the changes in the composition of K-12 enrollment that we noted in Chapter 1.

Similar to the increase in the number of licensed staff per student, we found that:

- **The number of teachers per 1,000 students increased by 8 percent between 1989 and 1999.**

This also appears to be a recent trend, beginning in 1997. The data presented in Table 3.2 suggest that the increase in the number of teachers and licensed staff per 1,000 students is at least partially responsible for the increase in expenditures per student discussed in Chapter 2.

**School districts have hired more teachers for elementary grades.**

Additional data suggest that increased education funding has probably gone into classroom instruction for kindergarten and other elementary grades. Between 1989 and 1999, the number of kindergarten teachers increased 23 percent while kindergarten enrollment dropped 2 percent. Similarly, the number of elementary teachers increased 24 percent while elementary enrollment grew only 11 percent during this time period. It is unclear how teacher-student ratios have changed at the secondary level.[7]

# District Variation

Corresponding to these statewide trends:

- **Over 75 percent of districts had increases in both the number of licensed staff and the number of teachers per 1,000 students between 1989 and 1999.**

However, some types of districts were more likely to have experienced a decrease in staffing ratios than the average district. Table 3.3 indicates that smaller districts were more likely than larger districts to have a decrease in licensed staff per 1,000 students over the past ten years. Among districts that did not consolidate between 1989 and 1999, 26 percent of those districts with less than 2,000 students had a decrease in licensed staff per 1,000 students. Only 12 percent of those districts with over 2,000 students had a similar decrease. Overall though, a majority of both small and large districts saw increases in their staff ratios. Figure 3.2 illustrates the percentage change in staffing ratios between 1989 and 1999 for all Minnesota public school districts. Although there does not seem to be a strong geographical pattern, it appears that districts in outstate Minnesota were more likely to experience a decrease in their staff ratios than districts in the Twin Cities metropolitan area. We also found that:

- **Districts that consolidated in the last ten years were more likely than other districts to have experienced a decrease in the number of licensed staff and teachers per 1,000 students.**

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*7* Available data do not permit us to calculate how much elementary teacher-student ratios have changed, but they clearly have increased. The problem with available data is that staffing data include middle school teachers as a separate category, but enrollment data on middle school students are not available. Middle schools include students at both elementary and secondary grade levels. Secondary teacher-student ratios may have either increased or decreased depending on how the secondary share of middle school students and teachers has changed.

## Table 3.3: Changes in Licensed Staff by District Size and Location, 1989-99

**Consolidated districts were more likely to have experienced decreases in the staff-student ratio.**

| | | Percentage of Districts Whose Licensed Staff per Student: | |
|---|---|---|---|
| Consolidated Districts[a] | *N* | Decreased | Increased |
| Outstate Minnesota, 2,000 or More Students | 3 | 33% | 67% |
| Outstate Minnesota, 1,000 to 1,999 Students | 36 | 44 | 56 |
| Outstate Minnesota, 500 to 999 Students | 18 | 39 | 61 |
| Outstate Minnesota, Less Than 500 Students | 7 | 29 | 71 |
| All Consolidated Districts | 64 | 41% | 59% |
| All Other Districts | | | |
| Minneapolis and St. Paul | 2 | 0% | 100% |
| Twin Cities Area, 5,000 or More Students | 23 | 4 | 96 |
| Twin Cities Area, Less Than 5,000 Students | 23 | 22 | 78 |
| Outstate Minnesota, 2,000 or More Students | 45 | 11 | 89 |
| Outstate Minnesota, 1,000 to 1,999 Students | 53 | 15 | 85 |
| Outstate Minnesota, 500 to 999 Students | 61 | 33 | 67 |
| Outstate Minnesota, Less Than 500 Students | 77 | 27 | 73 |
| All Other Districts | 284 | 21% | 79% |

[a]Consolidated districts are those that consolidated between 1989 and 1999.

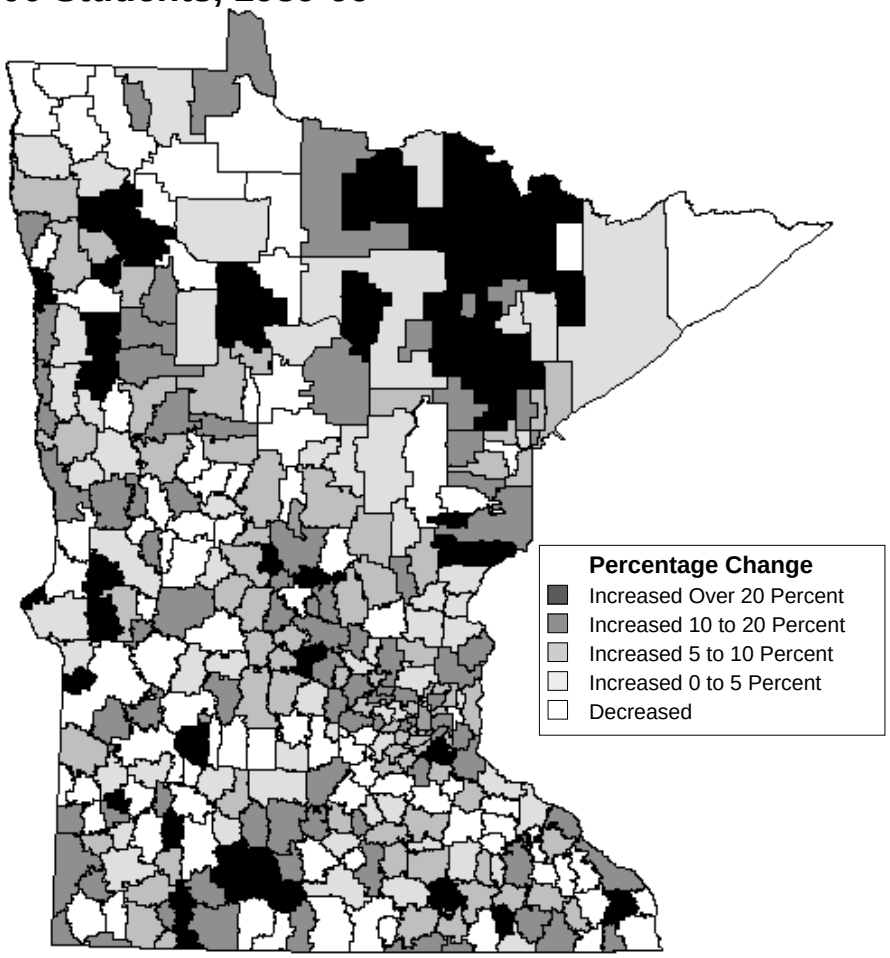
SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

Table 3.3 shows that 41 percent of consolidated districts experienced a decrease in the number of licensed staff per 1,000 students. In contrast, only 21 percent of other districts experienced such decreases. Similarly, 42 percent of consolidated districts experienced a decrease in the number of teachers per 1,000 students, while only 21 percent of other districts experienced a decrease.

It is not surprising that consolidated districts were more likely to experience decreases in the number of licensed staff and teachers per 1,000 students. Part of the reasoning behind consolidation is that small districts will achieve greater economies of scale if they can join together to form one larger district. Besides the obvious savings of only needing one superintendent instead of two, additional savings may come through merging classes and restructuring the district.

Overall, these findings indicate that most districts have used at least part of the additional education funding to increase the number of licensed staff and teachers during the 1990s. The remainder of this chapter examines the extent to which salaries have changed over this same time period.

**Figure 3.2: Percentage Change in Licensed Staff per 1,000 Students, 1989-99**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# SALARY TRENDS

**Average teacher salaries have declined relative to inflation.**

As noted in Chapter 2, salaries and benefits comprise approximately 75 percent of public school districts' general fund expenditures. As a result, when discussing school district finances, salaries often come under scrutiny. We found that:

- **Inflation-adjusted average salaries for licensed staff decreased 4 percent between 1989 and 1999.**

As presented in Table 3.4, statewide average teacher salaries decreased 4 percent, average salaries for administrators increased 3 percent, average salaries for supervisors decreased 13 percent, and pupil support salaries decreased 5 percent over the same time period. The decline in average licensed salaries is largely due to declining average teacher salaries. As we discuss below, average teacher salaries have fallen even though many individual teachers have had increases

## Table 3.4: Statewide Licensed Staff Average Salaries (in 1999 Dollars), 1989-99

| Licensed Staff Category | 1989 | 1999 | Percentage Change 1989-99 |
|---|---|---|---|
| Administrators | $63,889 | $65,811 | 3% |
| Supervisors/Coordinators | 53,329 | 46,488 | -13 |
| Pupil Support | 45,136 | 42,826 | -5 |
| All Teachers | 41,150 | 39,552 | -4 |
| All Licensed Staff | $42,815 | $41,163 | -4% |

NOTE: Salaries are for public school licensed staff only and do not include nonlicensed, private school, or charter school staff.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

exceeding inflation. There are two reasons for the decline in average salaries. First, changes in the composition of the teaching staff led to a larger number of less experienced and thus lower paid staff. Second, teacher salary schedules have not kept pace with inflation. In the rest of this section, we discuss the factors affecting salary trends in more detail.

# Staff Composition

**The decline in average teacher salaries is due in part to the hiring of new teachers at the low end of the pay scale.**

We found that:

- **In 1999, teachers were on average less experienced but had slightly more training than teachers in 1989.**

As illustrated in Table 3.5, the percentage of beginning teachers (those with less than ten years of experience) increased between 1989 and 1999. Specifically, the percentage of teachers with less than 10 years of experience increased from 23 percent in 1989 to 38 percent in 1999. In contrast, the percentage of teachers with between 10 and 19 years of experience decreased from 36 percent in 1989 to 23 percent in 1999. At the same time, there was a small increase in the level of training teachers had acquired. The percentage of teachers with a Master's degree increased, while the percentage of those with only a Bachelor's degree decreased.

Due to enrollment increases and a statewide emphasis on improving teacher-student ratios, Minnesota schools hired a large number of teachers between 1989 and 1999. The data presented in Table 3.5 indicate that this growth in the number of teachers largely came through the hiring of teachers with less experience and thus lower salaries. The increase in the number of lower-paid teachers likely contributed to the decrease in average teacher salaries.

## Table 3.5: Teacher Distribution by Training and Experience, 1989 and 1999

| | 1989 Training Level | | | | |
|---|---|---|---|---|---|
| Years of Experience | BA < 30 | BA 30+ | MA < 30 | MA 30+ | Total |
| Less than 10 Years | 15.8% | 3.8% | 2.9% | 0.8% | 23.3% |
| 10 to 19 Years | 9.3 | 13.1 | 8.0 | 5.9 | 36.3 |
| 20 Years or More | 4.6 | 14.6 | 7.6 | 13.6 | 40.4 |
| Total | 29.7% | 31.4% | 18.5% | 20.4% | 100.0% |

| | 1999 Training Level | | | | |
|---|---|---|---|---|---|
| Years of Experience | BA < 30 | BA 30+ | MA < 30 | MA 30+ | Total |
| Less than 10 Years | 20.6% | 7.4% | 7.5% | 3.0% | 38.4% |
| 10 to 19 Years | 4.7 | 6.7 | 6.1 | 5.7 | 23.2 |
| 20 Years or More | 3.0 | 13.5 | 6.4 | 15.6 | 38.4 |
| Total | 28.3% | 27.6% | 19.9% | 24.2% | 100.0% |

NOTE: BA<30 = Bachelor's degree and less than 30 additional credits; BA 30+ = Bachelor's degree and 30 or more additional credits. MA<30 = Master's degree and less than 30 additional credits; MA 30+ = Master's degree and 30 or more additional credits.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# Teacher Salary Schedules

**The decline in average salaries is also due to teacher salary schedules lagging a little behind inflation.**

The second reason that average salaries have decreased 4 percent over the last 10 years is because:

- **Between 1989 and 1999, teacher salary schedules have generally not kept pace with inflation.**

Table 3.6 shows the percentage change in inflation-adjusted teacher salaries between fiscal years 1989 and 1999 for different levels of training and experience. Overall, the salary schedule declined 2 percent in inflation-adjusted dollars. Almost all combinations of training and experience had a decrease in inflation-adjusted salary between 1989 and 1999. The only exceptions are those teachers with a Master's degree and additional training credits, with less than 20 years of experience, who saw small increases between 1989 and 1999. It is interesting to note that in general, across all levels of training, average inflation-adjusted salaries for teachers with over 20 years of experience decreased the most between 1989 and 1999.[8] However, individual cells in the salary grid may have had larger declines in average inflation-adjusted salaries. For example, in 1989, an average beginning teacher with a Bachelor's degree and no additional training earned $27,334 in inflation-adjusted dollars. In 1999, an average beginning teacher with only a Bachelor's degree earned $25,793 – a decrease of almost 6 percent over the 10-year period.

