

SCHOOL CHOICE

# ISSUES

IN THE STATE



**School Choice for Minnesota:**

Many agree with the concept. Some disagree. And some simply want more information. As the public debate continues to grow louder about how best to provide a quality education to all Minnesota children, it is critical to know the facts about school choice, and to have an understanding of how school choice programs have had an impact on communities, parents and students around the country. All of this analysis is done with one goal in mind: The best possible education for all of Minnesota's children.

## A Fiscal Analysis of Proposed Education Access Grants in Minneapolis

Prepared By:  
Ericca Maas

July 2005

*Study released jointly by the Milton and Rose D. Friedman Foundation  
and the Hubert H. Humphrey Institute of Public Affairs*

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MILTON & ROSE D. FRIEDMAN  
FOUNDATION

*50 years of an idea*



Hubert H. Humphrey  
Institute of Public Affairs

UNIVERSITY OF MINNESOTA

## About the Author

Ericca Maas is Assistant Director of the Partnership for Choice in Education in Saint Paul, Minnesota, where she is responsible for coordinating research and outreach services. Her inquiries into school choice policy and reform were instrumental in developing the strategic plan and informational campaigns of the Minnesota School Choice Coalition during the period from 2003 through 2005. Maas holds a Master's degree in Public Policy from the Hubert H. Humphrey Institute of Public Affairs, and a Bachelor of Arts degree from the University of Northern Iowa. Her graduate study and research focused on social policy and non-profit policy and management, including work with the Mille Lacs Band of Ojibwe Indian Tribal School.

## About the Milton and Rose D. Friedman Foundation

The Milton and Rose D. Friedman Foundation, dubbed "the nation's leading voucher advocates" by the *Wall Street Journal*, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedmans' long-standing concern about the serious deficiencies in America's elementary and secondary public schools. The best way to improve the quality of education, they believe, is to enable all parents with the freedom to choose the schools that their children attend. The Friedman Foundation builds upon this vision, clarifies its meaning to the public and amplifies the national call for true education reform through school choice.

## About the Hubert H. Humphrey Institute of Public Affairs

The Hubert H. Humphrey Institute of Public Affairs is dedicated to excellence in education for public responsibility. The Humphrey Institute, which ranks among the top 15 professional schools of public affairs at public universities in the country, offers four graduate degree programs and is home to several research/outreach centers and programs. The Humphrey Institute is widely recognized for its role in examining public issues and shaping public policy at the local, state, national, and international levels, and for providing leadership and management expertise to public and nonprofit organizations.

## Executive Summary

This study examines the fiscal impact of model legislation that would create Education Access Grants in Minnesota. The legislation would provide grants for low-income students to attend private schools. Specifically, this study examines the effect of implementing Education Access Grants in Minneapolis, the state's largest metropolitan area. It determines the impact the program would have on Minnesota's state budget, and also provides some information on the financial impact the program will have on Minneapolis public schools.

Its findings include:

- Because the amount spent by the state on each student using an Access Grant will be significantly less than the amount that would have been spent on that student if she had remained in Minneapolis public schools, the program will result in a fiscal benefit for the state. The program will produce a positive fiscal impact on the state of up to \$3.3 million in the first year, with the exact amount depending on the rate of participation in the program. Additional savings will be realized if participating students do not use the total grant amount.
- For six years after a given student leaves a district school, the Minneapolis Public School District will continue to receive a substantial amount of her per-pupil state aid. This "stability revenue" will allow for a period of stabilization of operations within Minneapolis as the district's enrollment of low-income students declines. Stability revenue will result in a positive fiscal impact for Minneapolis public schools of up to \$8.2 million in the first year, rising to \$9.4 million in the third year and then gradually declining.
- The total amount of stability revenue left with the district will decrease as the program continues, so the total benefit to the state will increase. In year six, the fiscal benefit to the state will be up to \$14.2 million, depending upon the participation rate.

The fiscal analysis of the proposed Education Access Grants demonstrates positive fiscal impacts to both the state and the largest affected school district. Minnesota can move forward with a school choice program that is financially advantageous to the state, to school districts, and ultimately to Minnesota families.

