



The Impact of Minnesota's Budget Compromise on Schools

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If Minnesota's K-12 education finance system were to be summed up in one word, that word would be complicated. It's not simply the number of students multiplied by a dollar amount. For example, students are weighted differently based on grade, which means that Lower Academy students generate less revenue than Upper Academy students. The State also adjusts per pupil revenue based on factors such as number of students receiving free and reduced price lunches, number of special education students, number of students with limited English proficiency, and so on. Traditional school districts also receive funding through property tax levies, whereas charter schools are provided with lease aid to offset the cost of renting space. (Note: While traditional schools can increase their levies, charter schools receive a set amount of lease aid and have no ability to increase their revenue.) Once all of these factors have been calculated and multiplied, the State arrives at a dollar amount that it owes each school - this is called the school's entitlement.

Since so many of the factors used to calculate the entitlement vary from year to year, the State has traditionally paid 90 percent of the entitlement during the current academic year and then "settled up" with an amount up to the remaining 10 percent in the following academic year. This allows them to avoid situations where they overpay a district and need to recover funds. The 90/10 payment plan required schools to be prudent with their resources and have an adequate cash balance to float the 10 percent hold back.

Over the past several legislative sessions, the State has moved away from the 90/10 plan to help it balance its books. This is known as the K-12 shift because even though the entitlement owed to schools remains the same (and has even increased a bit), the State does not have the cash to send out to school districts - so it shifts some of the obligation into the future.

The current plan adopted by the legislature and signed by the Governor implemented a 60/40 payment plan. In other words, schools will receive 60 percent of what they are owed this academic year and then must wait for the remaining 40 percent until next year. This creates one-time savings for the State, but obviously creates significant cash flow issues for school districts and many will be forced to borrow money to make ends meet. While shifts like this are not new, this is the largest in State history and it will likely take many years for the State to catch up on its payments to schools. (Note: when the State shifted school funding in the 1990s it took roughly 15 years to get back to the 90/10 schedule.)

To help mitigate the impact this shift has on charter schools, the State decided to front load payments. This means that charters will receive all of their 60 percent in installments between July and February - but will receive no payments from March through June. As a result, charter schools need to conserve cash early in the year so they can make it through the end of the year.

Paideia Academy has long been prudent and judicious with its finances. What parents and staff need to know is: 1) the Board of Directors is closely monitoring our cash balance and has a line of credit available if cash flow becomes an issue, 2) while financial statements may show that Paideia has a large cash balance in certain months, it is important to remember that we are trying to navigate a financial storm imposed on schools by the State, and 3) we remain absolutely committed to the goal of making Paideia Academy the top academic performing school in Dakota County.

If you have any questions, please feel free to e-mail the Board or attend one of our upcoming meetings. The dates are announced on our website.

Article in the Thisweek newspaper:
Local charter schools dealing with successive funding delays - [Click here to view](#)

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