

HF745 - 0 - Compensatory Revenue Eligibility Modified

Chief Author: **Sandra Feist**
 Committee: **Education Finance**
 Date Completed: **3/20/2025 9:17:50 AM**
 Lead Agency: **Education Department**
 Other Agencies:
 Revenue Dept

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	FY2025	FY2026	FY2027	FY2028	FY2029
Education Department						
General Fund	-	187,323	233,289	243,349	248,772	
State Total						
General Fund	-	187,323	233,289	243,349	248,772	
Total	-	187,323	233,289	243,349	248,772	
Biennial Total			420,612		492,121	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
Education Department					
General Fund	-	.4	-	-	-
Total	-	.4	-	-	-

Lead 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:** 3/20/2025 9:17:50 AM
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State Cost (Savings) Calculation Details

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

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2025	FY2026	FY2027	FY2028	FY2029
Education Department						
General Fund	-	187,323	233,289	243,349	248,772	
Total	-	187,323	233,289	243,349	248,772	
	Biennial Total		420,612		492,121	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Education Department						
General Fund	-	187,323	233,289	243,349	248,772	
Total	-	187,323	233,289	243,349	248,772	
	Biennial Total		420,612		492,121	
2 - Revenues, Transfers In*						
Education Department						
General Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
	Biennial Total		-		-	-

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	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	.4	-	-	-
Total	-	.4	-	-	-

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:** 3/17/2025 10:02:55 AM
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State Cost (Savings) Calculation Details

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Total	-	187,323	233,289	243,349	248,772	
			420,612		492,121	
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	
Total	-	-	-	-	-	
			-		-	

Bill Description

Section 1 adds compensatory revenue eligibility based on the application for educational benefits to the current law formula for fiscal year (FY) 2026 and later.

Section 2 adds paragraph (f) which allows districts that excluded compensatory pupil counts from applications for educational benefits to allocate 40% of site revenue based on a plan adopted by the school board. This is for FY26 and FY27 only.

Section 3 establishes a compensatory revenue task force to analyze the general education compensatory revenue formula.

Section 4, subdivision 2 appropriates a blank amount from the general fund to the Department of Education in FY 2026 and FY 2027 for additional compensatory aid. Section 4, subdivision 3 appropriates a blank amount from the general fund the Department of Education in FY 2026 for the activities of the Compensatory Revenue Task Force.

Assumptions

Compensatory Revenue

MDE began collecting data on free and reduced-priced lunch (FRL) eligibility separately based on direct certification and the application for educational benefits during the October 2022 MARSS submissions. Previously, the submissions combined application and direct certification eligibility. The application and direct certification data is volatile due to effects from the pandemic, the introduction of free meals, and the inclusion of Medicaid eligible direct certification and subsequent changes to Medicaid eligibility.

FY 2026 compensatory revenue is based on actual October 1, 2024 counts submitted by districts through MARSS. The counts of students eligible for FRL through applications were added to the direct certification counts and applied to the current law formula.

The calculations for FY 2027 through 2029 are based on the February 2025 forecast and the FY 2026 percentage of FRL application counts to fall enrollment at each site.

The free and reduced lunch eligibility counts from the applications for educational benefits were added to the calculations for each site, which changes site concentrations. Higher concentrations result in higher building allowances and increased

site revenue. Because the calculations are at the site level, the increase in revenue is not at the same level as the statewide percentage of application counts.

Below are the statewide counts from October 1, 2024:

Enrollment Count	Free + Reduced Total	Applied Total	Direct Total
874,286	352,503	42,313	310,190

The compensatory allowance is set in statute for FY 2026. Compensatory allowances for FY 2027 through 2029 are based on the February 2025 forecast.

- FY 2026 - \$6,734
- FY 2027 - \$6,936
- FY 2028 - \$7,144
- FY 2029 - \$7,287

The compensatory totals include the compensatory pilot in the amount of \$7,325,000 from Minnesota Session Laws 2015, First Special Session chapter 3, article 2, section 70, subdivision 8.

Compensatory Revenue Task Force

It is assumed that all meetings will take place at the Minnesota Department of Education and/or via video conference. It is assumed there will be two meetings a month from August 1st 2025 through February 1, 2026 and then one meeting every three months from February 1, 2026 through February 1, 2027 for a total of 16 meetings. It is assumed that 14 meetings will take place in FY 2026 and two meetings will take place in FY 2027.

The task force is comprised of 13 members and it is assumed that 11 of members will be non-state agency representatives. MDE will be responsible for paying for the compensation and reimbursement of the 11 non-state agency task force. They will receive compensation at a rate of \$55 per meeting for the twelve meetings. It is assumed the commissioner of education or designee and the commissioner of revenue or designee will be able to absorb the costs of the task force.