## Introduction

Minnesota's school choice coalition has worked with legislators on a proposal to create Education Access Grants. These grants would allow low-income students (at or below 250% of the federal poverty level) in Minneapolis and St. Paul to attend private schools. Specific details of the proposed legislation respond to the context of Minnesota's particular socioeconomic conditions, population dynamics, current school funding rules, and school achievement.

This study was conducted in order to meet two challenges: the need for accurate information on the state- and district-level financial impact Access Grants for low-income students would have, and the need to ensure that Access Grant legislation addresses the needs of low-income children without unnecessarily disadvantaging children who remain in district schools.

The following principles guided the design of the model legislation:

- Education Access Grants must be large enough to make participation by low-income families feasible.
- Administration of the Access Grants must be simple, efficient, transparent, and verifiable.
- The legislation must avoid problems encountered by school choice programs elsewhere in the nation by providing for an orderly expansion of access.
- Access for families receiving the grants must be stable and predictable.
- The legislation must provide stability of funding for district schools that children leave with Access Grants.
- Access Grants must be useable at the greatest possible diversity of schools of choice.
- Access Grants must provide participating schools of choice with stability in planning and serving Access Grant users.

While the proposed legislation would provide Access Grants in St. Paul as well, this study uses the Minneapolis Public School District to illustrate its fiscal impact and policy implications. The study determines the effect implementing Access Grants in Minneapolis would have on the state's general fund and on the portion of Minneapolis public school funding that comes from the state. It also discusses the implications such legislation would have for Minneapolis public schools.

## Education in Minneapolis

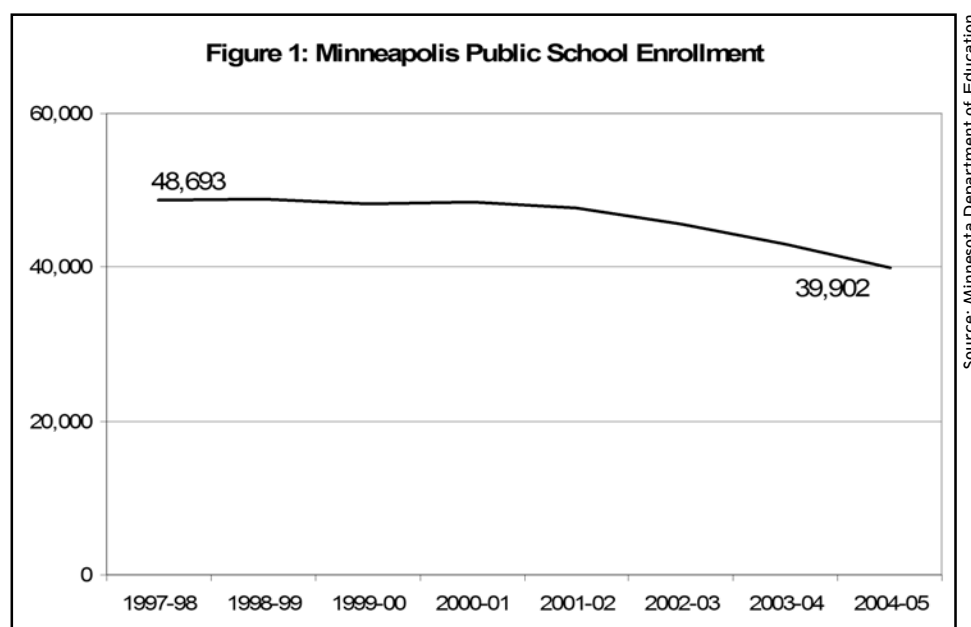
To provide context, this study collected basic information about the state of education in Minneapolis, with particular attention to school finance.

### Minneapolis' Changing Student Population

Overall student populations are declining across Minnesota, primarily due to the aging of existing populations and a lower birthrate among white women of childbearing age. The non-white birthrate continues to increase slightly, largely because of foreign immigration, although family size generally declines with increased income and assimilation.

