

A bill for an act

relating to education finance; modifying the school finance system; creating a new education funding framework; making changes to income tax schedules; amending Minnesota Statutes 2008, sections 123B.53, subdivision 5; 124D.4531, as amended; 124D.59, subdivision 2; 124D.65, subdivision 5; 125A.76, subdivision 5; 125A.79, subdivision 7; 126C.01, by adding subdivisions; 126C.05, subdivisions 1, 3, 5, 6, 8, 16, 17; 126C.10, subdivisions 1, 2, 2a, 3, 4, 6, 13, 14, 18, by adding subdivisions; 126C.13, subdivisions 4, 5; 126C.17, subdivisions 1, 5, 6; 126C.20; 126C.40, subdivision 1; 127A.51; 290.06, subdivision 2d; Minnesota Statutes 2009 Supplement, section 290.06, subdivision 2c; proposing coding for new law in Minnesota Statutes, chapters 123B; 126C; repealing Minnesota Statutes 2008, sections 123B.54; 123B.57, subdivisions 3, 4, 5; 123B.591; 125A.76, subdivision 4; 125A.79, subdivision 6; 126C.10, subdivisions 2b, 13a, 13b, 24, 25, 26, 27, 28, 29, 30, 31, 31a, 31b, 32, 33, 34, 35, 36; 126C.12; 126C.126; 127A.50.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2008, section 123B.53, subdivision 5, is amended to read:

Subd. 5. **Equalized debt service levy.** (a) The equalized debt service levy of a district equals the sum of the first tier equalized debt service levy and the second tier equalized debt service levy.

(b) A district's first tier equalized debt service levy equals the district's first tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the adjusted net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) ~~\$3,200~~ 100 percent of the statewide adjusted net tax capacity equalizing factor.

(c) A district's second tier equalized debt service levy equals the district's second tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the adjusted net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) ~~\$8,000~~ 200 percent of the statewide adjusted net tax capacity equalizing factor.

EFFECTIVE DATE. This section is effective for taxes payable in 2010 and later.

Sec. 2. **[123B.555] SCHOOL BOND AGRICULTURAL CREDIT.**

Subdivision 1. **Eligibility.** All class 2a, 2b, and 2c property under section 273.13, subdivision 23, except for property consisting of the house, garage, and immediately surrounding one acre of land of an agricultural homestead, is eligible to receive the credit under this section.

Subd. 2. **Credit amount.** For each qualifying property, the school bond agricultural credit is equal to 66 percent of the property's eligible net tax capacity multiplied by the school debt tax rate determined under section 275.08, subdivision 1b.

Subd. 3. **Credit reimbursements.** The county auditor shall determine the tax reductions allowed under this section within the county for each taxes payable year and shall certify that amount to the commissioner of revenue as a part of the abstracts of tax lists submitted under section 275.29. Any prior year adjustments shall also be certified on the abstracts of tax lists. The commissioner shall review the certifications for accuracy, and may make such changes as are deemed necessary, or return the certification to the county auditor for correction. The credit under this section must be used to reduce the school district net tax capacity-based property tax as provided in section 273.1393.

Subd. 4. **Payment.** The commissioner of revenue shall certify the total of the tax reductions granted under this section for each taxes payable year within each school district to the commissioner of education, who shall pay the reimbursement amounts to each school district as provided in section 273.1392.

EFFECTIVE DATE. This section is effective for taxes payable in 2010 and later.

Sec. 3. Minnesota Statutes 2008, section 124D.4531, as amended by Laws 2009, chapter 88, article 2, section 1, is amended to read:

124D.4531 CAREER AND TECHNICAL ~~LEVY~~ AID.