*8* These findings are based on our analysis of CFL data. However, data from the Minnesota School Boards Association and Education Minnesota corroborate these findings.

## Table 3.6: Percentage Change in Average Teacher Salaries, 1989–99

| | Training | | | | |
|---|---|---|---|---|---|
| Years of Experience | BA < 30 | BA 30+ | MA < 30 | MA 30+ | Total |
| Less Than 10 Years | -2.7% | -0.1% | -0.2% | 0.2% | -1.8% |
| 10 to 19 Years | -1.6 | -2.5 | 0.6 | 0.7 | -1.0 |
| 20 or More Years | -2.2 | -5.9 | -3.3 | -2.5 | -3.8 |
| Total | -2.3% | -4.0% | -1.3% | -1.5% | -2.4% |

NOTE: Data are based on the percentage change in inflation-adjusted average teacher salaries between fiscal years 1989 and 1999. BA <30 = Bachelor's degree and less than 30 additional credits; BA 30+ = Bachelor's degree and 30 or more additional credits. MA <30 = Master's degree and less than 30 additional credits; MA 30+ = Master's degree and 30 or more additional credits.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# Individual Teacher Salaries

**Despite the decline in average salaries, many individual teachers received increases in excess of inflation.**

Although average teacher salaries have not kept pace with inflation, we found that:

- **Between 1989 and 1999, many individual teachers saw their salaries increase faster than inflation.**

For the most part, the increase in inflation-adjusted salaries that individual teachers experienced between 1989 and 1999 is a result of their movement through the steps (years of experience) and lanes (educational credits). As illustrated in Table 3.7, an average beginning teacher with a Bachelor's degree and no additional training credits in 1989 earned $27,334 in 1999 dollars (bordered with a thick line). That teacher would be at step 11 in 1999 with a salary of $33,469, a 22 percent increase over that time period. If that teacher had earned a Master's degree during those ten years, her salary would be $41,686, a 53 percent increase from its 1989 level.

Table 3.7 illustrates other salary changes an average teacher might experience between fiscal years 1989 and 1999 taking into account step and lane changes. For example, in 1989 a teacher in her fourth year with a Bachelor's degree and 30 additional credits earned $31,818 in 1999 dollars (bordered with a dashed line). That teacher would be at step 14 in 1999 with a salary of $38,266, a 20 percent increase over the 10-year time period. If that teacher earned a Master's degree or a Master's degree and 60 additional credits, that teacher would have received salary increases totaling 39 or 64 percent respectively. Finally, a teacher at step 9 with a Master's degree in 1989 earned $38,057 in 1999 dollars (bordered with a double line). That teacher would be at step 19 in 1999. If the teacher did not earn any additional educational credits, her salary would have increased 18 percent over that 10-year time period. If this teacher earned 60 additional education credits, she would have received increases totaling 44 percent.

The data presented in Table 3.7 suggest that most teachers have experienced substantial increases in salary, regardless of how average teacher salaries have

# Table 3.7: Individual Teacher Salary Changes, 1989–99

| | 1989 Statewide Average Salaries Adjusted for Inflation | | | | | |
|---|---|---|---|---|---|---|
| Years of Experience | BA | BA+30 | BA+60 | MA | MA+30 | MA+60 |
| 1 | $27,334 | $30,435 | $32,847 | $32,623 | $35,323 | $41,475 |
| 2 | 28,120 | 31,032 | 33,723 | 33,775 | 36,845 | 43,942 |
| 3 | 28,814 | 31,374 | 33,938 | 34,250 | 37,058 | 38,567 |
| 4 | 29,353 | 31,818 | 38,365 | 35,764 | 40,367 | 39,661 |
| 5 | 29,933 | 32,503 | 36,928 | 34,974 | 39,160 | 40,121 |
| 6 | 30,384 | 33,077 | 36,068 | 35,840 | 45,468 | 43,758 |
| 7 | 31,086 | 33,590 | 35,982 | 36,534 | 38,753 | 43,115 |
| 8 | 31,324 | 34,148 | 37,716 | 37,635 | 40,106 | 45,435 |
| 9 | 32,061 | 34,714 | 39,306 | 38,057 | 42,668 | 44,390 |
| 10 | 32,731 | 35,098 | 38,917 | 38,664 | 42,915 | 45,419 |
| 11 | 33,279 | 35,965 | 40,999 | 39,003 | 42,345 | 46,060 |
| 12 | 33,945 | 36,691 | 41,304 | 40,569 | 43,265 | 48,109 |
| 13 | 35,110 | 38,037 | 43,351 | 41,417 | 45,385 | 47,255 |
| 14 | 35,381 | 38,892 | 43,860 | 43,267 | 46,352 | 48,717 |
| 15 | 36,109 | 39,280 | 44,772 | 43,925 | 47,910 | 52,959 |
| 16 | 35,789 | 40,289 | 46,088 | 45,371 | 47,129 | 53,546 |
| 17 | 36,499 | 40,562 | 46,475 | 45,861 | 49,747 | 55,857 |
| 18 | 36,643 | 40,702 | 47,179 | 46,536 | 50,542 | 56,071 |
| 19 | 37,440 | 41,111 | 48,750 | 46,635 | 50,119 | 57,381 |
| 20+ | 38,551 | 41,930 | 49,759 | 48,051 | 51,153 | 58,463 |
| Average | $31,341 | $38,846 | $47,587 | $43,586 | $49,285 | $57,042 |

| | 1999 Statewide Average Salaries | | | | | |
|---|---|---|---|---|---|---|
| Years of Experience | BA | BA+30 | BA+60 | MA | MA+30 | MA+60 |
| 1 | $25,793 | $28,031 | $30,489 | $30,136 | $32,113 | $33,368 |
| 2 | 26,755 | 29,930 | 31,429 | 32,140 | 33,886 | 37,663 |
| 3 | 27,369 | 30,212 | 33,711 | 33,017 | 34,600 | 38,202 |
| 4 | 28,542 | 31,725 | 36,643 | 34,350 | 39,407 | 43,828 |
| 5 | 28,855 | 31,234 | 36,541 | 34,939 | 38,286 | 41,505 |
| 6 | 29,867 | 32,268 | 36,477 | 36,259 | 39,922 | 44,217 |
| 7 | 31,010 | 33,642 | 38,605 | 37,077 | 40,710 | 43,554 |
| 8 | 31,616 | 34,231 | 39,916 | 38,174 | 41,057 | 46,494 |
| 9 | 31,851 | 35,086 | 39,710 | 39,647 | 42,043 | 46,027 |
| 10 | 32,436 | 35,167 | 40,840 | 40,405 | 44,611 | 47,144 |
| 11 | 33,469 | 36,094 | 42,564 | 41,686 | 45,322 | 50,144 |
| 12 | 33,705 | 36,403 | 41,996 | 43,019 | 47,091 | 50,567 |
| 13 | 34,396 | 37,717 | 42,856 | 42,782 | 47,728 | 51,569 |
| 14 | 34,259 | 38,266 | 43,238 | 44,117 | 48,257 | 52,273 |
| 15 | 35,119 | 38,302 | 45,043 | 43,844 | 47,688 | 53,353 |
| 16 | 34,623 | 38,641 | 44,353 | 44,239 | 49,410 | 53,450 |
| 17 | 35,315 | 38,931 | 44,667 | 44,589 | 48,469 | 54,243 |
| 18 | 36,323 | 39,617 | 44,667 | 44,723 | 48,781 | 54,332 |
| 19 | 36,214 | 39,434 | 44,921 | 44,943 | 49,501 | 54,986 |
| 20+ | 37,447 | 40,686 | 47,504 | 46,551 | 49,497 | 56,821 |
| Average | $30,446 | $37,909 | $45,768 | $43,106 | $48,497 | $55,736 |

NOTE: Step 20+ is an average of the salaries above 20 years of experience. Districts vary in how many steps are listed in their salary schedule. In fiscal year 1999, districts had from 7 to 40 steps in their salary schedules.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

performed. However, those teachers with a significant number of years of experience in fiscal year 1989 may not have received as large of an increase in salary as did other teachers over the ten-year period. As teachers reach higher levels of experience, the percentage increase in salary is likely to be lower because they are at or near the maximum salary level in a given lane. In addition, some districts' schedules have fewer than ten steps, so teachers with under ten years of experience could be at the maximum salary level in their lane. Teachers at the highest step only receive salary increases due to lane shifts, shifts in the schedule as a whole, or other negotiated items such as lump-sum longevity pay.

**There are legitimate policy questions about the basis for setting teacher salaries.**

Despite the fact that average teacher salaries have decreased and teacher-student ratios have increased over the last ten years, there are legitimate policy questions regarding the structure of salary schedules and their effect on individual teachers' salaries. Policy makers have raised questions regarding the salary increases individual teachers have received in many districts. Concerns largely focus on the structure of the salary schedule that rewards teachers for years of experience and number of educational credits rather than performance in the classroom or demonstrated skills. At the same time, the low level of starting teachers' salaries has caused concern. Policy makers and district officials alike have commented that low salaries for beginning teachers have made it more difficult to attract people to the field of teaching. As discussed earlier, salaries for average beginning teachers have decreased 6 percent in inflation-adjusted dollars between 1989 and 1999.

# District Variation

We found that:

- **Although the average inflation-adjusted salary for licensed staff decreased statewide, over half of all Minnesota school districts experienced an increase in average licensed staff salaries between 1989 and 1999.**

Table 3.8 shows that 57 percent of all districts experienced an increase in average licensed staff salaries between 1989 and 1999 after adjusting for inflation. However, most of these districts were small districts with less than 2,000 students, employing 36 percent of all licensed staff in the state. Average salaries in larger school districts were more likely to decrease, perhaps because they hired more new teachers. As a result, average salaries decreased for the state as a whole. We also found that:

- **After adjusting for inflation, consolidated districts were more likely to have experienced increases in average salaries for licensed staff between 1989 and 1999.**

Table 3.8 also shows that 81 percent of consolidated districts experienced an increase in inflation-adjusted average salaries for licensed staff between 1989 and 1999. Only 52 percent of other districts experienced similar increases in average salaries for licensed staff. This finding is not surprising since districts that consolidate often "level-up" staff salaries. That is, if the consolidating districts

## Table 3.8: Changes in Average Licensed Staff Salaries by District Size and Location, 1989 - 99

| | | Percentage of Districts that Had Licensed Staff Salaries | |
|---|---|---|---|
| Consolidated Districts[a] | *N* | Decrease | Increase |
| Outstate Minnesota, 2,000 or More Students | 3 | 33% | 67% |
| Outstate Minnesota, 1,000 to 1,999 Students | 36 | 22 | 78 |
| Outstate Minnesota, 500 to 999 Students | 18 | 17 | 83 |
| Outstate Minnesota, Less Than 500 Students | 7 | 0 | 100 |
| All Consolidated Districts | 64 | 19% | 81% |
| All Other Districts | | | |
| Minneapolis and St. Paul | 2 | 100% | 0% |
| Twin Cities Area, 5,000 or More Students | 23 | 70 | 30 |
| Twin Cities Area, Less Than 5,000 Students | 23 | 65 | 35 |
| Outstate Minnesota, 2,000 or More Students | 45 | 49 | 51 |
| Outstate Minnesota, 1,000 to 1,999 Students | 53 | 47 | 53 |
| Outstate Minnesota, 500 to 999 Students | 61 | 41 | 59 |
| Outstate Minnesota, Less Than 500 Students | 77 | 42 | 58 |
| All Other Districts | 284 | 48% | 52% |
| All Districts | | | |
| Minneapolis and St. Paul | 2 | 100% | 0% |
| Twin Cities Area, 5,000 or More Students | 23 | 70 | 30 |
| Twin Cities Area, Less Than 5,000 Students | 23 | 65 | 35 |
| Outstate Minnesota, 2,000 or More Students | 48 | 48 | 52 |
| Outstate Minnesota, 1,000 to 1,999 Students | 89 | 37 | 63 |
| Outstate Minnesota, 500 to 999 Students | 79 | 35 | 65 |
| Outstate Minnesota, Less Than 500 Students | 84 | 38 | 62 |
| All Districts | 348 | 43% | 57% |

[a]Consolidated districts are those that consolidated between 1989 and 1999.

SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

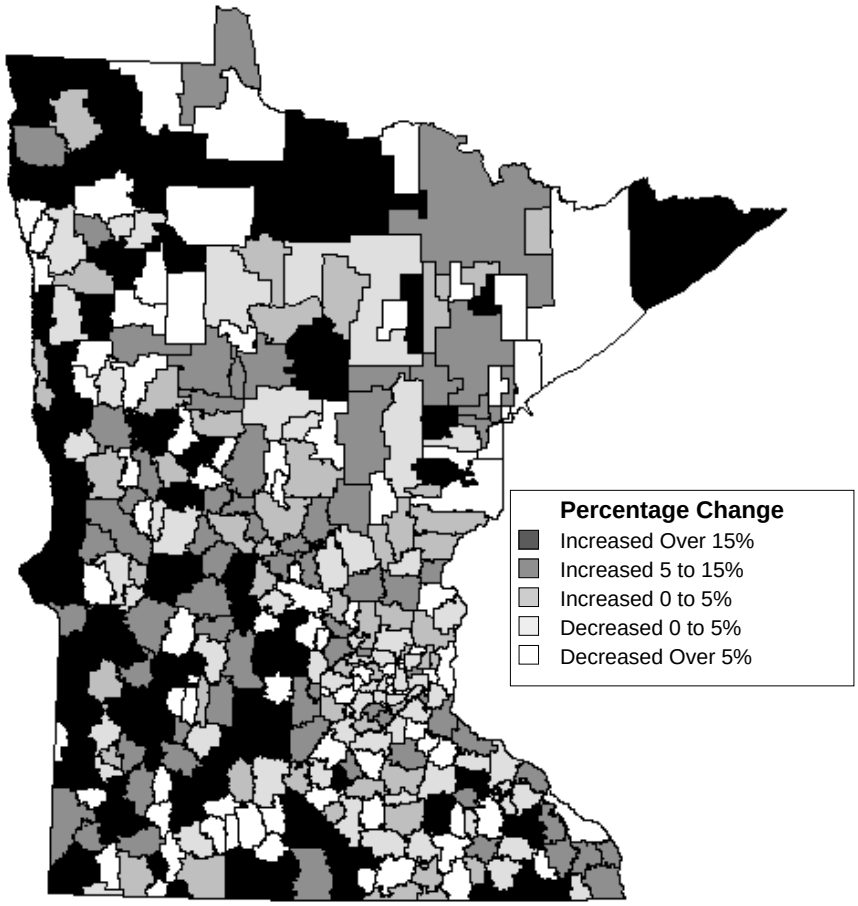
have different salary ranges, the staff with the lower salaries will often receive an increase to make salaries more uniform across the newly consolidated district.

Finally, Figure 3.3 illustrates the percentage change in inflation-adjusted average salaries for licensed staff between 1989 and 1999 for all Minnesota public school districts. The figure indicates that large increases in average licensed staff salaries occurred primarily outside the Twin Cities metropolitan area.

In sum, although licensed staff salaries do not appear to have put a strain on school district expenditures statewide, it is possible that individual districts have experienced some financial pressure. The findings discussed above imply that smaller districts and consolidated districts are more likely than others to have had increases in average salaries and decreases in staff-student ratios between 1989 and 1999. However, a majority of both of these types of districts experienced an increase in the number of licensed staff per 1,000 students during this time period.

**Average salaries decreased in most Twin Cities area districts but increased in most outstate districts during the 1990s.**

**Figure 3.3: Percentage Change in Average Inflation-Adjusted Salaries for Licensed Staff, 1989-99**




SOURCE: Office of the Legislative Auditor's analysis of Children, Families & Learning data.

# FRINGE BENEFITS

We found that:

- **Between 1989 and 1999, average health insurance costs increased significantly.**

As indicated in Table 3.9, the average health insurance premium increased 66 percent between 1989 and 1999, after adjusting for inflation. During this period, school districts have decreased the percentage of the premium for family coverage that they pay, from 77 percent in 1989 to 64 percent in 1999. Districts have also decreased the percentage of the single coverage premium that they pay.

## Table 3.9: Health Insurance Costs, 1989–99

| | 1989 | 1999 | Percentage Change 1989-99 |
|---|---|---|---|
| Total Health Insurance Premium | | | |
| Single | $ 1,445 | $ 2,403 | 66% |
| Family | 3,774 | 6,267 | 66 |
| Amount Paid by District | | | |
| Single | $ 1,457 | $ 2,339 | 61% |
| Family | 2,892 | 3,998 | 38 |
| Percent Paid by District | | | |
| Single[a] | 101% | 97% | -4% |
| Family | 77 | 64 | -17 |
| Percent of Districts Providing | | | |
| Life Insurance | 67% | 79% | 18% |
| Long-Term Disability | 66 | 72 | 9 |
| Single Dental | 35 | 42 | 20 |
| Family Dental | 27 | N/A | |

NOTE: 1989 costs are presented in 1999 inflation-adjusted dollars.

[a]A number of districts provide their employees a lump-sum amount to cover health insurance. Several of these districts allow their employees to keep any of this money not used for health costs. This may explain how districts paid 101% of the single coverage health insurance premium.

SOURCE: Office of the Legislative Auditor's analysis of data provided by the Minnesota School Boards Association, *Licensed Salaries and Related Information,*1988-89 and 1998-99.

**Health insurance costs increased significantly during the 1990s.**

Nevertheless, the annual health insurance premium for family coverage paid by school districts, in inflation-adjusted dollars, increased from $2,892 in fiscal year 1989 to $3,998 in 1999, a 38 percent increase. In addition, more districts provided life, disability, and dental insurance in 1999 than in 1989.

# SUMMARY

We found little statewide evidence to suggest that salary and benefit increases have caused districts to reduce the size of their staff. In fact, the number of teachers per 1,000 students statewide increased 8 percent between 1989 and 1999, while the number of pupil support staff increased 9 percent during this same time period. The data suggest that growth in teacher-student ratios has taken place in kindergarten and other elementary grades. We also found that average teacher salaries, adjusted for inflation, decreased 4 percent over the past ten years. This is due in part to salary schedules not keeping pace with inflation and in part to the hiring of new teachers as enrollment increased and districts tried to improve their staff-student ratios. Statewide, salaries do not appear to be putting pressure on school district expenditures even though many individual teachers have received salary increases larger than inflation based upon their years of experience and level of training.

Although average salaries decreased on a statewide basis over the past ten years, it is possible that individual districts have experienced financial pressures caused by salary and benefit settlements. Districts that are hiring few new teachers and experiencing few retirements are more likely to be adversely affected, particularly if they attempt to keep pace with settlements in other districts.

Finally, despite the decrease in average salaries over the last ten years, there is a legitimate policy question regarding the structure of salary schedules and individual teachers' salaries. Most existing salary schedules reward teachers based on years of experience and level of training, not performance in the classroom or demonstrated skills. Declining salaries for beginning teachers also pose a potential problem. They may adversely affect the number and quality of applicants for teaching positions.

# 4 Emerging Trends


**SUMMARY**

***School districts indicate that spending will increase faster than revenues between 1998 and 2000. Statewide, staffing ratios for 2000 appear to be holding near the high reached in 1999. Fund balances, however, are projected to decline about 20 percent from their 1998 year-end levels. While some school districts have made budget cuts, there are more districts adding academic programs in 2000 than eliminating them.***


In the preceding chapters, we looked at trends in school district revenues, expenditures, fund balances, enrollment, and staffing over the last decade to obtain an overall picture of school districts' financial health. While there is considerable variation among school districts, we found that, overall, they were in better financial health in 1998 than they were in 1989.

Despite this picture of improving financial health over the last ten years, many school districts voiced concerns during the 1999 legislative session about impending financial difficulties and their need to make budget cuts. This chapter examines the extent to which school districts experienced financial difficulties during 1999 and are expecting financial problems during the current fiscal year. In particular, this chapter addresses the following questions:

- **Do school districts expect their general fund revenues to exceed expenditures in 1999 and 2000? How are year-end fund balances expected to change from 1998 levels?**

- **What do school districts project their enrollment to be for 1999 and 2000? Are school districts with declining enrollment projecting greater financial difficulties than school districts with stable or increasing enrollment?**

- **What are teacher-student ratios projected to be in 1999 and 2000?**

- **How many school districts are making budget cuts for 2000? How many school districts are adding or eliminating academic programs in 2000?**

To answer these questions, we conducted in-depth interviews with officials from 18 school districts. We also mailed questionnaires to 349 public school district superintendents and asked them about their enrollment, staffing, revenues,

expenditures, and fund balances for 1998, 1999, and 2000.[1] We asked school districts to estimate the numbers for 1999 if they had not yet completed audits of their financial statements, and we asked them for budgeted or projected amounts for 2000.[2] We also asked them to list any budget cuts they had made during the past three years and for 2000, and we asked them to list courses or programs they were adding or deleting for 2000. We received timely responses from 274 school districts (79 percent). The school districts that did and did not respond to our questionnaire are listed in Appendix B.

# ENROLLMENT TRENDS

**In the last two years, most school districts seem to be experiencing declining enrollment.**

In Chapter 1, we showed that enrollment increased statewide and in a majority of school districts between 1989 and 1998. However, according to our survey, enrollment has stabilized since 1998. Table 4.1 shows the average daily membership reported by survey respondents for 1998 and 1999 and their estimates for 2000. The table shows that the average daily membership was 2,744 students per district in fiscal year 1998, an estimated 2,757 in 1999, and a projected 2,762 in fiscal year 2000. These statewide averages are influenced by enrollment growth in larger school districts in the seven-county Twin Cities area. However, while statewide enrollment has continued to grow slightly:

- **Sixty-three percent of school districts expect their enrollment to decline between 1998 and 2000.**

## Table 4.1: Average School District Enrollment by School District Size and Location, 1998–2000

| Type of School District | *N* | 1998 | 1999 (Estimated) | 2000 (Estimated) | Average Percentage Change 1998-2000 | Percentage of Districts with Enrollment Decline |
|---|---|---|---|---|---|---|
| Minneapolis and St. Paul | 2 | 46,785 | 47,526 | 47,578 | 2% | 50% |
| Twin Cities Area, 5,000 or More Students | 20 | 11,904 | 12,052 | 12,127 | 2 | 40 |
| Twin Cities Area, Less Than 5,000 Students | 21 | 2,742 | 2,790 | 2,818 | 3 | 33 |
| Outstate Minnesota, 2,000 or More Students | 44 | 4,498 | 4,473 | 4,461 | -1 | 61 |
| Outstate Minnesota, 1,000 to 1,999 Students | 66 | 1,451 | 1,432 | 1,425 | -2 | 71 |
| Outstate Minnesota, 500 to 999 Students | 61 | 743 | 731 | 724 | -2 | 64 |
| Outstate Minnesota, Less Than 500 Students | 58 | 315 | 307 | 303 | -4 | 72 |
| All Districts | 272 | 2,744 | 2,757 | 2,762 | -1% | 63% |

NOTE: District type is based on year 2000 projected enrollment. Percentage change is the unweighted average for the districts in each category, not the percentage change in total enrollment for the category.