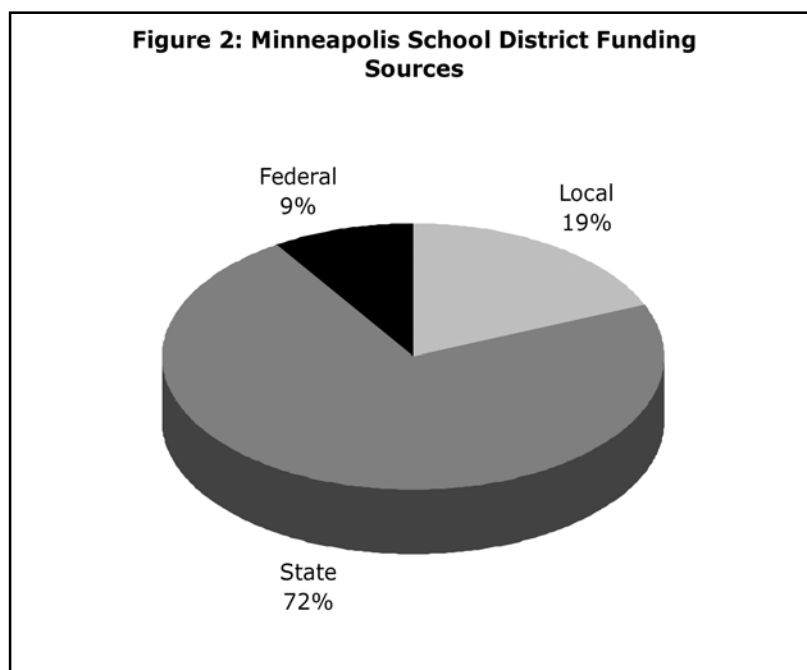
Minneapolis Public School District enrollment (39,902 students in 2004-05) is also declining. Minneapolis's enrollment decline has been the largest in the state - it is estimated by district consultants that the decrease in district enrollments from 2003 to 2008 will be 18%.<sup>1</sup> The reasons for the rapidly declining enrollments in Minneapolis are much discussed and vigorously contested. The probable causes include:

- Minnesota provides "universal open enrollment" across school district lines, and families able to transport students into suburban districts frequently do so.
- A state court settlement also permits students in the Minneapolis attendance area who are eligible for free and reduced lunch to receive paid transportation to designated suburban schools. The so-called "NAACP settlement" requires the state to pay for transportation and also to compensate suburban districts for accepting low-income urban Minneapolis students.
- Minnesota's vibrant (if uneven) charter-school sector provides a cost-free option to an increasing number of families.
- The state's well-established private-school sector has low tuitions (a majority of K-8 private schools charge less than \$4,000 per year) and a longstanding practice of generous need-based tuition assistance and active outreach to low-income and minority students.
- Home schooling continues to grow in popularity as a result of increasingly high parental education levels and reasonably supportive state laws.
- Minneapolis public schools play a disproportionately large role in the state's attainment of one of the nation's largest achievement gaps between African-American children and their white peers.<sup>2</sup>



**Minneapolis Education Finance**

The Minneapolis Public School District receives 72% of its total funding from the state of Minnesota, and is therefore very much affected by state education finance policy. Minnesota’s system for funding public education is more complex than that of most states. Once largely dependent on local property taxes, the K-12 education funding formula was recently revised to make the state’s general fund the major source of per-student district funding. According to the Minnesota Department of Education, K-12 education funding alone is now approximately 42% of the state’s annual general fund expenditures.<sup>3</sup> In the interest of equalizing funding (and, arguably, educational opportunity) statewide, this major shift in policy includes legislatively imposed limits on local education authorities’ ability to levy school taxes. The long-term result of this policy change is still unclear. At the same time that specific aids funded at the state level raise the funding floor for less wealthy urban and rural districts, affluent communities no longer permitted to indefinitely raise local tax revenue for their district schools are finding ways to increase local funding from voluntary (often tax-deductible) sources that are unavailable to communities with less wealth.



In Minnesota, the portion of school district revenue coming from the state (called “state aid”) is comprised of several categories. Some of this funding is based on “pupil units.” A pupil unit represents the weighted allowance for students, based on how expensive it is to teach a student in each grade level. A kindergarten student is 0.557 pupil units, a student in grades 1-3 is 1.115 pupil units, a student in grades 4-6 is 1.06 pupil units, and a student in grades 7-12 is 1.3 pupil units.