Subdivision 1. **Career and technical ~~levy~~ aid.** (a) A district with a career and technical program approved under this section ~~for the fiscal year in which the levy is certified may levy an amount~~ is eligible for aid equal to the lesser of:

(1) ~~\$80~~ \$240 times the district's average daily membership in grades 10 through 12 for the current fiscal year ~~in which the levy is certified~~; or

(2) 25 percent of approved expenditures in the previous fiscal year ~~in which the levy is certified~~ for the following:

(i) salaries paid to essential, licensed personnel providing direct instructional services to students in that fiscal year for services rendered in the district's approved career and technical education programs;

(ii) contracted services provided by a public or private agency other than a Minnesota school district or cooperative center under subdivision 7;

(iii) necessary travel between instructional sites by licensed career and technical education personnel;

(iv) necessary travel by licensed career and technical education personnel for vocational student organization activities held within the state for instructional purposes;

(v) curriculum development activities that are part of a five-year plan for improvement based on program assessment;

(vi) necessary travel by licensed career and technical education personnel for noncollegiate credit-bearing professional development; and

(vii) specialized vocational instructional supplies.

(b) Up to ten percent of a district's career and technical levy aid may be spent on equipment purchases. Districts using the career and technical levy aid for equipment purchases must report to the department on the improved learning opportunities for students that result from the investment in equipment.

~~(c) The district must recognize the full amount of this levy as revenue for the fiscal year in which it is certified.~~

Subd. 2. **Allocation from cooperative centers and intermediate districts.** For purposes of this section, a cooperative center or an intermediate district must allocate its approved expenditures for career and technical education programs among participating districts.

Subd. 3. **Levy Aid guarantee.** Notwithstanding subdivision 1, the career and technical education levy aid for a district is not less than the lesser of:

(1) the district's career and technical education ~~levy authority~~ revenue for the previous fiscal year; or

(2) 100 percent of the approved expenditures for career and technical programs included in subdivision 1, paragraph (b), for the prior fiscal year ~~in which the levy is certified~~.

Subd. 4. **District reports.** Each district or cooperative center must report data to the department for all career and technical education programs as required by the department to implement the career and technical levy formula.

Subd. 5. **Allocation from districts participating in agreements for secondary education or interdistrict cooperation.** For purposes of this section, a district with a career and technical program approved under this section that participates in an agreement under section 123A.30 or 123A.32 must allocate its levy authority under this section among participating districts.

EFFECTIVE DATE. This section is effective for aid payments for fiscal year 2011 and thereafter.

Sec. 4. Minnesota Statutes 2008, section 124D.59, subdivision 2, is amended to read:

Subd. 2. **Pupil of limited English proficiency.** (a) "Pupil of limited English proficiency" means a pupil in kindergarten through grade 12 who meets the following requirements:

(1) the pupil, as declared by a parent or guardian first learned a language other than English, comes from a home where the language usually spoken is other than English, or usually speaks a language other than English; and

(2) the pupil is determined by developmentally appropriate measures, which might include observations, teacher judgment, parent recommendations, or developmentally appropriate assessment instruments, to lack the necessary English skills to participate fully in classes taught in English.

(b) Notwithstanding paragraph (a), a pupil in grades 4 through 12 who was enrolled in a Minnesota public school on the dates during the previous school year when a commissioner provided assessment that measures the pupil's emerging academic English was administered, shall not be counted as a pupil of limited English proficiency in calculating limited English proficiency pupil units under section 126C.05, subdivision 17, and shall not generate state limited English proficiency aid under section 124D.65, subdivision 5, unless the pupil scored below the state cutoff score on an assessment measuring emerging academic English provided by the commissioner during the previous school year.

(c) Notwithstanding paragraphs (a) and (b), a pupil in kindergarten through grade 12 shall not be counted as a pupil of limited English proficiency in calculating limited English proficiency pupil units under section 126C.05, subdivision 17, and shall not generate state limited English proficiency aid under section 124D.65, subdivision 5, if:

~~(1) the pupil is not enrolled during the current fiscal year in an educational program for pupils of limited English proficiency in accordance with sections 124D.58 to 124D.64; or~~

~~(2) the pupil has generated five or more years of average daily membership in Minnesota public schools since July 1, 1996.~~

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 5. Minnesota Statutes 2008, section 124D.65, subdivision 5, is amended to read:

Subd. 5. **School district LEP revenue.** (a) A district's limited English proficiency programs revenue equals the product of: ~~(1) \$700 in fiscal year 2004 and later times .2;~~ (2) the basic formula allowance for that year; and (3) the greater of 20 or the adjusted marginal cost average daily membership of eligible pupils of limited English proficiency enrolled in the district during the current fiscal year.