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

*1* We did not send questionnaires to private schools, charter schools, home schools, cooperatives, or intermediate school districts.

*2* We also compared our survey results for 1999 with preliminary CFL data that became available in January 2000. The estimated statewide trends in enrollment, revenues, expenditures, and fund balances based on our survey results are very similar to the trends exhibited in CFL's preliminary data.

Seven percent of school districts expect their enrollment to decline by 10 percent or more between 1998 and 2000. Large enrollment declines are most likely outside the seven-county Twin Cities area, especially in small school districts. Eighteen percent of outstate school districts with less than 500 students expect an enrollment decline of 10 percent or more between 1998 and 2000. In contrast, 63 percent of the school districts in the Twin Cities area project an enrollment increase, and none project a decrease over 5 percent.

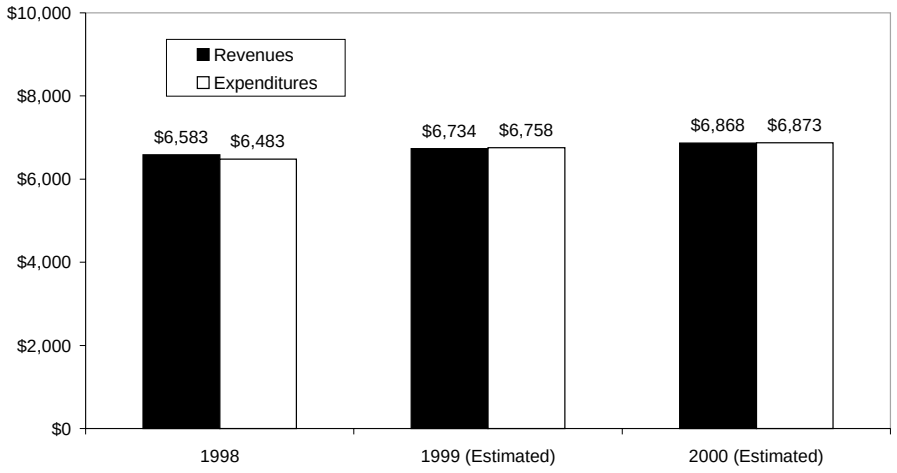
# FINANCIAL TRENDS

We asked school district superintendents to provide their districts' general fund revenues and expenditures for 1998 and 1999, and their budgeted revenues and expenditures for 2000. Figure 4.1 shows average revenues and expenditures for the three years.[3] We found that:

- **On average, school districts project general fund revenues per student to increase by about 5 percent between 1998 and 2000.**

The average revenues per student for school districts that responded to our survey was $6,583 in fiscal year 1998, $6,734 in 1999, and an estimated $6,868 in fiscal

**Figure 4.1: Average General Fund Revenues and Expenditures per Student, 1998-2000**




SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

*3* The financial results presented in this chapter were not adjusted for inflation. The Consumer Price Index increased by 1.6 percent in 1999 and is expected to increase by 2 to 3 percent in 2000.

year 2000.[4] Fifty-eight percent of school districts reported that revenues per student would increase over the two-year period by less than 10 percent, and 23 percent of the districts expected their revenues per student to increase by 10 percent or more. Nineteen percent of school districts expect their revenues per student to decline. Small outstate school districts were more likely than other school districts to expect a decline in revenues per student.

We wondered how revenues per student could decline in light of the increase in the funding formula, so we called ten school districts to inquire about their responses. Some of the districts indicated that they had unusual nonrecurring revenues in 1998 such as federal grants or property tax adjustments. Since they did not include these nonrecurring items in their 2000 budgets, their projected revenues declined from 1998 levels. Some districts said that even though the general education funding formula increased, they expect revenues to decline due to other changes in state funding, such as the phasing out of teacher training and experience revenues. Finally, some districts said that they might have been overly conservative in estimating their 2000 revenues, assuming the worst case scenario to avoid a financial crisis later in the year.

We also found that:

- **On average, school districts project general fund expenditures per student to increase by about 7 percent between 1998 and 2000, slightly more than they expect revenues to increase.**

**Most school districts estimate that expenditures will increase a little faster than revenues between 1998 and 2000.**

According to survey respondents, the average expenditure per student was $6,483 in 1998, $6,758 in 1999, and an estimated $6,873 in 2000. Forty-four percent of school districts reported that expenditures per student would increase over the 2-year period by less than 10 percent, and 36 percent of the districts expect their expenditures per student to increase by 10 percent or more. Twenty percent of school districts expect their expenditures per student to decline. Small outstate school districts were more likely than other school districts to expect a decline in expenditures per student.

While revenues exceeded expenditures for the average school district in fiscal year 1998, Figure 4.1 shows that the average school district expects expenditures to slightly exceed revenues in 1999 and be about equal to revenues in 2000. As a result, districts expect their fund balances to decline. Table 4.2 shows actual year-end general fund balances for 1998, estimated year-end general fund balances for 1999, and budgeted year-end general fund balances for 2000 for school districts of different sizes and locations.

Table 4.2 shows that, on average, districts of all sizes and locations expect general fund balances to decline. Fund balances are expected to decline from a district average of $1,171 per student in 1998 to $1,057 per student in 2000, a 10 percent decline. However, because fund balances are expected to decline more in larger school districts, we estimate the overall statewide decline to be about 20 percent.

*4* Unlike statewide averages reported in earlier chapters, the school district averages reported in this chapter are not weighted by school district size. As a result, the experiences of small districts have a greater influence on the averages reported in this chapter. The different method used to compute statewide averages does not, however, materially affect the trends between 1998 and 2000, except for those involving fund balances.

## Table 4.2: Average General Fund Balance per Student by School District Size and Location, 1998-2000

| Type of School District | 1998 | 1999 Estimated | 2000 Estimated | Percentage with Declining Fund Balance |
|---|---|---|---|---|
| Minneapolis and St. Paul | $1,071 | $ 859 | $ 788 | 100% |
| Twin Cities Area, 5,000 or More Students | 567 | 452 | 406 | 68 |
| Twin Cities Area, Less Than 5,000 Students | 567 | 474 | 495 | 48 |
| Outstate Minnesota, 2,000 or More Students | 795 | 706 | 631 | 80 |
| Outstate Minnesota, 1,000 to 1,999 Students | 1,020 | 982 | 855 | 77 |
| Outstate Minnesota, 500 to 999 Students | 1,312 | 1,326 | 1,302 | 58 |
| Outstate Minnesota, Less Than 500 Students | 1,921 | 1,917 | 1,870 | 57 |
| All Districts | $1,171 | $1,125 | $1,057 | 66% |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

**Most school districts expect their fund balances to decline between 1998 and 2000.**

If expected inflation is factored in, the estimated decline in total fund balances per student is about 24 percent between 1998 and 2000. Even if total general fund balances decline as much as school districts project, they will be about 20 percent higher statewide than they were in 1989.

Table 4.2 shows that:

- **Nearly two-thirds of all school districts project lower year-end general fund balances for 2000 than they had in 1998.**

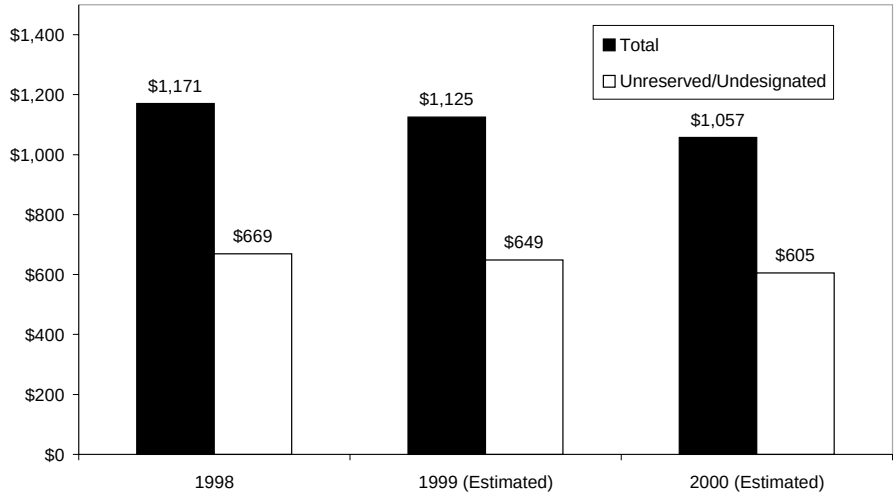
In addition, 19 school districts (7 percent) project zero or negative year-end general fund balances for 2000 compared to 12 school districts (4 percent) in 1998.

We found similar results when we considered general fund balances as a percentage of annual expenditures. In 1998, year-end fund balances for all school districts represented, on average, 18 percent of their annual expenditures. For 1999, the estimated year-end fund balance was 16 percent of estimated annual expenditures and for 2000, the budgeted year-end fund balance constituted 15 percent of budgeted expenditures.

School districts are permitted, and in some cases required, to reserve or designate a portion of their general fund balances for specific purposes such as staff development, severance pay, and operating capital. Since these reserves are not available for districts to use as they wish, we looked at the unreserved/undesignated portion of school districts' general fund balances and found similar results to those reported above. Figure 4.2 shows the average general fund balance and the unreserved/undesignated portion of the general fund balance for all school districts for the three years.

As shown in Figure 4.2, the district average year-end unreserved/undesignated general fund balance was $669 per student in 1998. It was estimated to be $649 per student in 1999, and projected to be $605 in 2000, a 10 percent decline from 1998. However, because unreserved/undesignated fund balances are expected to decrease more in larger districts, the overall statewide decline is estimated to be

## Figure 4.2: Average General Fund Balance per Student, 1998-2000




SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

22 percent, or 26 percent if expected inflation is considered. If fund balances decline as much in 2000 as school districts estimate, then the inflation-adjusted unreserved/undesignated fund balances per student in 2000 would be slightly below the 1989 statewide level.

Moreover:

- **Sixty percent of school districts projected lower unreserved and undesignated fund balances for 2000 than 1998.**

**After declining significantly during the 1990s, the number of school districts in statutory operating debt rose last year.**

At the end of fiscal year 2000, 36 school districts (14 percent) expect their unreserved/undesignated general fund balance to be zero or negative, up from 25 districts (9 percent) in 1998. Preliminary data from the Department of Children, Families and Learning also indicate that the number of school districts in statutory operating debt increased from 10 in 1998, to 22 in 1999.

Several reasons can explain why some school districts have declining fund balances. Staffing decisions are usually made for the upcoming school year before school districts know exact enrollment and revenue figures. Because the school funding formula is based in large part on enrollment, unexpected enrollment declines can result in overestimated revenues. In addition, teacher salary and benefit costs can sometimes exceed budgeted amounts because school districts usually begin the biennium before negotiations with the teachers' union are complete. Estimates of other expenditures, such as special education or school transportation, may also be inaccurate.

Ultimately, a school district's policy determines the level of its fund balance. Schools that expect expenditures to exceed revenues can maintain their fund balance, to some degree, by cutting spending. One school district we visited, for example, told us that they were in statutory operating debt in 1994. They passed a referendum levy to get out of debt and established a policy to maintain a $10 million fund balance. They then made extensive cuts in 1995 in athletic activities, arts and music, libraries, and technology in order to achieve a $10 million fund balance. They have since been able to use referendum levy revenues to restore the cuts, but say they will impose new cuts if necessary to maintain the $10 million fund balance.

