Private citizens and officials... hailed the new law as the "Minnesota Miracle."

Financing Education in Minnesota: A Tradition of Progress, 1971-1998

Mary Jane Guy

Minnesota School Finance Background/History

Minnesota has been viewed as a progressive state in the area of education. In addition to charter schools, it has initiated many reforms since the 1970's which ushered in the "Minnesota Miracle" in the 1970's that set the state on a path of educational reform. However, when we examine the legal precedents and history of Minnesota school finance since the 1970's, we note that most K-12 educational finance reforms have not involved significant, progressive or "pacesetting" financing changes until recently and are rather conventional or traditional.

In 1997 after a tense standoff over tax breaks for private school tuition, Minnesota lawmakers agreed on a $6.7 billion, two-year education finance bill that makes far reaching changes in the public school system of Minnesota.[1] The "Students First" plan constitutes a shift away from the state's traditional emphasis on funding school districts and focuses on giving students and their families money to use as they wish.[2] This along with legislation passed in the spring of 1997 to establish the first statewide testing program[3] has been hailed by Robert J. Wedl, the state education commissioner, as "...the most significant reform in our history."[4] The recent furor over low test scores in the Twin Cities, caused legislators in the 1997 legislative session to approve a $100 million increase over two years in compensatory aid (anti-poverty funds) for a total of $360 million that would go directly to schools rather than districts.[5]

The state's approach to educational finance is still a modified "foundation" approach, even though restrictions have been placed on local school districts to supplement the foundation level. Today, however, Minnesota is almost completely responsible for the availability of new revenue for public schools. As in many states today, elementary and secondary education in Minnesota is financed through a combination of state collected taxes (primarily income and sales) and property taxes collected locally in accordance with a constitutional mandate that requires a thorough and efficient system of schools. Minnesota's education article is one of the most strongly worded educational mandates expressing the notion of a republican system of common schooling in America:

> The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.[6]

Mary Jane Guy is Associate Professor, Winona State University

The Minnesota Miracle

Numerous court challenges throughout the United States in the 1970's have reflected the general consensus that an overhaul of school funding was due. In Minnesota, the Governor and Legislature in the 1970's initiated changes which brought the state's school financing system more into alignment with its constitutional mandate "to establish a general and uniform system" of education. In 1971 the Omnibus Tax Act sought to equalize tax effort of property owners in Minnesota while promoting greater equalization of school expenditures throughout the state.

Minnesota state support for elementary and secondary education initially was based solely on interest income from the permanent school fund. Supplemental state aids were distributed as early as 1915 and the state attempted an equalization approach to state aids in 1947. Foundation aid, established by the 1957 legislature, was meant to provide an adequate basic education and to compensate for variations of property wealth among Minnesota to advantage poor school districts. The method of computing the foundation aid remained the same until passage of the Omnibus Tax Bill in 1971.

Prior to the *Serrano* decision[7], Minnesota Governor Wendell Anderson proposed his "Fair School Financing Bill." The reform in educational finance that followed was a compromise between various forces based on this Governor's proposal. It ignored features to equalize per pupil expenditures, but made major changes in reducing tax inequities throughout the state. The shift in financing and the change in emphasis was so great that a federal bi-partisan commission composed of private citizens and officials at all government levels, hailed the new law as "the Minnesota Miracle."

School aid reform was also addressed during a special session of the 1971 legislature that made substantial changes in the philosophy and method of financing K-12 education. The foundation aid formula shifted the primary revenue-raising responsibility for school operating funds from local to state level. It defined a "standard cost" per pupil unit to provide an adequate education; it established an "allowed" level of expenditure for each district determined by the relationship of the district's maintenance expenditure to the standard cost in that year. The "allowed expenditures" were financed for the first time by a foundation aid formula which provided poorer school districts with proportionately more state financial assistance. The financial aid formula increased equalization in expenditures by providing "low cost" districts with additional power to increase allowed expenditures annually; and it placed stringent limits on school district mill rates for maintenance purposes.