(b) A pupil ceases to generate state limited English proficiency aid in the school year following the school year in which the pupil attains the state cutoff score on a commissioner-provided assessment that measures the pupil's emerging academic English.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 6. Minnesota Statutes 2008, section 125A.76, subdivision 5, is amended to read:

Subd. 5. **School district special education aid.** A school district's special education aid ~~for fiscal year 2008 and later equals the state total special education aid times the ratio of the district's~~ its initial special education aid to the state total initial special education aid.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 7. Minnesota Statutes 2008, section 125A.79, subdivision 7, is amended to read:

Subd. 7. **District special education excess cost aid.** A district's special education excess cost aid ~~for fiscal year 2002 and later equals the state total special education excess cost aid times the ratio of the district's~~ its initial excess cost aid to the state total initial excess cost aid.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 8. Minnesota Statutes 2008, section 126C.01, is amended by adding a subdivision to read:

Subd. 2a. **Adjusted net tax capacity equalizing factor.** The adjusted net tax capacity equalizing factor equals the quotient derived by dividing the total adjusted net tax capacity of all school districts in the state for the year before the year the levy is certified by the total number of adjusted pupil units in the state for the current school year.

EFFECTIVE DATE. This section is effective for taxes payable in 2010 and later.

Sec. 9. Minnesota Statutes 2008, section 126C.01, is amended by adding a subdivision to read:

Subd. 3a. **Referendum market value equalizing factor.** The referendum market value equalizing factor equals the quotient derived by dividing the total referendum market value of all school districts in the state for the year before the year the levy is certified by the total number of resident pupil units in the state for the current school year.

EFFECTIVE DATE. This section is effective for taxes payable in 2010.

Sec. 10. Minnesota Statutes 2008, section 126C.01, is amended by adding a subdivision to read:

Subd. 5a. **Location equity index.** (a) A school district's location equity index equals each district's composite wage level divided by the statewide average wage for the same period. The composite wage level for a school district equals the sum of 50 percent of the district's county wage level and 50 percent of the district's economic development region composite wage level. The composite wage level is computed by using the most recent three-year weighted wage data.

(b) A school district's location equity index must not be less than .9 or greater than 1.05.

(c) The commissioner of education annually must recalculate the indexes in this section. For purposes of this subdivision, the commissioner must locate a school district with boundaries that cross county borders in the county that generates the highest location equity index for that district.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 11. Minnesota Statutes 2008, section 126C.05, subdivision 1, is amended to read:

Subdivision 1. **Pupil unit.** Pupil units for each Minnesota resident pupil under the age of 21 or who meets the requirements of section 120A.20, subdivision 1, paragraph (c), in average daily membership enrolled in the district of residence, in another district under sections 123A.05 to 123A.08, 124D.03, 124D.08, or 124D.68; in a charter school under section 124D.10; or for whom the resident district pays tuition under section 123A.18, 123A.22, 123A.30, 123A.32, 123A.44, 123A.488, 123B.88, subdivision 4, 124D.04, 124D.05, 125A.03 to 125A.24, 125A.51, or 125A.65, shall be counted according to this subdivision.

(a) A prekindergarten pupil with a disability who is enrolled in a program approved by the commissioner and has an individual education plan is counted as the ratio of the number of hours of assessment and education service to 825 times 1.25 with a minimum average daily membership of 0.28, but not more than 1.25 pupil units.

(b) A prekindergarten pupil who is assessed but determined not to be disabled is counted as the ratio of the number of hours of assessment service to 825 times 1.25.

(c) A kindergarten pupil with a disability who is enrolled in a program approved by the commissioner is counted as the ratio of the number of hours of assessment and education services required in the fiscal year by the pupil's individual education program plan to 875, but not more than one.

(d) A kindergarten pupil who is not included in paragraph (c) is counted as ~~612~~ 1.0 pupil units.

(e) A pupil who is in any of grades 1 to 3 is counted as ~~1.15~~ 1.0 pupil units for fiscal year 2000 and thereafter.

(f) A pupil who is any of grades 4 to 6 is counted as ~~1.06~~ 1.0 pupil units for fiscal year 1995 and thereafter.

(g) A pupil who is in any of grades 7 to 12 is counted as ~~1.3~~ 1.0 pupil units.