Another school district we visited, however, told us that they decided to dip into their $3 million fund balance to hire more teachers and provide more programs for students. Over the next three years, the district's deficit spending policy, coupled with higher than expected special education costs, resulted in the depletion of its entire unreserved/undesignated general fund balance. This district is now making $2 million in budget cuts for 2000 to keep its fund balance positive. The cuts will result in increased class sizes, the elimination of some elective course offerings, and reductions in non-instructional areas.

# BUDGET AND PROGRAM CUTS

**About one-third of Minnesota's school superintendents say they made budget cuts this year.**

Fund balances are only one measure of a school district's financial health. Districts under financial pressure may have to make significant budget cuts that could result in fewer course offerings, increased class sizes, or reductions in extracurricular activities, technology, or support services. In our survey, we asked districts to indicate whether they were making budget cuts in 2000 and to list the five largest instructional and non-instructional cuts they were making. Their responses indicated that:

- **Thirty-six percent of school districts responding to our survey said they were making budget cuts for 2000.**

Larger school districts were more likely than smaller school districts to make budget cuts. For example, within the seven-county Twin Cities area, 60 percent of school districts with 5,000 or more students reported making cuts, compared with 43 percent of districts with fewer than 5,000 students. Outstate, 43 percent of school districts with 2,000 or more students reported making cuts, compared with 22 percent of school districts with fewer than 500 students.

Statewide, school districts making budget cuts had lower general fund balances ($697 per student on average) than districts not making cuts ($1,263 per student). In addition, 72 percent of the school districts making budget cuts experienced declining enrollment between 1998 and 2000, compared with 57 percent of the districts not making cuts.

Those school districts that reported making cuts said the cuts averaged $129 per student in instructional areas (2 percent of budgeted expenditures for 2000) and

## Table 4.3: Types of Budget Cuts Reported by School Districts for 2000

| Type of Cut | Number of Districts Listing This Cut | Percentage of Districts Responding to The Survey |
|---|---|---|
| Instructional Cuts | | |
| Regular Teaching Positions | 75 | 27% |
| Teacher Aides | 34 | 12 |
| Instructional Materials and Supplies (Including Textbooks) | 28 | 10 |
| Staff or Curriculum Development | 24 | 9 |
| Special Education | 17 | 6 |
| Teaching Specialists | 14 | 5 |
| Replacing Retiring Teachers with Lower Paid Teachers | 14 | 5 |
| Principals, Assistant Principals, or Deans | 8 | 3 |
| Non-Instructional | | |
| Custodial, Maintenance, or Grounds | 33 | 12% |
| District Administration | 29 | 11 |
| Extracurricular Activities (Including Fee Increases) | 25 | 9 |
| Transportation | 22 | 8 |
| Clerical or Bookkeeping Reductions | 19 | 7 |
| Counselors or Other Support Services | 17 | 6 |
| Computers or Technology (Non-Classroom) | 10 | 4 |
| Deferral of School Bus Purchase | 9 | 3 |
| Non-Instructional Supplies | 9 | 3 |
| Telecommunication or Energy Costs | 7 | 3 |
| Closing School Building | 4 | 1 |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

$77 (1 percent) in non-instructional areas. Table 4.3 shows the types of cuts school districts listed most frequently. The table shows that the most common type of budget cut was teaching positions. It was listed by 27 percent of the school districts, or about three-fourths of the school districts making cuts. The most common non-instructional cuts were custodial and maintenance activities, district administration, extracurricular activities, and transportation services.

We also asked school districts whether they were eliminating or adding any academic courses or programs in 2000. We found that:

**But, more school districts are adding academic programs than eliminating them.**

- **In 2000, school districts were more likely to be adding academic programs or courses than eliminating them.**

In all, 114 school districts (42 percent) reported adding courses or programs and 32 districts (12 percent) said they were eliminating courses or programs in 2000. However, 14 of the 32 districts that were eliminating courses or programs were adding other courses or programs. For example, a school district might substitute one math course for another, or it might eliminate an English class but add a foreign language class to its curriculum. Only 18 school districts (7 percent) were eliminating courses or programs and not adding others.

Some school districts did not plan any budget cuts for 2000 because they had already made cuts in previous years.[5] We asked school districts to list any significant cuts they had made in 1997, 1998, and 1999. We found that 34 percent of school districts made cuts in one or more of those years averaging $194 per student. In all, 49 percent of school districts made budget cuts in at least one of the years between 1997 and 2000.

# STAFFING TRENDS

In Chapter 3 we reported that, statewide, the number of teachers and licensed staff per student increased between 1989 and 1999. To obtain more recent information, we asked superintendents to indicate the number of teachers, other staff, and students in their district. Tables 4.4 and 4.5 show the number of teachers and total staff that school districts employed per 1,000 students in 1998, 1999, and 2000 according to the size and location of school districts. The tables show that:

- **On average, teacher-student and staff-student ratios increased between 1998 and 1999 and are expected to remain steady for 2000.**

**In 2000, the number of teachers per 1,000 students is expected to remain at the high level reached in 1999.**

Statewide, the average number of teachers in school districts increased from 67 per 1,000 students in 1998 to 70 in 1999 and 2000. Minneapolis and St. Paul had the greatest increase, 10 percent. For all districts, teacher-student ratios increased by 3 percent between 1998 and 2000.

The ratio of total staff per 1,000 students increased from 128 in 1998 to 134 in 1999 and 2000, a 4 percent average increase for all school districts. Again, Minneapolis and St. Paul had the greatest increase, 11 percent. The tables indicate that the increases in teacher-student and staff-student ratios occurred between 1998 and 1999. The ratios changed little between 1999 and 2000.

Although the overall pattern for the state shows teachers and total staff per student increasing in school districts, Tables 4.4 and 4.5 also show that some school districts cut the number of teachers and staff per student. About 26 percent of all school districts that responded to our survey reported a decrease in the number of teachers per student between 1998 and 2000, and 29 percent of the districts reported a decrease in total staff per student. Thus, some school districts may in fact be responding to financial difficulties by cutting staff.

Interestingly, 61 percent of the districts that listed teaching positions among the budget cuts made in 2000 actually reported an increase in the number of teachers per student between 1998 and 2000.[6] This suggests that some of the budget cuts may have been in response to declining enrollment rather than financial difficulties.[7]

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*5* A few school districts said that although they did not make cuts in 2000, they would be making cuts in 2001 or 2002 if their financial condition did not improve.

*6* In comparison, 78 percent of school districts not cutting teaching positions reported an increase in their teacher-student ratio.

*7* It is also possible that school districts reporting teacher cuts were increasing the number of teachers in other areas.

## Table 4.4: Average Teacher-Student Ratios by School District Size and Location, 1998-2000

| Type of School District | Teachers per 1,000 Students 1998 | 1999 (Estimated) | 2000 (Estimated) | Average Percentage Change 1998-2000 | Percentage with Decrease in Teacher-Student Ratio |
|---|---|---|---|---|---|
| Minneapolis and St. Paul | 68.4 | 74.3 | 75.3 | 10% | 0% |
| Twin Cities Area, 5,000 or More Students | 56.2 | 59.8 | 60.5 | 2 | 37 |
| Twin Cities Area, Less Than 5,000 Students | 60.0 | 60.5 | 62.0 | 3 | 24 |
| Outstate Minnesota, 2,000 or More Students | 61.6 | 63.0 | 63.5 | 3 | 28 |
| Outstate Minnesota, 1,000 to 1,999 Students | 64.9 | 66.6 | 66.5 | 2 | 20 |
| Outstate Minnesota, 500 to 999 Students | 69.6 | 72.6 | 72.6 | 5 | 23 |
| Outstate Minnesota, Less Than 500 Students | 78.8 | 83.4 | 82.1 | 3 | 34 |
| All Districts | 67.4 | 70.0 | 69.9 | 3% | 26% |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

School districts with declining enrollment were more likely to have increased their teacher-student ratios between 1998 and 2000. Eighty-three percent of districts with declining enrollment reported higher teacher-student ratios in 2000 than in 1998. In contrast, 59 percent of school districts with increasing enrollment reported higher teacher-student ratios in 2000.[8] School districts with declining enrollment may have found it difficult to reduce teachers in proportion to their enrollment decline. As a result, their teacher-student ratio was more likely to rise.

**Some school districts expect lower elementary class sizes this year.**

In addition to asking school districts to report on their staffing and enrollment, we asked them how they expected the number of students per regular classroom teacher to change in 2000. Table 4.6 presents their responses. It shows that:

- **Most school districts do not anticipate a large change in average class size, but more expect a decrease in elementary class sizes than an increase.**

## Table 4.5: Average Staff-Student Ratios by School District Size and Location, 1998-2000

| Type of School District | Total Staff per 1,000 Students 1998 | 1999 (Estimated) | 2000 (Estimated) | Average Percentage Change 1998-2000 | Percentage with Decrease in Staff-Student Ratio |
|---|---|---|---|---|---|
| Minneapolis and St. Paul | 133.8 | 144.5 | 147.8 | 11% | 0% |
| Twin Cities Area, 5,000 or More Students | 110.8 | 118.3 | 118.4 | 2 | 37 |
| Twin Cities Area, Less Than 5,000 Students | 108.8 | 109.3 | 111.8 | 3 | 33 |
| Outstate Minnesota, 2,000 or More Students | 115.7 | 118.8 | 121.5 | 5 | 26 |
| Outstate Minnesota, 1,000 to 1,999 Students | 123.0 | 126.9 | 127.2 | 3 | 29 |
| Outstate Minnesota, 500 to 999 Students | 130.6 | 136.9 | 137.3 | 5 | 25 |
| Outstate Minnesota, Less Than 500 Students | 151.6 | 162.1 | 162.8 | 6 | 32 |
| All Districts | 127.7 | 133.5 | 134.4 | 4% | 29% |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

*8* This relationship holds for outstate school districts of all sizes, but not for Twin Cities area districts.

## Table 4.6: Anticipated Change in the Number of Students per Regular Classroom Teacher for 2000

| | Percentage of Districts Responding That Class Sizes Will: | | | | |
|---|---|---|---|---|---|
| School Level | Increase by 2 or More Students per Teacher | Increase by 0.5 to 2 Students per Teacher | Increase or Decrease by Less Than 0.5 Students per Teacher | Decrease by 0.5 to 2 Students per Teacher | Decrease by 2 or More Students per Teacher |
| Elementary | 3% | 15% | 35% | 40% | 8% |
| Middle or Junior High | 6 | 19 | 52 | 21 | 2 |
| Senior High | 6 | 26 | 49 | 17 | 2 |

SOURCE: Office of the Legislative Auditor's survey of school districts, 1999.

These data suggest that revenue earmarked by the Legislature for class size reduction in elementary schools is, to some degree, being used as intended. However, some school districts may be reducing elementary class sizes while increasing secondary class sizes. The data show that a slightly greater percentage of districts are increasing secondary class sizes than are decreasing them.

# SUMMARY

Based on responses to our questionnaire, we found some areas of concern about the future financial condition of school districts. Enrollment has declined over the last two years in nearly two-thirds of the state's school districts. Declining enrollment has put some pressure on school districts to reduce budgets as revenues decrease. Almost half of the school districts reported making budget cuts in one or more of the last four years. On the other hand, school districts were more likely to add programs in 2000 than cut them, and the average teacher-student ratio rose during the last two years. It appears that districts have accomplished this, in part, by drawing on their fund balances. Nearly two-thirds of the school districts project a lower general fund balance at the end of 2000 than they had at the end of 1998. The number of school districts in statutory operating debt also grew in 1999.