Prior to 1971 schools in Minnesota were financed by a combination of state and local monies with about 6% from federal sources. The state share was divided among three aid programs, foundation aids, categorical aids, and tax relief aids. Excess referendum levies were part of the Minnesota Miracle. School districts had been able to levy, with voter approval, amounts for district operational costs beyond levies specifically authorized in Minnesota. Local school boards had much greater flexibility in deciding their own levies and the levy was limited largely by the need for money and the ability and willingness of the property taxpayers in the district to provide resources. The 1971 law was the first effective state-imposed and voter-controlled levy limit on school district levies. It prohibited school district levy increases above state statutory limits unless local voters approved the increase by referendum.[8]

In the decade following the "Minnesota Miracle," numerous amendments to the original Act have reflected significant changes in schools and society not anticipated by those who drafted the 1971 law. Inflation, declining enrollment, the increasing needs of special groups, and, most recently, declining revenues in a recessionary economy prompted these amendments. Some believe in Minnesota that these changes fine-tuned the law; others saw these reforms as creating an unwieldy instrument, difficult to understand and unresponsive to present needs. However, the 1971 law remained in place with only minor changes in the 1970's through the early 1980's.[9]

From 1991 onward the problem of the referendum levy was addressed so that today the referendum process is much more controlled. Any referendum levies now passed must be levied against the market value of property rather than net tax capacity. This has the effect of shifting a greater burden of the referendum levy to residential, agricultural and recreational properties—classes that otherwise are taxed at lower rates than most other types of property. Referendum revenue today is limited to $801.25 per pupil unit in 1996-1997. District referendum revenue may not exceed this amount unless a district is eligible for sparsity revenue or the referendum allowance was higher in a previous year. This not being the case, the district may not increase its referendum revenue. The duration of the referendum must be specified on the ballot and may not exceed ten years.[10]

Skeen v. State of Minnesota[11]

The "Minnesota Miracle" took unprecedented steps to reform the school financing system. It increased state fiscal responsibility for education, and reduced reliance on real estate taxes, but it was still apparent that Minnesota's school funding system could be more equitable and efficient. The state's relatively high dependence on local revenue continued to create wide district fiscal disparities and still had little relationship to local need or ability to pay.

In 1988, 52 outer ring suburban and rural school districts representing 25 percent of the state's K-12 enrollment filed a lawsuit in the district court claiming that Minnesota's school finance system was unconstitutional because the finance system was not uniform and school districts received disparate amounts of government aid. The plaintiff school districts challenged the constitutionality of the referendum and debt service levies that are based upon local property taxes and the training and experience and supplemental revenues that are fully equalized state aid components of the general education revenue program.

In December 1991, the Wright County District Court ruled that three components of Minnesota's education funding formulas were unconstitutional. These components provided for the allocation of approximately 11 percent of the state and local revenue spent on education. They were: (1) debt service levies—the levies to pay the principal; and interest on bonds used to finance facilities; (2) referendum levies—the local voter approved levy authority that allows a school board to obtain more revenue than regular funding formulas provide; and (3) the supplemental revenue—a grandfather provision that holds harmless districts that received more revenue under previous formulas.

The Minnesota Supreme Court on August 20, 1993, however, reversed the trial court and held that state's finance system constitutional. It ruled that education in Minnesota is a fundamental right and that the current system of education finance satisfies that right. The court found that all plaintiff school districts received an adequate education through sufficient funding to meet basic needs. The court used the term "adequate" or "adequacy" to mean the measure of need that must be met and not some minimal floor. It thus established a minimum standard the state must meet in designing an education funding system that is constitutional.

In 1992, as a result of this litigation, two important changes to the structure of the state's school finance system were made by the Minnesota Legislature. It adopted and funded a debt service equalization program over a three year phase-in period, and lowered the cap on referendum revenue from 35 percent to 30 percent of the general education formula allowance, with districts above the cap "grandfathered" in at their current level of referendum revenue.

In 1993, the legislature increased the general education formula from $3,050 per pupil unit to $3,150 for all school districts. However, the $100 increase was used to reduce supplemental revenue and referendum revenue. A district with at least $100 per pupil unit of supplemental and referendum revenue, in effect, was held level. This reduced supplemental revenue statewide from $14 million to $3.5 million making the supplemental revenue component much less significant. Referendum revenue was reduced from $311 million to $260 million. At this time the state aid guarantee on the first $315 per pupil unit of excess referendum revenue was increased from the 50 percent level to the 100 percent level, the same as the general education formula.[12] Excess referendum revenue was also capped at $787 per pupil unit. (House Ways & Means Committee, 1993).

