



Association of Metropolitan School Districts

Education Funding: A Reality Check

The education bill approved in the 2023 session provided a historic funding increase. Why then, do so many school districts continue to face budget challenges — and why will many districts have referendum questions on the ballot in November?

A confluence of factors have created a challenging fiscal environment for many school districts despite the historic overall funding increase.

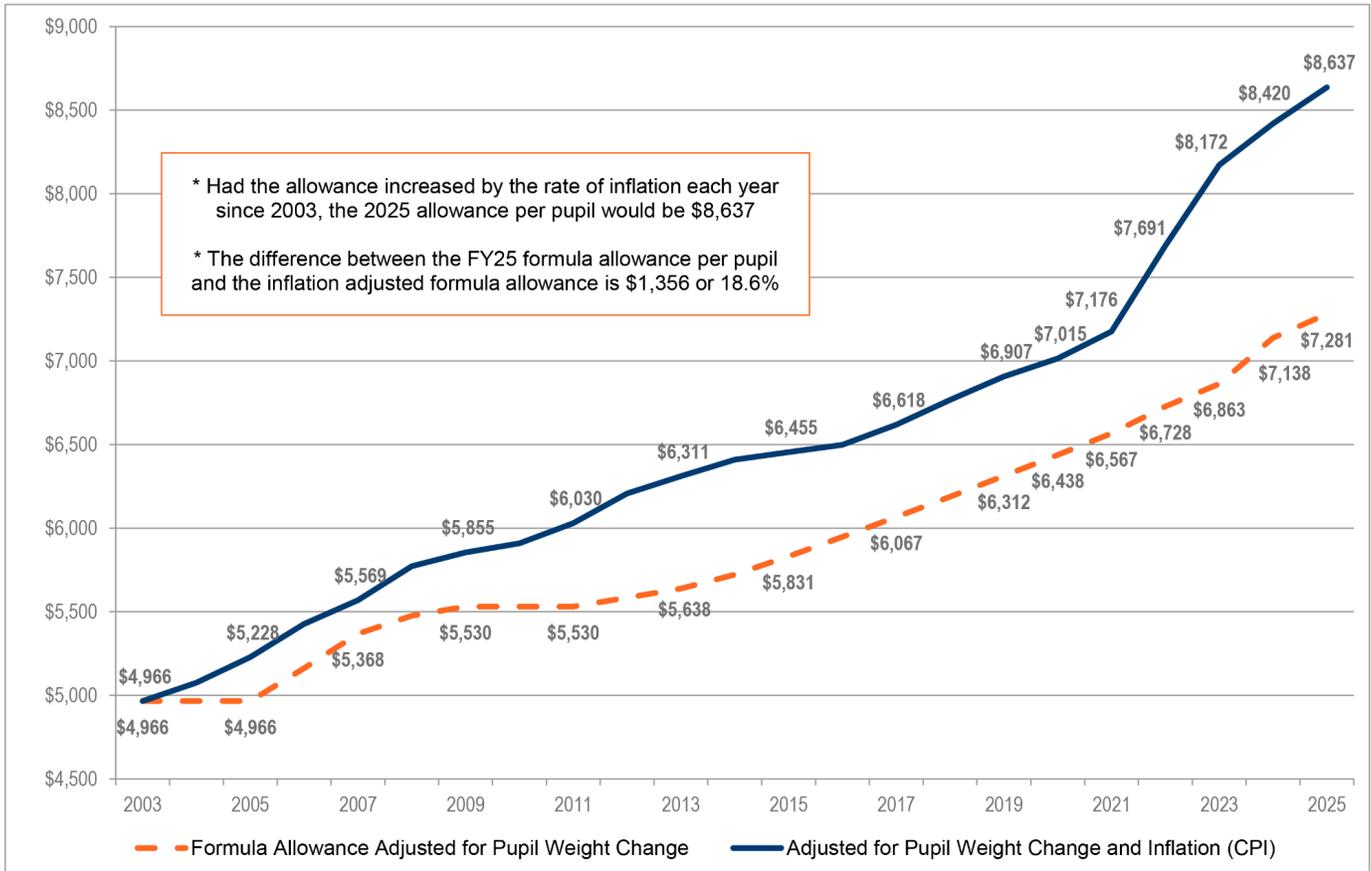
Key funding streams continue to lag behind inflation. Historic new requirements for school districts. Historic inflation and staffing shortages. A federal funding fiscal cliff. Enrollment fluctuations. It all adds up to budget challenges for school districts.