It is too soon to know if declining fund balances are the beginning of a trend or if fund balances will remain stable or rise in the years ahead. On the one hand, school district officials may have prepared their budgets for fiscal year 2000 without understanding the full ramifications of the actions taken by the 1999 Legislature, and it is possible that they were being conservative in their revenue projections. If so, fund balances may not decline in 2000 as projected. On the other hand, school districts may have underestimated some expenses, such as teacher salary contract settlements. If that happens, year-end fund balances for 2000 will be lower than projected.

Regardless of the overall state trend, some school districts are experiencing more financial stress than others. Policy makers will need to continue to monitor the financial condition of school districts to ensure that they have sufficient resources to fulfill their responsibilities and meet the state's K-12 educational goals.

# 5 Discussion


**SUMMARY**

***There is not a statewide financial crisis in K-12 education. Inflation-adjusted revenues, expenditures, and fund balances per student all increased between 1989 and 1998. Teacher-student ratios were higher in 1999 than they were in 1989. However, some school districts are experiencing financial difficulties. School districts with declining enrollment seem more likely than other districts to have financial problems.***


In this chapter, we bring together the results presented in earlier chapters and consider what conclusions can be drawn about the financial condition of Minnesota school districts. We ask:

- **Are Minnesota's school districts experiencing a financial crisis?**
- **Have resources devoted to instruction been cut relative to enrollment?**
- **Why are some school districts more likely than others to experience financial problems?**

To answer these questions, we relied on the analyses contained in the preceding chapters. In particular, we drew on our analysis of ten years of financial and staffing trends, our survey of school district superintendents, and our interviews with school district officials.

## FINANCIAL CONDITION

In previous chapters, we examined recent trends in school district revenues, expenditures, and fund balances. Based on our analyses, we conclude that:

**The financial condition of school districts improved during the 1990s.**

- **On the whole, Minnesota school districts are in better financial shape today than they were ten years ago.**

Inflation-adjusted general fund revenues per student increased by 16 percent between 1989 and 1998, with most of that growth occurring after 1993. Inflation-adjusted general fund expenditures per student increased by 9 percent during that period, with most of the growth occurring after 1994. The fastest growing programs during that period were instructional support, special education, and regular instruction.

Because revenues grew faster than expenditures between 1989 and 1998, most school districts were able to build their fund balances. The average general fund balance adjusted for inflation grew from $537 per student in 1989 to $850 per student in 1998, a 58 percent increase. In 1989, the average general fund balance represented 9 percent of annual general fund expenditures. By 1998, the average general fund balance had grown to 13 percent of annual expenditures. In 1989, there were 40 school districts in statutory operating debt but by 1998, there were only 10.

**Declining fund balances in 1999 and projections for further declines in 2000 raise some concerns.**

Preliminary figures from school districts indicate that the average fund balance declined in 1999. Superintendents also project that fund balances will decline in 2000. In addition, preliminary reports from the Department of Children, Families and Learning indicate that the number of school districts in statutory operating debt increased to 22 in 1999. While these preliminary figures raise some concerns, it is too soon to know if 2000 fund balance projections will prove to be accurate. Even if the projections are accurate, fund balances would still be higher than they were in 1989.

While spending and fund balance trends provide no indication of a statewide financial problem, some observers would suggest that there is a hidden crisis with deferred maintenance and deferral of other capital purchases. Some school district officials told us that they have deferred maintenance on their buildings because operating capital revenue is insufficient to pay for all the needed preventive maintenance, repairs, and equipment purchases. Others have mentioned that their bus fleets are aging because transportation revenues have not been large enough to replace old buses with new ones. We did not study the issue of deferred maintenance because a number of studies have looked at this issue and our office is currently conducting a best practices study on this subject.[1]

# EDUCATIONAL RESOURCES

Although average school district revenues, expenditures, and fund balances per student increased between 1989 and 1998, it does not automatically follow that the additional resources were devoted to educational programs. The additional revenues could have gone entirely to increase the salaries of teachers and other staff. Alternatively, school districts could have maintained their fund balances by cutting programs. We found, however, that:

- **On average, school districts have increased the resources devoted to educational activities over the last decade.**

Overall, the number of teachers per student increased 8 percent between 1989 and 1999. In addition, the number of pupil support staff per student increased 9 percent. It appears that some of the growth went to reduce class sizes in

*1* See Senator Chuck Wiger, et. al., *Recommendations of the K-12 Facilities and Infrastructure Task Force* (St Paul, January 1999) and Department of Children, Families and Learning, *Status of Public School Facilities in Minnesota: A Report to the 1997 Legislature* (St. Paul, 1997). The Office of the Legislative Auditor expects to complete its review of best practices in meeting maintenance needs of local government buildings, including school buildings, in April 2000.

School districts have increased resources for instruction, particularly in elementary schools.

kindergarten and elementary grades. It is unclear how staffing levels at the secondary level have been affected. Projections for 2000 from school district superintendents we surveyed suggest that staffing ratios will remain about the same in 2000 as they were in 1999.

Although many individual teachers saw their salaries grow faster than inflation as they obtained additional training and experience, the average salary paid by school districts during this period declined after adjusting for inflation. This is because school districts were able to replace higher paid teachers who retired or left teaching with less experienced lower paid teachers. In addition, the average salary grid has decreased slightly relative to inflation. For example, a beginning teacher earned less, on average, in 1999 than a beginning teacher earned in 1989, after adjusting for inflation.

**Many districts report making budget cuts, but more are adding programs than eliminating them.**

About half of the school district superintendents we surveyed indicated that they made at least one budget cut during the last four years. However, it is not clear that these cuts resulted in net reductions in services. Districts reporting cuts may also have been adding programs. For example, 42 percent of the school districts we surveyed reported adding academic courses or programs in 2000, but only 12 percent said they were eliminating courses or programs. In addition, some of the cuts may have been in response to declining enrollment yet may have resulted in increased staffing ratios. Although 27 percent of school districts reported making teaching cuts in 2000, 61 percent of those districts actually project that their teacher-student ratio will increase between 1998 and 2000.

Some school districts indicated to us that they might have to cut programs in the future if their financial condition does not improve. These school districts may have been able to maintain educational staffing and programming levels in 2000

by dipping into their fund balances. As noted above, the average school district expects its general fund balance to decline in 2000. Thus, while there is no evidence that school districts are devoting fewer resources to instructional programs at this time, policy makers should continue to monitor the future financial condition of school districts and the educational programs that they offer.

# REASONS FOR FINANCIAL DIFFICULTIES

While the overall financial picture for school districts looked better in 1998 than in 1989, some school districts are in worse financial health than others. For example, 10 percent of school districts experienced a decrease in revenues per student after adjusting for inflation between 1989 and 1998, and about one-third of school districts experienced a decline in fund balances per student. Similarly, nearly two-thirds expect general fund balances per student to decline between 1998 and 2000. Almost one-fourth of the districts saw the number of teachers and licensed staff per student decline between 1989 and 1999. In this section, we discuss some of the factors that might explain why some school districts are experiencing financial difficulties.

## Declining Enrollment

**Declining enrollment has contributed to financial difficulties for some school districts.**

Although enrollment increased for the state as a whole between 1989 and 1999, it declined in 38 percent of the state's school districts. Enrollment is expected to decline in 63 percent of school districts between 1998 and 2000. Since revenues are based on enrollment, school districts with declining enrollment have less revenue and must make cuts. Sometimes, it is difficult to cut programs and positions in proportion to the enrollment decline. For example, if each elementary school grade declines by a few students, it may be difficult to cut a teacher. Similarly, school district officials may not wish to eliminate a high school elective just because three or four fewer students sign up for it. In addition, when school districts do cut teaching staff, union contracts require that the least senior teachers, who are usually the lowest paid, be laid off first.

There are also fixed costs that cannot be easily reduced. A building that once served 500 students must still be heated and maintained when it serves only 400 students. When enrollment declines enough, school districts can close a building, but this may mean longer bus rides for some students. To some extent, the 1999 Legislature recognized the effects of declining enrollment on school district revenues by requiring that beginning in 2000, school district funding be based on adjusted marginal cost pupil units.[2] This will benefit school districts with declining enrollment and harm those with increasing enrollment.

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*2* Adjusted marginal cost pupil units are equal to the sum of 0.9 times the pupil units for the current school year and 0.1 times the pupil units for the previous school year. See *Minn. Stat.* §126C.05, subd. 5.

# General Education Revenue

While we found that general fund revenue per student increased by 16 percent between 1989 and 1998, 10 percent of school districts experienced a decrease in revenue per student. Because the funding formula has many elements, it is possible that revenues for some school districts have been adversely affected by changes in the formula and by their unique circumstances while others have benefited. For example, some school district officials told us that they lost considerable revenue due to the phasing out of training and experience revenue, while others were not affected much by this change.

# Teacher Salaries and Benefits

We found that average teacher salaries have not kept up with inflation, largely because school districts have generally been able to replace higher paid retiring teachers with lower paid beginning teachers. Health insurance premiums, on the other hand, have increased faster than inflation. Depending on the composition of their teaching staff and their particular health insurance situation, some school districts may be experiencing salary and fringe benefit increases that exceed their revenues and thus cause financial pressure. For example, a school district with few retirees and little other staff turnover is probably more likely to experience financial problems, particularly if it attempts to keep its salaries competitive with other districts. Likewise, health insurance premium increases in 2000 varied considerably among the school districts we visited.

# Special Education Expenditures

Special education spending was one of the fastest growing programs between 1989 and 1998. Much of the growth in special education spending was due to increased numbers of students with emotional and behavioral disorders, growth in programs for preschool handicapped children, rising expenditures for children needing specialized transportation, and higher spending on support services. While there is cross-subsidization of special education costs from the general fund, it is unclear whether the cross-subsidization increased during the 1990s. To the extent that some school districts experienced higher growth in special education students and costs than others, special education could have been a source of financial problems for them.

# Other Expenditures

Technology has grown rapidly in the 1990s, and some school districts may have experienced financial stress as they built computer networks and upgraded their systems. Data suggest that capital expenditures increased faster than other types of expenditures, and some school districts may have used general fund revenues in excess of their operating capital revenues to pay for technological improvements. Transportation spending adjusted for inflation did not grow between 1989 and 1998, but several school superintendents commented on

increasing costs, such as the need to pay higher wages in order to attract enough school bus drivers. Several superintendents said they have had to make cuts, such as combining routes and deferring new school bus purchases. Finally, some school districts had to make costly and unanticipated repairs to buildings and equipment, perhaps due to earlier decisions to save money by deferring maintenance on them.

# School District Practices and Preferences

**School district management practices may contribute to financial difficulties.**

There are many other factors that may have contributed to some school districts experiencing financial pressures. Such factors include how well a school district is managed and whether it does a good job managing salaries and other costs. For example, one school district ran into financial problems because it inadequately tracked enrollment changes. It relied on enrollment figures that were a year old rather than using monthly enrollment updates that would have indicated a downward trend much earlier. Another school district had to make budget and staffing cuts because the referendum it had been counting on to finance recently approved salary increases was defeated by voters. Finally, a third school district decided to use its fund balance to hire permanent staff to reduce class sizes but had to make significant budget cuts a few years later when its fund balance was depleted.

A school district's fund balance policy also affects its susceptibility to financial difficulties. Some school districts are comfortable with low fund balances. This enables them to offer more programs and services, but makes them more vulnerable to financial difficulties when revenues fall short of expectations, expenditures exceed forecasts, or enrollment declines. Other school districts will cut spending before allowing their fund balance to fall.

# SUMMARY

For the most part, school districts are in better financial shape now than they were ten years ago. Average revenues and expenditures per student are higher now after adjusting for inflation, as are average general fund balances per student. While about half of the school districts responding to our survey reported making budget cuts at least once during the last four years, more school districts are adding academic programs this year than cutting them. In addition, the average number of teachers and pupil support staff per student have increased. Although most school districts project a decline in general fund balances for 2000, the total general fund balance per student at the end of 2000 is expected to be above the 1989 statewide level. The unreserved/undesignated general fund balance per student at the end of 2000 is expected to be slightly below the 1989 statewide figure.