Since 1993, revenue from excess referenda has grown substantially and as a percent of total revenue is still growing. Today, over three-fourths of Minnesota school districts have referendum revenue. It grew again substantially in 1996-1997, now constituting 6.6 percent of total education revenue from the 2.9 percent in the early 1980's.

A major issue addressed by the 1997 Legislature was the revenue "caps" in K-12 education. Legislation passed in 1995 reduced the general education formula and reduced the secondary pupil unit weighting to keep projected K-12 education spending for FY 98-99 within the budget targets set in 1995. An additional $892 million was forecast for general fund revenues and expenditures at the end of FY 99. While this forecast projected revenues exceeding expenditures by $2.3 billion, the Legislature passed and the Governor signed a bill repealing the "caps" in K-12. The referendum equalization levy for 1999 and beyond "equals the districts referendum equalization revenue times the lesser of one or the ratio of the districts' referendum market value per actual pupil unit to $10,000.[13]

The shift from property taxes to state taxes in Minnesota was the biggest jump this past 1997 legislative session. The "Minnesota Miracle" was prompted mainly by a property tax revolution where people came to the capital in arms over huge property taxes to finance public schools. The Citizens League and Governor Anderson at the time proposed an increase in the income tax. With more state funding, still allowing for local levy for add ons, the state has assumed more of the education cost, especially with additional revenue to endorse the graduation rule.[14]

Equity is still an issue after *Skeen v. Minnesota*[15], but policy makers believe that over the past few years Minnesota has made a great deal of progress. The greatest strides in equalization have occurred in the area of debt reduction of school districts because the state has taken considerable responsibility to equalize property taxes. According to the Department of Children, Families and Learning, school district disparity and equity seems to be less of an issue now and somewhat diminished during an inflationary period.[16] (The court observed in

1991 that the legislature had equalized more of the state funding, with the percentage of uniform basic revenue rising roughly from 67.5% in 1984 to 90% by 1990.)

Today the general education formula is an "equalized" formula—the state pays in aid the difference between what is raised by the local levy and the formula allowance. The portion that is local levy can be determined by comparing a district's adjusted net tax capacity per pupil unit to the equalizing factor. The equalizing factor is determined by dividing the basic formula allowance by the tax capacity rate. For 1997-98, the equalizing factor calculation is : $3,581/.374 = $9,575. The basic revenue allowance for each district for the 1997-98 school year is $3,581 per pupil unit. State aid of $2.6 billion and property tax levy of $1.4 billion provide the basic revenue for all districts. The total of all state aid is $3.3 billion, and the total levy amount is $2.3 billion. State revenue comes from compensatory revenue for free and reduced lunch, operating sparsity revenue for small and isolated schools. Beginning in 1996-97, the basic formula increased by $300 per pupil unit representing the "roll-in" of transportation and training and experience revenue.

Additional revenues are provide from Transportation Sparsity Revenue which provides districts with additional funding based on the number of pupil units per square mile. The operating Capital Revenue formula will allow for increases in technology this year. In 1997-98 a districts' supplemental revenue is the same per pupil amount as the district received in 1992-93. However, supplemental revenue is reduced by $100, representing the increase in the formula allowance. This revenue is an aid and levy combination in the same ratio as the district's general education revenue allow. A total of $5.4 million in supplemental revenue was allocated to about 32 districts in 1987-98.

Educational Investment

The Minnesota legislature will conduct the 1998 legislative session with a record budget surplus. Today forecast revenues exceeded forecast expenditures by $2.3 billion due to a robust economy. Governor Carlson wants to spend most of the new money on property tax relief, but there will still be hundreds of millions available for opportunities for education in the form of budget supplements, tax credits and deductions, and capital improvements in the future.