Categories of state education funding in Minnesota include:

- *Basic Formula Allowance*: This amount is set biennially by the state legislature as the basic funding amount per pupil unit, including a transportation allowance. The basic formula allowance is currently set at \$4,601 dollars per pupil unit.
- *Basic Skills Revenue*: This compensates districts for the extra costs involved in educating low-income and Limited English Proficient (LEP) students. Funds for low-income students (known as Compensatory Revenue) are determined by the concentration of students at a district school who qualify for free and

reduced lunch. Districts also receive a set amount per LEP student and an additional allowance based on the concentration of LEP students.

- *Operating Capital Revenue*: This covers equipment and facility spending, and varies with the number of students in a district and the age of its buildings.
- *Training and Experience Revenue*: This provides additional funding to districts whose teachers have higher levels of professional credentials and experience.
- Other categories include funding for districts with large numbers of students in extended-day programs, for districts that are geographically large but have few students, and so forth.

On average, 72% of per-student funding in Minneapolis comes from the state through various aid categories and grants, or as special-education funding. A detailed breakout of district funding is presented below. Minneapolis public schools receive a large portion of their revenue from the state in the form of Basic Skills Revenue. Because this revenue is based on concentrations of low-income and LEP students at specific district school sites, its distribution is uneven throughout the district. An example of Compensatory Revenue (a component of Basic Skills Revenue) for two elementary school sites in different socioeconomic areas of Minneapolis is presented below.

**Figure 3: Minneapolis School District Funding Per Pupil Unit**

<i>Local Revenues</i>	
Levy	\$1,858
Tuition from MN Districts	\$30
Other Tuition and Fees	\$242
Other Local Sources	\$409
<b>Total Local Revenues</b>	<b>\$2,539</b>
<i>State Revenues</i>	
State Aids	\$7,483
State Grants	\$867
Special Education	\$1,206
Other State	\$261
<b>Total State Revenues</b>	<b>\$9,817</b>
<i>Federal Revenues</i>	
Federal Thru DCFL	\$769
Fed Thru Other State Agencies	\$7
Federal Direct	\$182
Child Nutrition	\$275
<b>Total Federal</b>	<b>\$1,233</b>
<i>Other</i>	
Food Sales	\$66
Other Sales & Recoveries	\$2
<b>Total Revenues per Pupil Unit</b>	<b>\$13,658</b>

Source: Minnesota Department of Education; figures are for 2003



**Figure 4: Examples of Compensatory Revenue Paid to Minneapolis District Sites**

<i>Lincoln Elementary</i>		<i>Burroughs Elementary</i>
600	Total Pupil Count	596
520	Total Free Lunch Pupils	128
38	Total Reduced Lunch Pupils	11
89.8%	Site Free/Reduced Lunch Concentration	22.4%
\$1,353,752	Total Compensatory Revenue	\$93,892
\$2,426	Aid Amount per Eligible Student	\$675
\$2,256	Aid Amount per Site Student	\$158