(h) A pupil who is in the postsecondary enrollment options program is counted as ~~1.3~~ 1.0 pupil units.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 12. Minnesota Statutes 2008, section 126C.05, subdivision 3, is amended to read:

Subd. 3. **Compensation revenue pupil units.** Compensation revenue pupil units ~~for fiscal year 1998 and thereafter~~ must be computed according to this subdivision.

(a) The compensation revenue concentration percentage for each ~~building in a~~ district equals the product of 100 times the ratio of:

(1) ~~the sum of the number of pupils enrolled in the building district eligible to receive free lunch plus one-half of the pupils eligible to receive reduced priced or reduced-price lunch on October 1 of the previous fiscal year; to~~

(2) the number of pupils enrolled in the building district on October 1 of the previous fiscal year.

(b) The compensation revenue pupil weighting factor for a building equals the ~~lesser of one or the quotient obtained by dividing the building's compensation revenue concentration percentage by 80.0.~~

(c) The compensation revenue pupil units for a building district equals the product of:

(1) ~~the sum of the number of pupils enrolled in the building district eligible to receive free lunch and one-half of the pupils eligible to receive reduced priced or reduced-price lunch on October 1 of the previous fiscal year; times~~

(2) the compensation revenue pupil weighting factor for the ~~building; times~~
~~(3) .60 district.~~

(d) Notwithstanding paragraphs (a) to (c), for charter schools and contracted alternative programs in the first year of operation, compensation revenue pupil units shall be computed using data for the current fiscal year. If the charter school or contracted alternative program begins operation after October 1, compensatory revenue pupil units shall be computed based on pupils enrolled on an alternate date determined by the commissioner, and the compensation revenue pupil units shall be prorated based on the ratio of the number of days of student instruction to 170 days.

(e) The percentages in this subdivision must be based on the count of individual pupils and not on a building average or minimum.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 13. Minnesota Statutes 2008, section 126C.05, subdivision 5, is amended to read:

Subd. 5. **Adjusted pupil units.** ~~(a)~~ Adjusted pupil units for a district or charter school means the sum of:

(1) the number of pupil units served, according to subdivision 7, plus

(2) pupil units according to subdivision 1 for whom the district or charter school pays tuition under section 123A.18, 123A.22, 123A.30, 123A.32, 123A.44, 123A.488, 123B.88, subdivision 4, 124D.04, 124D.05, 125A.03 to 125A.24, 125A.51, or 125A.65, minus

(3) pupil units according to subdivision 1 for whom the district or charter school receives tuition under section 123A.18, 123A.22, 123A.30, 123A.32, 123A.44, 123A.488, 123B.88, subdivision 4, 124D.04, 124D.05, 125A.03 to 125A.24, 125A.51, or 125A.65.

~~(b) Adjusted marginal cost pupil units means the greater of:~~

~~(1) the sum of .77 times the pupil units defined in paragraph (a) for the current school year and .23 times the pupil units defined in paragraph (a) for the previous school year; or~~

~~(2) the number of adjusted pupil units defined in paragraph (a) for the current school year.~~

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 14. Minnesota Statutes 2008, section 126C.05, subdivision 6, is amended to read:

Subd. 6. **Resident pupil units.** (a) Resident pupil units for a district means the number of pupil units according to subdivision 1 residing in the district.

~~(b) Resident marginal cost pupil units means the greater of:~~

~~(1) the sum of .77 times the pupil units defined in paragraph (a) for the current year and .23 times the pupil units defined in paragraph (a) for the previous school year; or~~

~~(2) the number of resident pupil units defined in paragraph (a) for the current school year.~~

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 15. Minnesota Statutes 2008, section 126C.05, subdivision 8, is amended to read:

Subd. 8. **Average daily membership.** (a) Membership for pupils in grades kindergarten through 12 and for prekindergarten pupils with disabilities shall mean the number of pupils on the current roll of the school, counted from the date of entry until withdrawal. The date of withdrawal shall mean the day the pupil permanently leaves the school or the date it is officially known that the pupil has left or has been legally excused. However, a pupil, regardless of age, who has been absent from school for 15 consecutive school days during the regular school year or for five consecutive school days during summer school or intersession classes of flexible school year programs without receiving instruction in the home or hospital shall be dropped from the roll and classified as withdrawn. Nothing in this section shall be construed as waiving the compulsory attendance provisions cited in section 120A.22. Average daily membership equals the sum for all pupils of the number of days of the school year each pupil is enrolled in the