The regional impact of the funding changes contained in the the omnibus 1997 K-12 bill and the changes in the distribution of revenue among school districts reflects a geographic distribution of new money over baseline amounts for FY 98 and FY 99. Statewide there has been a 4.9% increase over the FY 99 base; in non metro areas a 5.6% increase; in suburban metro areas, a 3.7% increase and in the Twin Cities of Minneapolis/St. Paul, a 5.9% increase based on per pupil unit general education revenue amounts. Statewide per pupil increases when measured against the base amounts for fiscal years 1998 and 1999 are 3.5% and 4.9% respectively. Additional new money pumped into the K-12 system this past legislative session ($6.7 billion for the K-12 appropriation— a total revenue increase of 14% over the previous biennium) has affected the spread in school district revenue when measured by the 5th and 95th percentiles of general education revenue because of the added Compensatory Revenue—from $836 per pupil unit in FY 97 to $1,005 in FY 99 under the conference committee proposed amounts.[18]

In an analysis of changes in school funding in Minnesota over the past two years, Augenblick and Myers (1997) point to marginal revenue growth above inflation.[19] Generally in Minnesota, school districts spend what they get. They may build up a balance or go into debt, so the best data to examine for how school districts are faring is school district revenues. Considering all funds, the most current revenue figures (including revenue to pay for buildings) in 1998, the revenue per average daily membership is $6,264, a .0067 percent increase over FY 1997 which was $6,222. What is slated in current law for FY 1999, however is $6,786, a 2.5% increase.[20] "A few years ago in Minnesota we had 59 school districts with operating debt. This year only 10 districts have been eliminating their operating debt through consolidation, so Minnesota's 362 school districts are in pretty good shape."[21]

Education is the largest single item in the state's general fund budget, accounting for about 33-34 percent of total spending (this percentage includes a relevant portion of property tax reduction aid). Higher education in Minnesota receives only 10 to 11 percent.[22] Total state and local revenue for schools increased over 128 percent since 1985. When adjusted for inflation, the increase is 46.2 percent despite the fact that as economic growth has slowed while student population has increased. Revenue per student, adjusted for inflation has increased by 22.3 percent from FY 1994 to FY 1997. It is estimated that total school district revenue for each student (ADM) will average $7,191 during the 1996-1997 school term—this includes funding from state, local, and federal sources.[23]

State funds for K-12 have particularly increased for career teacher-family programs, youth service, alternative delivery of specialized instructional services and other programs to meet the needs of targeted children and youth. In 1994, an additional $1 million was appropriated for violence prevention grants with another $1 million appropriated for youth apprenticeships and establishing the connection between youth and community service.[24]

Selected Education Issues and Policy Trends Affecting Minnesota School Finance

The constitutional requirements of Minnesota, the current statutory framework for education finance, the history of litigation, and developing legal theory have all recognized and anticipated the pacesetting reforms to achieve greater equity and accountability that have taken place recently with the passage of the 1997 Omnibus Tax Bill for K-12 education. For example in H.F. 350, Article 1, Section 25 we read:

> Financing the education of our children is one of the state government's most important functions. In performing this function the state seeks to provide sufficient funding while encouraging equity, accountability, and incentives toward quality improvement. To help achieve these goals and to help control future spending growth, the state will fund core instruction and related support services, will facilitate improvement in the quality and delivery of programs and services, and will equalize revenues raised locally for discretionary purposes.[25]

In 1989, the Minnesota legislature first addressed the issue of the proper locus for democratic control in the state. The legislature adopted general principles and a policy statement to guide state-local finance reform which stressed accountability, i.e. a preference for state funding of state-mandated activities and local funding of local decisions.[26] In 1991, the Minnesota legislature adopted a mission statement for education which emphasized such concepts as "participatory decision-making," "accountability," and integration and coordination of "human services for learners."[27] In 1992, the Minnesota legislature enacted the Minnesota Education Finance Act. It specified in general terms a finance system based on "basic instructional aid," "elective instructional revenue," and "local discretionary revenue." [28]

Public school enrollment has grown in recent years, rising to an estimated 837,231 (ADM) in the 1996-1997 school year (after several years of declining student populations.) Minnesota Planning has projected it will grow to 868,000 by the year 2005 which would cost an additional $320 million each year. This predicted student growth will be concentrated in a small number of the state's 362 school districts. Half of all growth from 1993 to 1999 is expected to be in just 10 districts surrounding the Twin Cities. This could put pressure on the legislature from the various poor rural "out state" school districts.[29]

The Minnesota legislature has adopted the following policies that encourage greater equity and accountability in this state. Five basic policies have expanded parental/student choice. Choice, including charter schools, which began in Minnesota, is viewed as one of several ways to encourage a healthy competition among schools and within schools and districts.