Source: Minnesota Department of Education; figures are for 2003

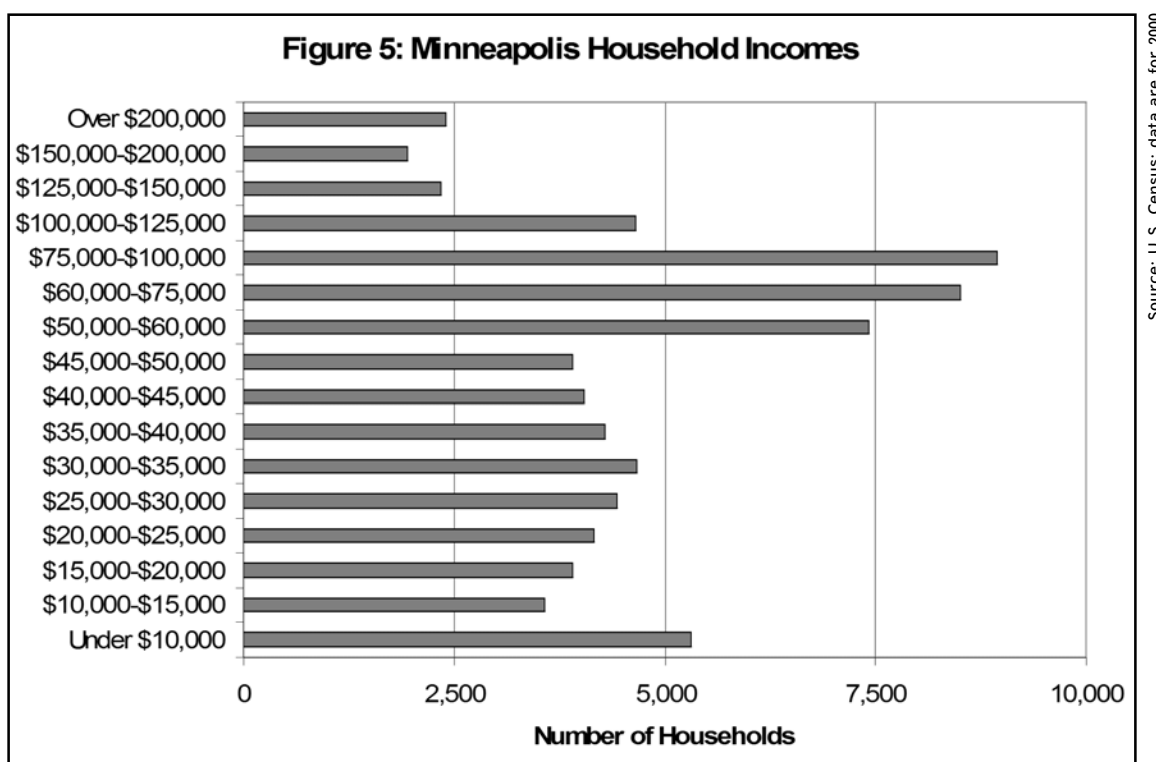
## The Proposed Education Access Grants

### Student Eligibility

Students are eligible to receive the proposed Education Access Grants if:

- Their parents or guardians have household incomes equal to or less than 250% of the federal poverty guideline for a family of four. Once they begin receiving an Access Grant, families cannot lose eligibility due to increased income; younger siblings of recipients are effectively “grandfathered into” eligibility.
- They either have spent the previous year enrolled in a Minneapolis public school or are entering kindergarten. In the latter case, students may receive an Access Grant worth up to half the amount available to students in grades 1-12 (Minnesota currently funds only half-day, non-mandatory kindergarten from the state general fund, though individual districts may provide local funding for “all-day K” from other sources).
- Their parents agree to the student’s participation in annual administration of a nationally normed academic achievement test, and to have the results of these tests reported anonymously to the Department of Education and made available to researchers in accordance with the Minnesota Government Data Practices Act.

The number of available Access Grants is capped. In the first year of availability, no more than 10% of Minneapolis public school enrollment from the previous year may receive Access Grants; in each subsequent year the cap increases by 5% of the total number of participating students. If demand for Access Grants exceeds the annual limits, grants are accepted on a first-come basis, with siblings of enrollees given preference.



**Funding**

The proposed Access Grant legislation will directly affect the state portion of funds a participating district receives.

- Access Grants will be worth up to the Basic Formula Allowance set biennially by the legislature – currently \$4601. Each student’s grant is also capped at the amount of the private school’s tuition plus a transportation grant equal to the per-student state transportation allowance paid to Minneapolis public schools.
- Since the total state aid amount per student is in fact greater than \$4,601 (because the state weights students by grade level, and because state aid includes more than just the Basic Formula Allowance), once the money for Access Grants is disbursed the state will have further funds left over that had been associated with participating students. These funds will go back into the state’s general fund.
- For six years after a student leaves public school with an Access Grant, the district will continue to receive some of the state aid associated with that particular student. This aid is called “stability revenue.” Its purpose is to provide a period of adjustment for schools that experience declining enrollment.
- In the first three years after a student leaves public school, the stability revenue generated for public schools by that student will equal 100% of the state aid associated with that student other than the Basic Formula Allowance. The stability revenue will then be reduced by one-third in each of the remaining three years.
- For purposes of stability revenue, school districts may count kindergarten students who use Access Grants as though they had initially enrolled in a district school before using the Access Grant.