Regardless of the overall state trend, some school districts are experiencing more financial stress than others. School districts with declining enrollment appear more likely than other school districts to experience financial stress. Other factors unique to each school district, such as the training and experience of its teaching

staff, the composition of its student population, and unusual expenses may also explain why some school districts experience more financial pressure than others.

Although we found no evidence of a statewide financial crisis in K-12 education, we did not measure whether or not current education funding is adequate to educate students or whether Minnesota schools are making the most of the revenue they have to spend. Other outcome measures, such as standardized test scores, graduation rates, and the success of high school graduates in pursuing higher education or full-time employment would be better gauges of school performance. Nor can we say what future levels of education funding should be. Much will depend on future costs including the salaries necessary to attract and retain quality teachers, future trends in the number and mix of students, technological changes, and other factors.

# School Districts in Statutory Operating Debt at the End of the Year, 1997-99

## APPENDIX A

| 1997 | | | 1998 | | | 1999 (Preliminary Data) | | |
|---|---|---|---|---|---|---|---|---|
| District Number | Name[a] | Percent Deficit[b] | District Number | Name | Percent Deficit | District Number | Name | Percent Deficit |
| 4 | McGregor | -11.41% | 4 | McGregor | -8.00% | 4 | McGregor | -2.81% |
| 13 | Columbia Heights | -4.50 | 239 | Rushford-Peterson | -5.28 | 15 | St. Francis | -4.57 |
| 81 | Comfrey | -3.09 | 256 | Red Wing | -2.71 | 21 | Audubon | -5.04 |
| 178 | Storden-Jeffers[c] | -30.81 | 277 | Westonka | -3.49 | 197 | West St.Paul-Mendota Heights | -4.06 |
| 218 | Delavan[c] | -11.99 | 294 | Houston | -4.12 | 256 | Red Wing | -4.13 |
| 316 | Greenway | -6.53 | 316 | Greenway | -5.37 | 277 | Westonka | -3.69 |
| 323 | Franconia | -45.64 | 323 | Franconia | -11.41 | 294 | Houston | -10.11 |
| 418 | Russell | -11.75 | 719 | Prior Lake | -2.98 | 316 | Greenway | -6.84 |
| 487 | Upsala | -2.54 | 806 | Elgin-Millville | -3.33 | 323 | Franconia | -14.24 |
| 624 | White Bear Lake | -4.66 | 2397 | LeSueur-Henderson | -4.94 | 392 | LeCenter | -3.22 |
| 712 | Mountain Iron-Buhl | -8.75 | | | | 604 | Mentor | -20.40 |
| 2580 | East Central | -5.92 | | | | 623 | Roseville | -3.25 |
| | | | | | | 656 | Faribault | -5.19 |
| | | | | | | 712 | Mountain Iron-Buhl | -22.59 |
| | | | | | | 719 | Prior Lake | -2.53 |
| | | | | | | 806 | Elgin-Millville | -9.56 |
| | | | | | | 840 | St. James | -3.26 |
| | | | | | | 881 | Maple Lake | -3.89 |
| | | | | | | 2397 | LeSueur-Henderson | -4.66 |
| | | | | | | 2534 | Bird Island-Olivia-Lake Lillian | -3.63 |
| | | | | | | 2536 | Granada Huntley-East Chain | -4.58 |
| | | | | | | 3001 | BDRSH[d] | -6.97 |

[a]Charter school districts are not included in these lists.

[b]The percent deficit is the district's year-end net unappropriated operating fund balance as a percentage of the district's operating expenditures for that year.

[c]These districts consolidated with other districts at the beginning of the next fiscal year and, as a result, were no longer in statutory operating debt.

[d]BDRSH is an enhanced paired district consisting of the Belview, Danube, Renville, and Sacred Heart districts.

# School Districts Surveyed

## APPENDIX B

DISTRICT NAME AND NUMBER

**Districts Responding (274)**

| | |
|---|---|
| Ada-Borup | 2854 |
| Adrian | 511 |
| Aitkin | 1 |
| Albany | 745 |
| Albert Lea | 241 |
| Alden | 242 |
| Alexandria | 206 |
| Annandale | 876 |
| Anoka-Hennepin | 11 |
| Atwater-Cosmos-Grove City | 2396 |
| Austin | 492 |
| Badger | 676 |
| Bagley | 162 |
| Battle Lake | 542 |
| Becker | 726 |
| Belgrade-Brooten-Elrosa | 2364 |
| Belle Plaine | 716 |
| Bellingham | 371 |
| Bemidji | 31 |
| Benson | 777 |
| Bertha-Hewitt | 786 |
| Blackduck | 32 |
| Blooming Prairie | 756 |
| Bloomington | 271 |
| Blue Earth Area | 2860 |
| Brainerd | 181 |
| Breckenridge | 846 |
| Brewster | 513 |
| Brooklyn Center | 286 |
| Browerville | 787 |
| Browns Valley | 801 |
| Buffalo | 877 |
| Burnsville | 191 |
| Byron | 531 |
| Caledonia | 299 |
| Campbell-Tintah | 852 |
| Cannon Falls | 252 |
| Cass Lake | 115 |
| Cedar Mountain | 2754 |
| Centennial | 12 |
| Chaska | 112 |
| Chisago Lakes | 2144 |
| Chisholm | 695 |
| Chokio-Alberta | 771 |
| Chosen Valley | 227 |
| Clearbrook-Gonvick | 2311 |
| Climax | 592 |
| Clinton-Graceville-Beardsley | 2888 |
| Cloquet | 94 |
| Columbia Heights | 13 |
| Comfrey | 81 |
| Cromwell | 95 |
| Crookston | 593 |
| Cyrus | 611 |
| Dassel-Cokato | 466 |
| Dawson-Boyd | 378 |
| Delano | 879 |
| Detroit Lakes | 22 |
| Dilworth-Glyndon-Felton | 2164 |
| Duluth | 709 |
| Eagle Valley | 2759 |
| East Central | 2580 |
| East Grand Forks | 595 |
| Eden Prairie | 272 |
| Eden Valley-Watkins | 463 |
| Edgerton | 581 |
| Edina | 273 |
| Elk River | 728 |
| Ellsworth | 514 |
| Esko | 99 |
| Fairmont Area | 2752 |
| Faribault | 656 |
| Farmington | 192 |
| Fergus Falls | 544 |
| Fertile-Beltrami | 599 |
| Fillmore Central | 2198 |
| Floodwood | 698 |
| Foley | 51 |
| Forest Lake | 831 |
| Fosston | 601 |
| Frazee | 23 |
| Fridley | 14 |
| Fulda | 505 |
| Goodhue | 253 |
| Goodridge | 561 |
| Granada Huntley-East Chain | 2536 |
| Grand Rapids | 318 |
| Greenbush-Middle River | 2683 |
| Greenway | 316 |
| Grygla | 447 |
| Hancock | 768 |
| Hastings | 200 |
| Hawley | 150 |
| Hayfield | 203 |
| Hermantown | 700 |
| Heron Lake-Okabena | 330 |
| Hibbing | 701 |
| Hill City | 2 |
| Hills-Beaver Creek | 671 |
| Hinckley-Finlayson | 2165 |
| Holdingford | 738 |
| Hopkins | 270 |
| Houston | 294 |
| Howard Lake-Waverly-Winsted | 2687 |
| International Falls | 361 |
| Inver Grove | 199 |
| Ivanhoe | 403 |
| Jackson County Central | 2862 |
| Janesville-Waldorf-Pemberton | 2835 |
| Jordan | 717 |
| Kasson-Mantorville | 204 |
| Kelliher | 36 |
| Kenyon-Wanamingo | 2172 |
| Kerkhoven-Murdock-Sunburg | 775 |
| Kimball | 739 |
| Kingsland | 2137 |
| Kittson Central | 2171 |
| Lac Qui Parle Valley | 2853 |
| Lacrescent-Hokah | 300 |
| Lake Benton | 404 |
| Lake City | 813 |
| Lake Park-Audubon | 2889 |
| Lake Superior | 381 |
| Lakeview | 2167 |
| Lakeville | 194 |
| Lancaster | 356 |
| Lanesboro | 229 |
| Laporte | 306 |
| Lecenter | 392 |
| Lesueur-Henderson | 2397 |
| Litchfield | 465 |
| Littlefork-Big Falls | 362 |
| Lyle | 497 |
| Lynd | 415 |
| Mabel-Canton | 238 |
| Madelia | 837 |
| Mahnomen | 432 |
| Mahtomedi | 832 |
| Mankato | 77 |
| Maple Lake | 881 |
| Maple River | 2135 |
| Marshall | 413 |
| Marshall County Central | 441 |
| Martin County West | 2448 |
| Maynard-Clara City-Raymond | 2180 |
| Mcgregor | 4 |
| Mcleod West Schools | 2887 |
| Medford | 763 |
| Melrose | 740 |
| Mesabi East | 2711 |
| Milaca | 912 |
| Minneapolis | Sp1 |
| Minneota | 414 |
| Minnetonka | 276 |
| Minnewaska | 2149 |
| Montevideo | 129 |
| Monticello | 882 |
| Moorhead | 152 |
| Moose Lake | 97 |
| Mora | 332 |
| Morris | 769 |
| Mounds View | 621 |
| Murray County Central | 2169 |
| Nett Lake | 707 |
| Nevis | 308 |
| New London-Spicer | 345 |

| | |
|---|---|
| New Prague | 721 |
| New Richland-Hartland-Ellendale-Geneva | 2168 |
| New Ulm | 88 |
| New York Mills | 553 |
| Nicollet | 507 |
| Norman County East | 2215 |
| Norman County West | 2527 |
| North Branch | 138 |
| North St Paul-Maplewood | 622 |
| Northfield | 659 |
| Norwood | 108 |
| Oklee | 627 |
| Orono | 278 |
| Ortonville | 62 |
| Osakis | 213 |
| Osseo | 279 |
| Owatonna | 761 |
| Park Rapids | 309 |
| Parkers Prairie | 547 |
| Paynesville | 741 |
| Pelican Rapids | 548 |
| Pequot Lakes | 186 |
| Pierz | 484 |
| Pillager | 116 |
| Pine City | 578 |
| Pine Island | 255 |
| Prior Lake | 719 |
| Proctor | 704 |
| Red Lake | 38 |
| Redwood Falls | 2758 |
| Remer-Longville | 118 |
| Richfield | 280 |
| Robbinsdale | 281 |
| Rochester | 535 |
| Rockford | 883 |
| Rocori | 750 |
| Roseau | 682 |
| Rosemount-Apple Valley-Eagan | 196 |
| Roseville | 623 |
| Rothsay | 850 |
| Round Lake | 516 |
| Royalton | 485 |
| Rushford-Peterson | 239 |
| Russell | 418 |
| Ruthton | 584 |
| Sartell | 748 |
| Sauk Centre | 743 |
| Sauk Rapids | 47 |
| Sebeka | 820 |
| Shakopee | 720 |
| Sibley East | 2310 |
| Sleepy Eye | 84 |
| South Koochiching | 363 |
| South St. Paul | Sp6 |
| Southland | 500 |
| Spring Lake Park | 16 |
| Springfield | 85 |
| St. Anthony-New Brighton | 282 |
| St. Charles | 858 |
| St. Clair | 75 |
| St. Cloud | 742 |
| St. James | 840 |
| St. Louis County | 2142 |
| St. Louis Park | 283 |
| St. Michael-Albertville | 885 |
| St. Paul | 625 |
| St. Peter | 508 |
| Staples-Motley | 2170 |
| Stephen-Argyle Central Schools | 2856 |
| Stewartville | 534 |
| Stillwater | 834 |
| Swanville | 486 |
| Thief River Falls | 564 |
| Tri-County | 2358 |
| Triton | 2125 |
| Truman | 458 |
| Tyler | 409 |
| Ulen-Hitterdal | 914 |
| Underwood | 550 |
| Upsala | 487 |
| Verndale | 818 |
| Virginia | 706 |
| Wabasha-Kellogg | 811 |
| Waconia | 110 |
| Wadena-Deer Creek | 2155 |
| Walker-Hackensack-Akeley | 113 |
| Walnut Grove | 641 |
| Warren-Alvarado-Oslo | 2176 |
| Warroad | 690 |
| Waseca | 829 |
| Watertown-Mayer | 111 |
| Waterville-Elysian-Morristown | 2143 |
| Waubun | 435 |
| Wayzata | 284 |
| West Central Area | 2342 |
| West St. Paul-Mendota Hts.-Eagan | 197 |
| Westbrook | 175 |
| Westonka | 277 |
| Wheaton Area School | 803 |
| White Bear Lake | 624 |
| Willmar | 347 |
| Willow River | 577 |
| Windom | 177 |
| Win-E-Mac | 2609 |
| Winona | 861 |
| Worthington | 518 |
| Wrenshall | 100 |
| Yellow Medicine East | 2190 |