Income Tax Deductions and Credits for Public and Nonpublic Education

In 1996 Governor Carlson proposed a test voucher program similar to the one in Milwaukee, WI. for the districts of Minneapolis, St. Paul, Brooklyn Center, and one small rural district. In Minnesota in *Mueller v. Allen* case in 1983[30] determined that tuition tax credits were constitutional. The heart of the Governor's proposed voucher system was therefore to give parents a certain amount of money redeemable only for tuition at a private school. Under the Governor's proposal, if the voucher amount was less than the tuition for the private school chosen, parents would have had to pay the difference. This proposal was defeated in the legislature in the 1997 session, however the legislature did propose $39 million per year and another $15 million for increases in the tax deduction in the 1997 Special Session, June 26, 1998).[31]

The 1997 "Student First" plan in Omnibus Tax Bill of 1997 is a compromise bill approved June 26 in a special legislative session which includes new tax credits for families earning $33,599 and below to purchase a wide range of education-related services. The credits also can be used to help offset transportation expenses and pay for summer school and camps. Families that don't earn enough to owe taxes will get checks for the amount of credits they quality for.[32] Before the first 1997 special session, taxpayers could deduct $1,000 for students in grades 7 to 12, and $650 for students in grades kindergarten to 6. These limits will increase to $2,500 and $1,625, beginning in the tax year 1998. This deduction can be used to help offset the cost of private school tuition, in addition to the kinds of services covered under the new tax credit. Finally, the 1997 $6.7 billion, two year education finance bill also expands the state's working-family tax credit to provide households that have children and earn $29,000 a year or less with an additional $2000- $350 credit, which can be used for any purpose, including private school tuition.

Open Enrollment

In 1987, the legislature, following the request of Governor Rudy Perpich, authorized kindergarten through twelfth grade students to enroll in a school district other than one in which the student lived. The 1988 legislature made the program mandatory for districts with at least 1,000 students for the 1989-90 school year, and for all districts for the 1990-91 year. School districts with desegregation plans approved by the state board of education can limit transfers in and out of their districts to ensure compliance with those plans. The 1997 law change supported by Governor Carlson permits a non resident school district to provide pupil transportation for a non resident student without first seeking approval from the resident district. This amendment eliminates any impediment faced by some parents and students seeking school choice beyond their home district. The underlying fiscal rationale and justification is that school districts simply get aid for the number of pupils they actually have.

Post Secondary Enrollment Option

Another Minnesota policy that enhances choice in Minnesota is the Post-Secondary Enrollment Option (PSEO). The PSEO was enacted during the 1985 legislative session and first made available to students during the 1985-86 school year. This program allows 11th and 12th grade public school students to attend a Minnesota post secondary institution at state expense. Like the open enrollment option, participation in this program has increased steadily since it was first made available. The number of students taking advantage of the PSEO has increased from 3,528 students in 1985-86 to 6,375 in 1995-96. Some analysts and district administrators observe that PSEO tends to draw the high achievers away from high schools leaving lower achievers behind. Since the money goes with the student, the district is left with less money and a higher concentration of problem students. Many school administrators feel that PSEO exacerbates the problem in a system already short of funds. In addition small, rural districts may not have the critical mass of students necessary to offer college courses in the high school. The cost of such a program with less than a full class of students would be much higher in those school districts.