## Eligible Receiving Schools

Schools eligible to enroll Access Grant recipients must:

- Be eligible to provide mandated instruction under Minnesota law.
- Admit Access Grant recipients according to the same standards applied to other students.
- Facilitate annual administration of a nationally normed achievement test to each Access Grant student, and report the results anonymously to the Department of Education for use in accordance with the Minnesota Government Data Practices Act.
- Determine each recipient's eligibility for Access Grants annually.

Schools eligible to enroll Access Grant recipients may not:

- Count Access Grant students in their calculations for the following state aids: health services, guidance counseling, or textbooks.
- Increase tuition faster than industry norms.

## Access Grant Fiscal Analysis

To determine the fiscal impact of these Access Grants, it was necessary to make some assumptions about what the levels of participation would be. Of course, it is unlikely that once the program is put into practice it will conform precisely to these assumptions. We have indicated below how differences in actual participation will affect results.

This study assumes:

- That the maximum permitted number of students will participate. If fewer students participate, the fiscal impact on both the state and Minneapolis public schools will still be in the same direction (positive or negative) but will be smaller in magnitude.
- That all participating students use the full \$4,601 – that is, their tuition expenses and the transportation allowance will add up to at least that amount. If some students do not use the full \$4,601, the fiscal impact on the state will be more positive.
- That participating students are evenly distributed across grade levels. Students in different grade levels generate different levels of state funding. If participants are disproportionately distributed in certain grades, that will change the fiscal impact.

### Fiscal Impact on Minnesota's General Fund

Each student using an Access Grant will draw up to a maximum of \$4,601 out of the Minnesota General Fund to pay for private-school tuition and transportation. In fact, Minnesota spends more than \$4,601 on each student who attends a Minneapolis public school. The Minneapolis Public School District receives an average of \$9,818 per student from the state. Thus, the amount of money the state will spend on a student using an Access Grant will be less than the amount it would have spent on that student had she remained in a Minneapolis public school. These savings from Access Grants, minus the amount the state would spend on stability revenue, will have a positive fiscal impact on the state general fund of up to about \$3.3 million in the first year.

There is an inverse relationship between the positive fiscal impact on the state and the amount of stability revenue paid. Because the largest cohort of Access Grant students will be created in the program's first year, the positive impact on the state's general fund will increase over time as the stability funding for this large initial cohort decreases. In the sixth year the state will save up to about \$14.2 million due to Access Grants.

**Figure 6: Fiscal Impact of Education Access Grants on Minnesota General Fund**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Maximum Program Enrollment	3,993	4,193	4,403	4,623	4,854	5,096
Impact on Minnesota General Fund	+\$3,317,429	+\$3,552,967	+\$3,805,227	+\$6,943,866	+\$10,362,718	+\$14,173,259

**Fiscal Impact of Stability Revenue on Minneapolis Public Schools**

For six years after a student leaves public school with an Access Grant, the Minneapolis Public School District will continue to receive some of the state aid associated with that student in the form of stability revenue. The bulk of this money will be from Basic Skills Revenue, the portion of state aid intended to deliver better services to disadvantaged students. For purposes of Basic Skills Revenue and other state aid categories besides the Basic Formula Allowance, it would be as though all Access Grant participants were still enrolled in public school. Stability revenue will benefit students remaining in Minneapolis public schools, because much of the state aid for educating Access Grant recipients will continue to flow into those schools after the financial burden of educating those students has been removed.

This study does not provide the fullest possible analysis of the fiscal impact of Access Grants on Minneapolis Public Schools. A more thorough analysis of all district revenue sources would be necessary to conduct such a study. This study analyzes the fiscal impact of the program on the 72% of district revenue that comes from the state.

In the first year, if the maximum number of students participates, the stability revenue created by Access Grants will result in a positive fiscal impact of about \$8.2 million on the Minneapolis Public School District. This will increase with growing participation in the program to about \$9.4 million in year three, and gradually decrease thereafter as the stability revenue for the large initial cohort of Access Grant students declines over the following three years.

**Figure 7: Fiscal Impact of Stability Revenue Generated by Education Access Grants**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Maximum Program Enrollment	3,993	4,193	4,403	4,623	4,854	5,096
Impact on Minneapolis Public Schools	+\$8,190,973	+\$8,772,532	+\$9,395,382	+\$7,107,063	+\$4,685,828	+\$2,034,168

It is important to remember that stability revenue, while not the only fiscal impact Access Grants will have on Minneapolis public schools, is a significant resource for stabilizing and improving a district that has too many children it cannot serve and per-child revenue amounts that have not proven adequate to serve them.