DISTRICT NAME AND NUMBER

**Districts Not Responding (73)**

| | |
|---|---|
| Ashby | 261 |
| Balaton | 411 |
| Barnesville | 146 |
| Barnum | 91 |
| Belview | 631 |
| Big Lake | 727 |
| Bird Island-Olivia-Lake Lillian | 2534 |
| Braham | 314 |
| Brandon | 207 |
| Buffalo Lake-Hector | 2159 |
| Butterfield | 836 |
| Cambridge-Isanti | 911 |
| Canby | 891 |
| Carlton | 93 |
| Cleveland | 391 |
| Cook County | 166 |
| Crosby-Ironton | 182 |
| Danube | 648 |
| Deer River | 317 |
| Dover-Eyota | 533 |
| Elgin-Millville | 806 |
| Ely | 696 |
| Evansville | 208 |
| Eveleth-Gilbert | 2154 |
| Fisher | 600 |
| Franconia | 323 |
| Glencoe-Silver Lake | 2859 |
| Glenville-Emmons | 2886 |
| Grand Meadow | 495 |
| Hendricks | 402 |
| Henning | 545 |
| Herman-Norcross | 264 |
| Hutchinson | 423 |
| Isle | 473 |
| Lake Crystal-Wellcome Memorial | 2071 |
| Lake Of The Woods | 390 |
| Leroy | 499 |
| Lester Prairie | 424 |
| Little Falls | 482 |
| Long Prairie-Grey Eagle | 2753 |
| Luverne | 2184 |
| Menahga | 821 |
| Mentor | 604 |
| Milroy | 635 |
| Montgomery-Lonsdale | 394 |
| Mountain Iron-Buhl | 712 |
| Mountain Lake | 173 |
| Nashwauk-Keewatin | 319 |
| Ogilvie | 333 |
| Onamia | 480 |
| Perham | 549 |
| Pine Point | 25 |
| Pine River-Backus | 2174 |
| Pipestone-Jasper | 2689 |
| Plainview | 810 |
| Plummer | 628 |
| Princeton | 477 |
| Prinsburg | 815 |
| Randolph | 195 |
| Red Lake Falls | 630 |
| Red Rock Central | 2884 |
| Red Wing | 256 |
| Renville | 654 |
| Rush City | 139 |
| Sacred Heart | 655 |
| Sioux Valley | 328 |
| South Washington County | 833 |
| Spring Grove | 297 |
| St. Francis | 15 |
| Tracy | 417 |
| United South Central | 2134 |
| Wabasso | 640 |
| Zumbrota-Mazeppa | 2805 |

DISTRICT NAME AND NUMBER

**Districts Responding Too Late To Be Included In Analysis (2)**

| | |
|---|---|
| Gibbon-Fairfax-Winthrop | 2365 |
| Lewiston | 857 |

# Further Reading


John Augenblick, John Myers, and Justin Silverstein, *Profile of Changes in Minnesota School Funding 1986-87 to 1996-97*, Augenblick and Myers, (Denver, January 1999).

Martha McMurry, *Minnesota School Enrollment Trends*, State Demographic Center, working paper 99-15, (St. Paul, April 1999).

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Minnesota Department of Children, Families & Learning, *School District Profiles, 1997 – 98* (Roseville, May 1999).

Minnesota Department of Children, Families & Learning, *Special Education Cross-Subsidies Report, F.Y. 1998* (Roseville, September 1999).

Minnesota Department of Children, Families & Learning, *Status of Public School Facilities in Minnesota: A Report to the 1997 Legislature* (St. Paul, 1997).

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Minnesota House Research Department, *Minnesota School Finance: A Guide for Legislators, December 1998* (St. Paul, December 1998).

Minnesota School Boards Association, *Licensed Salaries and Related Information 1997-98 and 1998-99* (St. Peter, 1999).

Joe Nathan, Debra Hare, and Stella Cheung, *Asking the Right Questions: Minnesota Teacher Supply and Demand* (Center for School Change, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, March 1999).

Office of the Legislative Auditor, *Managing Preventive Maintenance for Local Government Buildings: A Best Practices Review* (St. Paul, *forthcoming Spring 2000*).

Office of the Legislative Auditor, *Special Education* (St. Paul, January 1997).

Office of the Legislative Auditor, *Trends in State and Local Government Spending* (St. Paul, February 1996).

Senator Jane Ranum, et. al., *Report of the 1998 House/Senate Task Force to Study the Education Costs of Out-of-Home Placements* (St. Paul, 1999).

Senator Chuck Wiger, et. al., *Recommendations of the K-12 Facilities and Infrastructure Task Force* (St. Paul, January 1999).

Steven R. Yussen, Jane Grey Browning, and Jeanette Colby, *Teachers for Our Schools* (College of Education and Human Development, University of Minnesota, Fall 1999).

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January 21, 2000

Mr. James R. Nobles, Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to your report, *School District Finances*. We have reviewed the report, and concur with your major findings and conclusions. In our view, the report accurately and fairly portrays the major trends in school district finances since 1989. The data contained in the report for fiscal years 1989 through 1999 are consistent with our Department's data bases and with reports published by our Department, such as *School District Profiles.*

We are pleased that the report recognizes that:

- The financial condition of school districts has generally improved during the 1990s.
- The number of licensed staff per 1,000 students increased by 8 percent between 1989 and 1999, and that school districts have hired more teachers for the elementary grades.
- More districts added academic courses or programs this year than eliminated them.

We are also pleased that many districts reported that they will lower elementary class sizes this year. We are concerned, however, that more districts did not report that they will lower elementary class sizes, given the major increase in class size reduction funding recommended by the Governor and enacted by the 1999 Legislature.

Although the report indicates that there is no evidence of a statewide financial crisis in K-12 education, we need to find ways to measure if Minnesota districts are making the most of current revenues, to tie spending to measures of student success and to develop other accountability indicators to help guide districts and staff in making educational decisions.

We appreciate the high quality work done by your office in preparing this report, and the clear and concise manner in which it summarizes recent and emerging trends in school district finances.

Sincerely,

*/s/Christine Jax*

Christine Jax, Ph.D.
Commissioner

# Recent Program Evaluations

*Truck Safety Regulation*, January 1992 92-01
*State Contracting for Professional/Technical Services*, February 1992 92-02
*Public Defender System*, February 1992 92-03
*Higher Education Administrative and Student Services Spending: Technical Colleges, Community Colleges, and State Universities*, March 1992 92-04
*Regional Transit Planning*, March 1992 92-05
*University of Minnesota Supercomputing Services*, October 1992 92-06
*Petrofund Reimbursement for Leaking Storage Tanks*, January 1993 93-01
*Airport Planning*, February 1993 93-02
*Higher Education Programs*, February 1993 93-03
*Administrative Rulemaking*, March 1993 93-04
*Truck Safety Regulation, Update*, June 1993 93-05
*School District Financial Reporting*, Update, June 1993 93-06
*Public Defender System, Update*, December 1993 93-07
*Game and Fish Fund Special Stamps and Surcharges, Update*, January 1994 94-01
*Performance Budgeting*, February 1994 94-02
*Psychopathic Personality Commitment Law*, February 1994 94-03
*Higher Education Tuition and State Grants*, February 1994 94-04
*Motor Vehicle Deputy Registrars*, March 1994 94-05
*Minnesota Supercomputer Center*, June 1994 94-06
*Sex Offender Treatment Programs*, July 1994 94-07
*Residential Facilities for Juvenile Offenders*, February 1995 95-01
*Health Care Administrative Costs*, February 1995 95-02
*Guardians Ad Litem*, February 1995 95-03
*Early Retirement Incentives*, March 1995 95-04
*State Employee Training: A Best Practices Review*, April 1995 95-05
*Snow and Ice Control: A Best Practices Review*, May 1995 95-06
*Pollution Control Agency's Use of Administrative Penalty Orders, Update* July 1995 95-07
*Development and Use of the 1994 Agency Performance Reports*, July 1995 PR95-22
*State Agency Use of Customer Satisfaction Surveys*, October 1995 PR95-23
*Funding for Probation Services*, January 1996 96-01
*Department of Human Rights*, January 1996 96-02
*Trends in State and Local Government Spending*, February 1996 96-03
*State Grant and Loan Programs for Businesses* February 1996 96-04
*Post-Secondary Enrollment Options Program*, March 1996 96-05
*Tax Increment Financing*, March 1996 96-06
*Property Assessments: Structure and Appeals, A Best Practices Review*, May 1996 96-07
*Recidivism of Adult Felons*, January 1997 97-01
*Nursing Home Rates in the Upper Midwest*, January 1997 97-02
*Special Education*, January 1997 97-03
*Ethanol Programs*, February 1997 97-04
*Statewide Systems Project*, February 1997 97-05
*Highway Spending*, March 1997 97-06
*Non-Felony Prosecution, A Best Practices Review*, April 1997 97-07
*Social Service Mandates Reform*, July 1997 97-08
*Child Protective Services*, January 1998 98-01
*Remedial Education*, January 1998 98-02
*Transit Services*, February 1998 98-03
*State Building Maintenance*, February 1998 98-04
*School Trust Land*, March 1998 98-05
*9-1-1 Dispatching: A Best Practices Review*, March 1998 98-06
*Minnesota State High School League*, June 1998 98-07
*State Building Code*, January 1999 99-01
*Juvenile Out-of-Home Placement*, January 1999 99-02
*Metropolitan Mosquito Control District*, January 1999 99-03
*Animal Feedlot Regulation*, January 1999 99-04
*Occupational Regulation*, February 1999 99-05
*Directory of Regulated Occupations in Minnesota*, February 1999 99-05b
*Counties' Use of Administrative Penalties for Violations of Solid and Hazardous Waste Ordinances*, February 1999 99-06
*Fire Services: A Best Practices Review*, April 1999 99-07
*State Mandates on Local Governments*, January 2000 00-01
*State Park Management*, January 2000 00-02
*Welfare Reform*, January 2000 00-03
*School District Finances*, February 2000 00-04
*State Employee Compensation*, February 2000 00-05
*Managing Preventive Maintenance for Local Government Buildings: A Best Practices Review*, forthcoming
*Minnesota State Colleges and Universities: Status Report*, forthcoming

***Evaluation reports can be obtained free of charge from the Legislative Auditor's Office, Program Evaluation Division, Room 140, 658 Cedar Street, Saint Paul, Minnesota 55155, 651/296-4708. Full text versions of recent reports are also available at the OLA web site: http://www.auditor.leg.state.mn.us***