Changes in the PSEO funding process since 1992 (which have cost the state about $2.2 million) have resulted in school districts receiving significantly less funding for PSEO students. Today post secondary institutions receive the cost of tuition, books, and fees for a PSEO course from the K-12 budget as they had in FY 1991. Funding for PSEO students from the post secondary budget is reduced from average cost funding to marginal cost funding which provides only about 32% of the average cost of instruction. Under this funding process, the revenue the school district receives is no longer dependent on the amount of tuition that was paid for the student. School districts receive a small portion of general education revenue while post secondary institutions receive a flat reimbursement per credit plus marginal cost funding. This funding process eliminates almost all of the extra revenue school districts received under the original (1991) funding process. The total cost to the state in FY 1993 and later funding was $31,423,000. Analysts argue that "In the long term, the state may save money if students participate in PSEO because the state pays less in post secondary funding for a PSEO student than for a regular public college student. More research is needed to determine whether benefits exists for students.

Compensatory Aid and Site-Based Management

The state's new method of distributing its compensatory money is a great challenge to school districts' site based management plans, because with the new performance standards so much depends on accountability for student achievement. The Minnesota legislature passed permissive legislation in 1987 allowing school boards to enter into an agreement with a "school site decision making team." This council can be thought of legally as a "mini-school board," that can decide tools and policies in curriculum, discipline, budgeting, hiring and firing of personal as a team consisting of the principal, representatives from staff, parents, students, members of the community. Schools may now voluntarily enter into performance contracts, but more pressure may be brought to bear on accountability for previous state compensatory dollars. The 1997 compensatory aid package provides $100 million more aid that would not go to the school districts but directly to school sites, based upon the number of students qualified for free and reduced lunch. Discussion in the last session, however, hinged upon how the aid should be calculated and defining what is a learning site.[33]

Charter Schools (Formerly called Outcome-Based Schools)

In 1991, the Minnesota legislature enacted a bill authorizing school districts to sponsor a limited number of charter schools. The original authorization of 35 charter schools was increased to 40 in 1995. By 1996-97, 20 charter schools have been approved for operation, but only 19 are operational. The number of students now enrolled in charter schools in Minnesota authorized as of January, 1997 is 1,814 (Minnesota Tax Payers Association, 1996, p. 26). Lawmakers in 1995 appropriated $75,000 for the state board of education to evaluate the performance of charter schools. Money for the school comes from the state in the form of general education aid (which now includes both transportation aid and capital equipment aid. The 1991 law authorizing school boards or the state board of education to permit one or more teachers to form schools made charter schools eligible for other aids, grants, and revenues from the state as though the school were a school district.[34]

The 1997 "Students First" plan lifts the current 40-school cap on the number of charter schools in the state and mandates that the $350 million in compensatory aid contained in the bill follow students to schools, rather than be spent at the district level. It designated $50,000 grants to help with start-up costs of charter schools, created grants for building repairs, and allowed higher education institutions to sponsor charter schools. This plan could benefit large urban school districts in Minneapolis and St. Paul that serve large number of low-income children. "Some sites could receive as much as $1 million to spend as they see fit to improve educational outcomes for poorly performing students."[35]

Standards-Based Reform

Minnesota has ranked very high compared to other states on most standard measures of student achievement, while spending only slightly higher than the national average per pupils.[36] The state board of education led the nation in adopting Outcome-Based Education (OBE)[37] and new graduation standards. By 1991, funding ($1.35 million for the biennium) was provided for grants to selected school districts to serve as demonstration sites.[38] In 1993 the Minnesota legislature updated the Minnesota Educational Effectiveness Program (MEEP) to specify expected program outcomes.[39] In August 1995, the mission of MEEP has been to prepare schools for implementing graduate standards and the federal "Goals 2000" efforts. The 1995 law appropriated $775,000 each year (FY 1996-1997) to achieve educational effectiveness.[40]

Technology

In 1995, the Omnibus Education Act included an entire article devoted to technology initiatives with a total of $26.8 million appropriated over the FY 1996-97 biennium. $5.4 million was funded for instructional transformation technology grants; $800,000 in FY 1996 for regional library telecommunications aid for data access, technology, and technical support, and promotion to electronic access to the public; $800,000 for grants to continue Internet access; $6,387,000 for Interactive television with substantial increases for capital expenditure equipment and statewide telecommunications access routing system. In 1996, lawmakers added another $11.9 million to fund various technology projects during the 1996-97 biennium.