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district's schools divided by the number of days the schools are in session. Days of summer school or intersession classes of flexible school year programs are only included in the computation of membership for pupils with a disability not appropriately served primarily in the regular classroom. A student must not be counted as more than 1.2 pupils in average daily membership under this section. When the initial total average daily membership exceeds 1.2 for a pupil enrolled in more than one school district during the fiscal year, each district's average daily membership must be reduced proportionately.

(b) A student must not be counted as more than one pupil in average daily membership except for purposes of section 126C.10, subdivision 2a.

(c) For purposes of section 126C.10, subdivision 2a, only, a pupil's average daily membership is counted as 1.0 once a kindergarten or elementary pupil has received 960 hours of instruction during the school year and as 1.0 once a secondary student has received 1,050 hours of instruction during the school year.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 16. Minnesota Statutes 2008, section 126C.05, subdivision 16, is amended to read:

Subd. 16. **Free and reduced-price lunches.** The commissioner shall determine the number of children eligible to receive either a free or reduced-price lunch on October 1 each year. Children enrolled ~~in a building~~ on October 1 and determined to be eligible to receive free or reduced-price lunch by December 15 of that school year shall be counted as eligible on October 1 for purposes of subdivision 3. The commissioner may use federal definitions for these purposes and may adjust these definitions as appropriate. The commissioner may adopt reporting guidelines to assure accuracy of data counts and eligibility. Districts shall use any guidelines adopted by the commissioner.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 17. Minnesota Statutes 2008, section 126C.05, subdivision 17, is amended to read:

Subd. 17. **LEP pupil units.** (a) Limited English proficiency pupil units ~~for fiscal year 2004 and thereafter shall be determined according to this subdivision.~~

~~(b) The limited English proficiency concentration percentage for a district equals the product of 100 times the ratio of:~~

~~(1) means~~ the number of eligible pupils of limited English proficiency in average daily membership enrolled in the district during the current fiscal year; ~~to~~

11.1 ~~(2) the number of pupils in average daily membership enrolled in the district.~~

11.2 ~~(e) The limited English proficiency pupil units for each eligible pupil of limited~~
11.3 ~~English proficiency in average daily membership equals the lesser of one or the quotient~~
11.4 ~~obtained by dividing the limited English proficiency concentration percentage for the~~
11.5 ~~pupil's district of enrollment by 11.5.~~

11.6 ~~(d)~~ (b) Limited English proficiency pupil units shall be counted by the district of
11.7 enrollment.

11.8 ~~(e)~~ (c) Notwithstanding paragraph ~~(d)~~ (b), for the purposes of this subdivision,
11.9 pupils enrolled in a cooperative or intermediate school district shall be counted by the
11.10 district of residence.

11.11 ~~(f)~~ (d) For the purposes of this subdivision, the terms defined in section 124D.59
11.12 have the same meaning.

11.13 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
11.14 and later.

11.15 Sec. 18. **[126C.09] EDUCATION FUNDING FRAMEWORK.**

11.16 Subdivision 1. **Basic formula framework; general classroom funding.** The
11.17 general classroom funding for each school district equals the sum of the district's general
11.18 education basic revenue, extended time revenue, compensatory revenue, LEP revenue,
11.19 referendum replacement revenue, and special education revenue.

11.20 Subd. 2. **District instructional services.** A school district's instructional services
11.21 revenue equals the sum of its operating sparsity revenue, location equity revenue, and
11.22 declining enrollment revenue.

11.23 Subd. 3. **District support services.** A school district's support services revenue
11.24 equals the sum of its operating capital revenue, alternative facilities revenue, integration
11.25 revenue, and transportation revenue.

11.26 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
11.27 and later.

