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Fiscal Note

2023-2024 Legislative Session

SF448 - 0 - General Education Basic Formula; Inflation Link

Chief Author: **Heather Gustafson**
 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.

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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	
	Biennial Total		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	
	Biennial Total		1,046,849		1,718,861	
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
	Biennial 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

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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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Date: 2/10/2023 3:38:36 PM

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