Conclusion

Many Minnesotans today see these educational initiatives in the 1990's as a triumph for choice. Tax dollars can now be provided on a tuition basis either by public schools or by groups of public school teachers. Minnesotans can probably look to many more charter schools as families create a market for summer schools and other services with newly acquired tax-credit dollars. Educational Commissioner Wedle commented on these revolutionary developments in the state of Minnesota: "It's no longer what the system can provide... Now parents have some resources to purchase educational services."[41]

Greater demands are now being placed on a traditional finance system and the taxpayers in Minnesota to effect these progressive policies. Because of the ever-increasing concentration of poor and needy children in urban schools, inadequacies in the levels of basic funding are becoming more apparent. Minnesota education was found by the Minnesota Supreme Court to be "adequate" in 1991. Indicators of inadequacy today, however, include low achievement and test scores, high dropout rates and poor attendance, particularly among disadvantaged students in urban areas. As more and more courts throughout the United States begin to target "adequacy" in equity rulings, adequacy and accountability will become more central issues. The growing revelation of educational "inadequacies" in Minnesota may force lawmakers in this state to redefine a basic education relative to the proper funding of standards-based reform.

Endnotes

1. *Laws* 1997, 1st Special Session, Chapter 4.
2. *Id.* Article 13.
3. Minnesota Statute 121.11, Subd. 7-C, 1997 Supplement.
4. Bradley, A. *Education Week*, 184. (July 9, 1997).
5. *Supra* note 1, Article 1, Sec. 43, 124A.11, Subd. 3.
6. Minnesota Constitution, Article XIII, Section 1.
7. *Serrano v. Priest*, 5 Cal. 3d 584, 96 Cal. Rptr. 601, 487 P. 2d 1241 (1971).
8. Strom, T. & Novak, K. *Minnesota School Finance: A Guide for Legislators*. Research Department, Minnesota House of Representatives (n.d.).
9. In 1973, an amendment prohibited districts from holding more than one referendum election per year (*Laws* 1973, Ch. 683, Sec. 18). In 1977, the referendum law was amended to permit ballot language specifying the years of duration of the levy, and requiring that the ballot disclose the amount of referendum levy in mills and the total to be raised in the first year in dollars (*Laws* 1977, Ch. 447, Art. 1, Sec. 19). In 1982, the referendum revocation provisions were amended to allow for an election to reduce– as well as revoke, a referendum levy

(*Laws* 1982, Ch. 548, Art. 1, Sec. 12). In 1983, a 1982 provision that allowed districts to hold two referendum levy elections in one year was made permanent (*Laws* 1983, Ch. 314, Art. 7, Sec. 34). In 1989, significant additional amendments to referendum provisions were made. Districts were limited to one referendum vote per year (*Laws* 1989, Ch. 329, Art. 1, Sec. 4). School districts also were required to mail notes to taxpayers and to specify on the ballot the number of years for which a referendum levy could be in effect (*First Special Session Laws*, 1989, Ch. 1, Art. 9, Sec. 5).

10. Amending Minnesota Statutes 1996, Section 124A.03, subd. 1f and 3c.

11. *Skeen v. State of Minnesota*. 505 NW 2nd 299.

12. House Ways and Means Committee. *Money Matters: A Publication of the House Ways and Means Committee Staff on Government Finance Issues*. (1993).

13. This is an amendment to the 1996 Tax Bill. See Supra note 11, Section 124.02, Subd. 3b.

14. Augenblick and Myers, Inc. "An Analysis of Changes in School Funding in Minnesota Over the Past 20 Years." A Commissioned Study for the Minnesota School Boards Association (January 15, 1997).

15. Two lawsuits are now pending in the Twin Cities area. Plaintiffs are not arguing equity between districts, but adequacy in that there are special needs that are not being met. One of the equity-related lawsuits has been initiated by the St. Paul Public School Board, which voted September 7, 1996 to file a lawsuit in Ramsey County District Court. This suit contends that the state is providing insufficient funding to educate the district's growing population of non-English speaking, poor, minority and special education students. The St. Paul case will be heard in the fall of 1998 and the NAACP case is scheduled for judgement in February to decide on a later date. (Farland, G., Interview, January 9, 1998). Department of Children, Families, and Learning, Financial Office of Management Services, St. Paul, MN.