## Discussion

School operations are dynamic, and a snapshot cannot take into account every policy decision that will be made by administrators or school board members in responding to the educational needs of their constituents. Nevertheless, there are significant opportunities for improving fiscal conditions for the Minneapolis Public School District, some generated directly by initiation of Access Grants in the context of pre-existing trends within the state and district.

- Much of the Basic Skills Revenue now received for children the district must instruct, as well as pieces of other revenue sources, will become stability revenue available on a continued (if declining) basis for several years. Since this revenue will be spent on a smaller group of students, it amounts to an increase in per-child resources. Schools have some incentive to encourage students to leave with Access Grants, in order to obtain stability revenue. This effect has been largely unrecognized by Minnesota school administrators as an opportunity rather than a penalty.
- Only students from families earning less than \$48,375 (250% of the federal poverty guideline for a family of four in 2005) will be eligible for an Access Grant. These students are, by definitions accepted by the district, those most likely to require costly staffing and program accommodations. Not every family eligible for Access Grants will use them, because not every eligible family will be able to receive them. To the extent that socioeconomic conditions place a child at risk, that risk will continue to be present for this now-smaller population of students in Minneapolis public schools, and this smaller group of at-risk children will receive, in effect, increased per-student Basic Skills Revenues. Given current pedagogy, this decrease in the concentration of low-income and minority students in public schools can be expected to provide relief both financially and programmatically for the remaining population.
- The Access Grant legislation does not affect the district's access to locally levied revenues. To the extent that a given local levy is available for specific infrastructure or general operating expenses, there will be no direct impact on Minneapolis public schools obtaining such local funds. Where levy revenue is directly tied to student enrollment, of course, the district will have to change the terms of the levy in order to keep this revenue stable in absolute terms.
- Because of declining enrollment - whether due to low birthrates, geographic out-migration, public school choice options, home schooling, and private school choice - the district is already consolidating attendance areas and closing some schools. Access Grants are unlikely to be the cause of specific sites closing, but will allow for school buildings least-suited to serving the at-risk population to be removed from operation.
- Minneapolis public school enrollment is already declining and is not expected to plateau at new levels for several years. Stability revenue will provide a source of funding that the district does not receive when a student enrolls in a charter school, moves to a suburban district, or leaves a district school in any other way.
- Stability revenue, if well anticipated and applied, will help improve overall Minneapolis public school conditions, which is likely to slow Minneapolis' enrollment decline and attract students to new and strengthened programs within the district.

## Conclusion

The proposed Education Access Grant legislation will have a positive fiscal impact on the state of Minnesota and will provide surplus revenue for the Minneapolis Public School District. With the participation rates modeled in this study, the positive impact on the state would be about \$3.3 million in the first year, rising to \$14.2 million in the sixth year. The stability revenue generated for Minneapolis public schools would be about \$8.2 million in the first year, rising to \$9.4 million in the third year before phasing out to increasingly negligible levels after the first year's larger participant cohort.

Minnesota's particular method of funding local public school districts from the state's general fund, and of compensating for socioeconomic conditions as primary characteristics of instructional challenge, provides opportunities for further, compounded fiscal advantages for Minneapolis public schools under the Access Grant proposal. Discerning application of stability revenue may have results that would make these estimates of the legislation's positive fiscal impact appear conservative by comparison.

## Endnotes

<sup>1</sup> "A Report to the Minneapolis School District as Part of the Facilities Utilization Plan: An Analysis of Enrollment and Enrollment Projections," Hazel Reinhardt Consulting, October 2004. The enrollment projections show a decline in enrollment from 41,043 in 2003 to 33,400 in 2008.

<sup>2</sup> Achievement gaps in the National Assessment of Educational Progress in 2003. Minnesota's African-American students were 44 points behind their white counterparts on the Grade 8 Math Assessment; only Wisconsin, whose African-American students were 49 points behind, had a larger achievement gap.

<sup>3</sup> "K-12 Education Finance Overview 2004-2005," Minnesota Department of Education, Division of Program Finance.



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