Per Minnesota Statute 15.059 Subdivision 6, advisory task forces shall receive expenses in the same manner and amount as provided in the commissioner’s plan (MS 43A.18, subdivision 2). In addition, certain task force members are also entitled to reimbursement for child care expenses resulting from time spent attending meetings if those expenses would not have otherwise been incurred and are authorized by the task force. It is unknown to what extent the task force members may incur costs eligible for reimbursement. The fiscal note assumes six appointees will live within the metro area and have roundtrip mileage costs of 40 miles per meeting and five appointees will live outside of the metro area and have roundtrip mileage costs of 300 miles per meeting with both being reimbursed at the standard business rate of \$0.70 per mile. The five metro appointees will be reimbursed for one lunch per meeting at \$13. The five outstate appointees will be reimbursed per meeting for one dinner at \$19, one breakfast at \$11, one lunch at \$13, one hotel night at \$150, and will have child care costs of \$50.

It is assumed that a .15 FTE Office & Admin Specialist Intermediate will be required to provide the required staff, technical assistance, and organization support for the task force. This work may include scheduling and meeting coordination, responding to requests from task force members, securing needed technology, organizing and sending meeting invites, and processing expense reimbursement requests.

It is assumed that a 0.20 FTE of an Education Finance Consultant 3 will be required to provide the advisory council with the required technical support, facilitate the group, and prepare the report. This work may include for recruitment, identification, and review of members; addressing questions and concerns from community members and the public about the process and recommendations; and writing or compiling necessary background information, summarizing the group’s process, finalizing the group’s recommendations, and ensuring document accessibility.

It is assumed that 100 hours or a .05 FTE of an Education Supervisor 2 will be required to support and advise the working

group and to support the Education Specialist 2 and the Office & Admin Specialist Intermediate.

Expenditure and/or Revenue Formula

Non-state Representative Cost	Compensation	Meals	Mileage	Hotel	Childcare	Total
Five appointees 150 miles away	275	215	1,050	750	250	2,540
Six appointees 20 miles away	330	78	168	-	-	576
Total cost per meeting	605	293	1,218	750	250	3,116
14 Meetings in FY 2026						43,624
2 Meetings in FY 2027						6,232

Total Task Force Cost	FY26	FY27	FY28	FY29
Total non-representative cost for meetings	43,624	6,232		
0.15 Office and Administrative Specialist Intermediate	15,503			
0.20 Education Finance Consultant 3	34,952			
0.05 Education Supervisor 2	9,733			
Total Task Force Cost	103,812	6,232		

	HF745	FY 2026	FY 2027	FY 2028	FY 2029
1	February 2025 Forecast (with Pilot)	846,272,800	886,708,870	918,858,560	937,588,554
2	HF745 Compensatory Revenue Base	1,046,969,583	1,115,473,891	1,155,689,316	1,179,547,884
3	Compensatory Revenue Pilot	7,325,000	7,325,000	7,325,000	7,325,000
4	Compensatory Revenue Total (line 2 + line 3)	1,054,294,583	1,122,798,891	1,163,014,316	1,186,872,884
5	HF745 Revenue Difference (line 4 - line 1)	208,021,782	236,090,021	244,155,756	249,284,330
6	Current Payment (line 5 * 90%)	187,219,604	212,481,019	219,740,180	224,355,897
7	Final Payment (line 5 * prior year 10%)		20,802,178	23,609,002	24,415,576
8	Total Cost of Compensatory Change	187,219,604	233,283,197	243,349,182	248,771,473

Long-Term Fiscal Considerations

Section 1 adds the counts of FRL eligible students to the compensatory revenue calculation in perpetuity. Counts of students eligible via direct certifications may change based on guidelines for eligibility in federal programs such as SNAP or Medicaid. Furthermore, student eligibility via applications may change based on regional or state-wide economic conditions.

Local Fiscal Impact

There will be no local impact from the task force itself. Local impact will only occur if legislative action is taken as a result of the task force recommendations.

References/Sources

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Chief Author: **Sandra Feist**
 Committee: **Education Finance**
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 Agency: **Revenue Dept**

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

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Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
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: Joel Enders **Date:** 3/20/2025 9:16:44 AM
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State Cost (Savings) Calculation Details

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	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

Section 3 of this bill establishes a compensatory revenue task force for the purpose of analyzing the general education compensatory revenue formula. The commissioner of education must appoint members to the task force, including the commissioner of revenue or their designee, by August 1, 2025. The duties of the task force include an examination of potential input data elements for determining compensatory revenue, including income tax data. The commissioner of education or their designee must convene the first meeting no later than August 15, 2025 and meet as necessary. The task force must issue a preliminary report to the legislature by February 15, 2026 and a final report by February 15, 2027. The task force expires February 15, 2027.

Assumptions

The Department of Revenue (Revenue) assumes a member of its management team will serve on the task force as the commissioner’s designated appointee, with assistance as needed from Revenue staff with relevant expertise. All work related to the task force will be completed by existing staff.

Revenue assumes it will have minimal participation on the task force since it is not deeply involved in education funding and the only task force duty which it assumes it will have relevant information for is related to examining potential input data elements for determining compensatory revenue, including income tax data, under section 3, subd. 3, clause 3.

Expenditure and/or Revenue Formula

N/A

Long-Term Fiscal Considerations

N/A

Local Fiscal Impact

N/A

References/Sources

Agency staff provided information for this fiscal note.

Agency Contact:

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