16. Each year, as required by statute, the Minnesota Department of Children, Families, and Learning creates a table that summarizes the disparity ratio of districts at the 95th and the 5th percentiles. This ratio, looking at basic general revenue (which includes both supplemental and referendum revenue) at the 99th percentile in relation to the 5th percentile is currently 1.298. Over a seven year period the financial aid formula has continued to decrease that ratio from 1.371 to 1.298. Ranges of richest to poorest districts at the 99th percentile and at the 1st percentile in FY '92 was $1,780; in 1998 it is $1,519. Department of Children, Families, and Learning. October 1, 1997.

18. T. Strom, "A Report on the Regional Impact of Funding Changes Contained in the 1997 K-12 Bill." Minnesota House of Representatives Research Department. 1-2 (1997).

19. This study showed that with the present "formula allowance," the basic level of state support for education has not kept pace with inflation, that total per pupil revenue has deteriorated steadily in the last 12 years, and that on a national level, Minnesota has fallen from well above to below national averages in K-12 spending. Analysts argue that in 1996-97, the State of Minnesota would need to provide more than $364 million in order to accomplish the objective of maintaining the K-12 education formula allowance at its inflation-adjusted (1988-1989) levels. Augenblick and Myers, Inc. "An Analysis of Changes in School Funding in Minnesota Over the Past 10 Years." A Commissioned Study for the Minnesota School Boards Association (January 15, 1997).

20. *Supra* note 1.

21. Farland, G. Department of Children, Families, and Learning, Financial Office of Management Services, St. Paul, MN. (Interview, January 9, 1998). Figures provided by the Minnesota House of Representatives Research Department show that there has been an increase from the formula allowance over the past nine years. From 1989-90 to 1998-99, the basic revenue and general education levy has increased 24.4%. Crowe, G. "Financing Education in Minnesota, 1997-98." A report by the House Fiscal Analysis Staff. (1997). Based on these figures, if inflation was 3% a year, you would expect a 27% increase, so this increase over the past decade can probably be accounted for by inflation.

22. (However, in the 1997 session, the Minnesota Legislature voted for $85 million for higher education and an additional $40 million to shore up higher education in the 1997 Special Session.)

23. Sullivan, B. "Selected Education Reforms and Policy Trends Since 1983." Minnesota Department of Children, Families, and Learning, Office of Government Relations (1997).

24. *Id.*

25. The Minnesota Business Partnership *Education Finance: Education Quality and Funding Reform: A Report of the Education Finance Subcommittee*. (March, 1993).

26. Minnesota Statutes, Section 3.882.

27. Minnesota Statutes, Section 120.0111.

28. Minnesota Statutes, Sections 124A.697 to 124A.73.

29. Bradley, A. *Education Week*. 186-189 (January 8, 1998).

30. 463 U.S. 388 (1983).

31. *Supra* note 1, Article 13.

32. Urahn, S., Cleary, J., Berg, D., & Emerson, R. *The Postsecondary Enrollment Options Program: A Research Report*. Research Department, Minnesota House of Representatives (February, 1993).

33. *Laws* 1997, First Special Session, Ch. 4, Article 8.

34. Sullivan, *supra* note 23.

35. Bradley, *supra* note 29 at 30.

36. In 1994, the average SAT score in Minnesota was over 17% above the national average while the per pupil spending in that year was above the average. Of course, no one measure or even combination of measures gives a complete indication of school performance. Minnesota students, however, have consistently performed well on standardized test scores, although the trend in school financing in Minnesota reflects the public concern today that too many students are not adequately prepared for the challenges of the next century and that standards-based reform must be significantly funded if it is to succeed.

37. OBE is defined in Minnesota as a "pupil centered, results-oriented system premised on the belief that all individuals can learn." Minnesota Statute 126.661. Subd. 7. The law defining OBE was repealed on August 1, 1996. See Sullivan, *supra* note at 6.

38. Minnesota Statute 126.661, Subd. 7.

39. This incentive was to increase parental involvement; improve results-oriented instructional processes; create flexible school-based organizational structures; and to improve student achievement. The 1993 law provided state incentive grants to selected school sites.

40. Sullivan, *supra* note 37.

41. Wedle cited in Bradley, *supra* note 35.