- While the 2023 education bill provided a historic **overall** increase in funding, two critical funding streams continued to lose ground to inflation. The bill increased the formula by 4 percent for the 2023-24 school year and 2 percent for the 2024-25 school year — short of projected inflation. As the graph on the next page shows, the basic formula would be \$1,356 higher in FY 25 if it had kept pace with inflation since 2003 — the year the Legislature repealed the general education levy and committed to funding education with state income and sales taxes. Likewise, local optional revenue, another critical funding stream, has been frozen at the same level since it went into effect in 2014. It would be \$182 per pupil higher today had it kept pace with inflation.
- Historic new expectations, programs, and requirements for school districts were included in the education bill and numerous other bills in the 2023 session. The new requirements come with increased costs — some of which were funded and some of which were not.
- Historic inflation and staffing shortages. The most recent reports show inflation declining but still fluctuating from month to month. One year ago, inflation was 9 percent and school districts responded by significantly increasing salaries in a number of job categories to fill vacancies. In addition, major legislative changes were passed to the Public Employment Labor Relations Act and the full impact of these changes is yet to be determined.
- The significant federal resources that were approved in response to the global pandemic are winding down over the next year, creating a looming fiscal cliff for school districts.
- Demographics and the pandemic have caused significant enrollment fluctuations for many school districts. With state education funding largely distributed through per pupil formulas, this can have a significant impact on school district revenue.



General Education Formula Allowance, 2003-2025

Adjusted for Pupil Weight Change and Inflation (CPI)



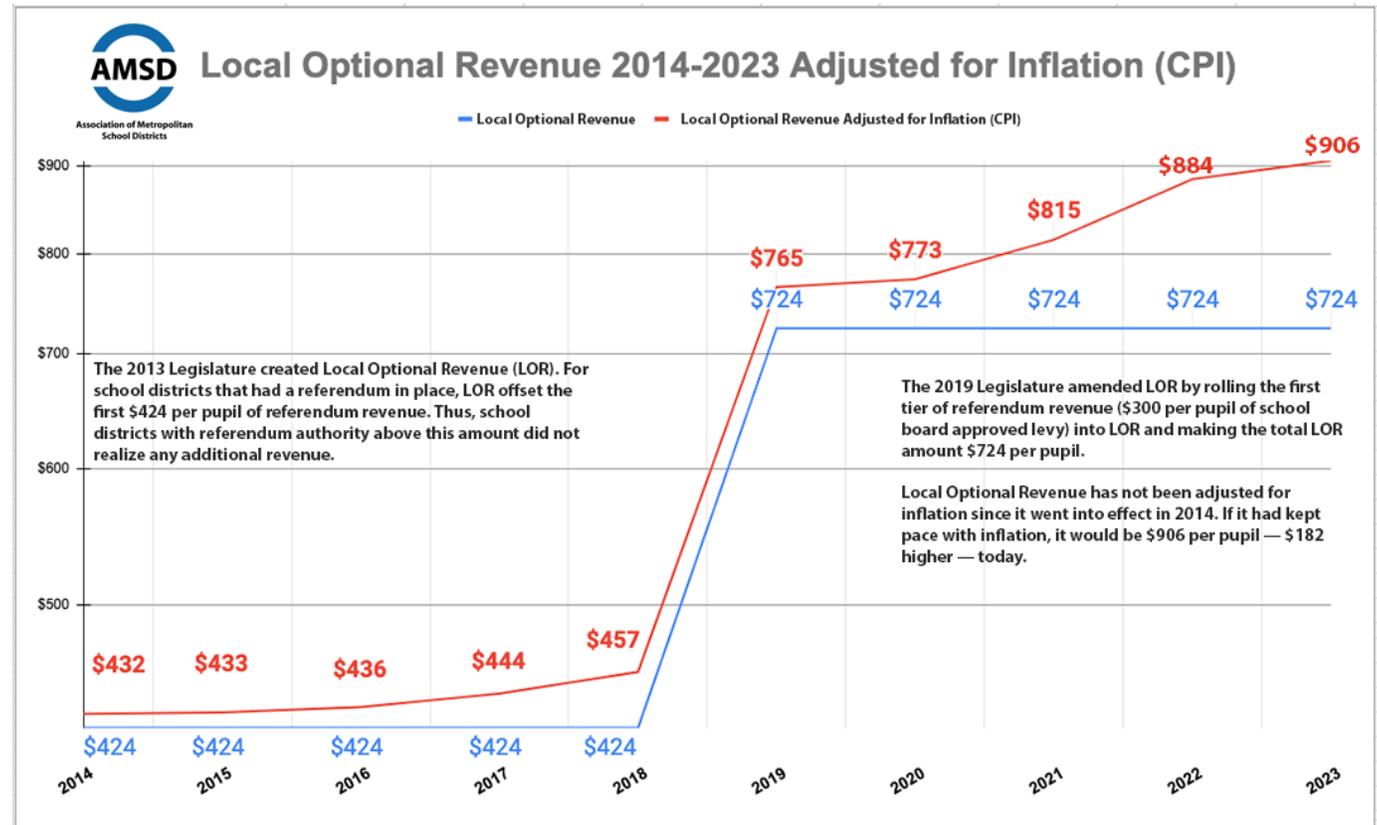
Source: MDE June 2023 Inflation Estimates and Minnesota Laws 2023



Local Optional Revenue 2014-2023 Adjusted for Inflation (CPI)

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Local Optional Revenue Local Optional Revenue Adjusted for Inflation (CPI)



Source: Minnesota Department of Education and U.S. Bureau of Labor Statistics