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Fiscal Note

2023-2024 Legislative Session

HF439 - 0 - General Education Basic Formula; Inflation Link

Chief Author: **Matthew Norris**
 Committee: **Education Finance**
 Date Completed: **2/10/2023 4:07:39 PM**
 Agency: **Education Department**

| State Fiscal Impact | Yes | No |
|---------------------------|-----|----|
| Expenditures | X | |
| Fee/Departmental Earnings | | X |
| Tax Revenue | X | |
| Information Technology | | X |
| Local Fiscal Impact | X | |

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

| State Cost (Savings) | Biennium | | | Biennium | | |
|-----------------------|----------------------|----------------|------------------|----------------|------------------|--------|
| | Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| Total | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| Biennial Total | | | 1,046,849 | | 1,718,861 | |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|--------------------------------------|----------|--------|--------|----------|--------|
| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | - | - | - | - |
| Total | - | - | - | - | - |

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Alyssa Holterman Rosas **Date:** 2/10/2023 4:07:39 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

| State Cost (Savings) = 1-2 | | Biennium | | | Biennium | |
|--|---------------|-----------------|------------------|----------------|------------------|--|
| Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 | |
| General Fund | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| Total | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| | | | 1,046,849 | | 1,718,861 | |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| Total | - | 332,603 | 714,246 | 819,744 | 899,117 | |
| | | | 1,046,849 | | 1,718,861 | |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | - | - | - | - | - | |
| Total | - | - | - | - | - | |
| | | | - | | - | |

Bill Description

This bill amends Statutes 2022, section 126C.10, subdivision 2. Section 1 increases the general education basic revenue formula allowance to \$7,206 for FY 2024 and to \$7,566 for FY 2025 which is a 5% increase in the formula allowance from year to year. The formula allowance for FY 2026 and later equals the formula allowance for FY 2025 and the change in the Consumer Price Index for urban consumers from the current fiscal year to FY 2025. Section 2 appropriates sums from the general fund for the change in general education aid. Basing the change in formula allowance from the current fiscal year to fiscal year 2025 as written could make it difficult for districts to budget because the amount of the formula allowance would not be finalized until after the start of the current fiscal year.

CPI is based on the actual published CPI from the U.S. Bureau of Labor Statistics and projected CPI provided by Minnesota Management and Budget. For example, MDE calculates CPI for referendum. CPI isn't final until after the end of the fiscal year in mid-July. FY23 uses a combination of BLS actual and MMB projected CPI for MDE updates to referendum for September and December CPI. FY23 CPI is final once the BLS June 2023 actuals are published in mid-July of 2023. CPI for FY24 is currently based on the MMB projections.

Assumptions

A technical note related to this bill: The bill needs to specify a point in time to set the inflationary increase to allow adequate time for MDE to make entitlement calculations, and to communicate these changes to districts for their planning and budgeting purposes. Changing the formula allowance based on the prior year CPI increase would allow districts to know the formula allowance ahead of the current fiscal year. It would increase the formula allowance for inflation with a one-year delay.

Line 1.17 references the United States Bureau of Labor Standards. The actual name of the agency is the United States Bureau of Labor Statistics. The Bureau of Labor Statistics updates the Consumer Price Index for urban consumers monthly.

Calculations in this fiscal note use November 2022 forecast information and the September 2022 United States Bureau of Labor Statistics actual CPI. This CPI is a point in time forecast from the Bureau of Labor Statistics and the CPI will fluctuate as it becomes finalized over the next several years.

Expenditure and/or Revenue Formula

The following formula allowances are used in calculations for this fiscal note. Formula allowance amounts are rounded to the nearest dollar when calculating the CPI.

| FY 24 | FY 25 | FY 26 | FY 27 |
|---------|---------|---------|---------|
| 5.0% | 5.0% | 1.0219% | 1.0223% |
| \$7,206 | \$7,566 | \$7,643 | \$7,721 |

The change in each component of General Education revenue is below.

| HF0439-0 | FY24 | FY25 | FY26 | FY27 |
|------------------------|---------------|----------------|----------------|----------------|
| GENED AID ENTITLEMENT | 8,140,327,065 | 8,429,144,319 | 8,425,571,318 | 8,465,482,582 |
| Levies | 1,606,094,279 | 1,703,180,780 | 1,754,455,489 | 1,792,695,518 |
| Total Revenue | 9,746,421,344 | 10,132,325,099 | 10,180,026,807 | 10,258,178,100 |
| November 2022 Forecast | FY24 | FY25 | FY26 | FY27 |
| GENED AID ENTITLEMENT | 7,770,767,883 | 7,676,599,974 | 7,598,360,750 | 7,558,375,977 |
| Levies | 1,606,101,249 | 1,703,181,206 | 1,754,455,490 | 1,792,695,521 |
| Total Revenue | 9,376,869,132 | 9,379,781,180 | 9,352,816,240 | 9,351,071,498 |
| DIFFERENCE | FY24 | FY25 | FY26 | FY27 |
| GENED AID ENTITLEMENT | 369,559,182 | 752,544,344 | 827,210,568 | 907,106,605 |
| Levies | (6,970) | (426) | (1) | (3) |
| Total Revenue | 369,552,212 | 752,543,918 | 827,210,567 | 907,106,602 |
| Appropriation | FY24 | FY25 | FY26 | FY27 |
| 90% | 332,603,264 | 677,289,910 | 744,489,511 | 816,395,945 |
| 10% | | 36,955,918 | 75,254,434 | 82,721,057 |
| Total | 332,603,264 | 714,245,828 | 819,743,946 | 899,117,001 |
| Dollars (in thousands) | 332,603 | 714,246 | 819,744 | 899,117 |

Long-Term Fiscal Considerations

Increasing the formula allowance based on CPI would ensure that funding keeps pace with inflation.

Local Fiscal Impact

This bill increases funding to local school districts.

References/Sources

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