11.28 Sec. 19. Minnesota Statutes 2008, section 126C.10, subdivision 1, is amended to read:

11.29 Subdivision 1. **General education revenue.** (a) For fiscal year 2006 ~~and later~~
11.30 through 2013, the general education revenue for each district equals the sum of the
11.31 district's basic revenue, extended time revenue, gifted and talented revenue, basic skills
11.32 revenue, training and experience revenue, secondary sparsity revenue, elementary sparsity

12.1 revenue, transportation sparsity revenue, total operating capital revenue, equity revenue,
12.2 alternative teacher compensation revenue, and transition revenue.

12.3 (b) For fiscal years 2011 and later, a school district's general education revenue
12.4 equals the sum of its basic revenue, extended time revenue, declining enrollment revenue,
12.5 basic skills revenue, location equity revenue, referendum replacement revenue, secondary
12.6 sparsity revenue, elementary sparsity revenue, transportation revenue, and total operating
12.7 capital revenue.

12.8 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
12.9 and later.

12.10 Sec. 20. Minnesota Statutes 2008, section 126C.10, subdivision 2, is amended to read:

12.11 Subd. 2. **Basic revenue.** (a) The basic revenue for each district equals the formula
12.12 allowance times the adjusted ~~marginal cost~~ pupil units for the school year.

12.13 (b) The formula allowance for fiscal year 2007 is \$4,974. The formula allowance for
12.14 fiscal year 2008 is \$5,074 and the formula allowance for fiscal year 2009 ~~and subsequent~~
12.15 ~~years~~ is \$5,124.

12.16 (c) The formula allowance for fiscal year 2011 is \$7,500. The formula allowance
12.17 for fiscal year 2015 and later equals the formula allowance for the previous year times
12.18 the sum of 1.0 and the greater of zero or the ratio of implicit price deflator, as defined in
12.19 section 275.70, subdivision 2, for the most recent year to the implicit price deflator for
12.20 the previous year.

12.21 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
12.22 and later.

12.23 Sec. 21. Minnesota Statutes 2008, section 126C.10, subdivision 2a, is amended to read:

12.24 Subd. 2a. **Extended time revenue.** (a) A school district's extended time revenue
12.25 is equal to the product of ~~\$4,601~~ the formula allowance for that year and the sum of
12.26 the adjusted ~~marginal cost~~ pupil units of the district for each pupil in average daily
12.27 membership in excess of 1.0 and less than 1.2 according to section 126C.05, subdivision 8.

12.28 (b) A school district's extended time revenue may be used for extended day
12.29 programs, extended week programs, summer school, and other programming authorized
12.30 under the learning year program.

12.31 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
12.32 and later.

13.1 Sec. 22. Minnesota Statutes 2008, section 126C.10, is amended by adding a
13.2 subdivision to read:

13.3 Subd. 2c. **Declining enrollment revenue.** A school district's declining enrollment
13.4 revenue equals the greater of zero or the product of: (1) the basic formula allowance for
13.5 that year; and (2) the difference between the mean average adjusted pupil units for the
13.6 three preceding years and the adjusted pupil units for the current year.

13.7 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
13.8 and later.

13.9 Sec. 23. Minnesota Statutes 2008, section 126C.10, is amended by adding a
13.10 subdivision to read:

13.11 Subd. 2d. **Location equity revenue.** A school district's location equity revenue
13.12 equals the product of:

- 13.13 (1) .50;
13.14 (2) the basic formula allowance for that year;
13.15 (3) the district's adjusted pupil units for that year; and
13.16 (4) the district's location equity index minus .9.

13.17 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
13.18 and later.

13.19 Sec. 24. Minnesota Statutes 2008, section 126C.10, is amended by adding a
13.20 subdivision to read:

13.21 Subd. 2e. **Referendum replacement revenue.** A school district's referendum
13.22 replacement revenue equals \$500 times the district's adjusted pupil units for that year.

13.23 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
13.24 and later.

13.25 Sec. 25. Minnesota Statutes 2008, section 126C.10, subdivision 3, is amended to read:

13.26 **Subd. 3. Compensatory education revenue.** (a) The compensatory education
13.27 revenue for each ~~building in the~~ district equals the greater of: (1) \$2,500 times the district's
13.28 enrollment of students eligible for free or reduced-price meals under section 126C.05,
13.29 subdivision 3, paragraph (a), clause (1); or (2) 40 percent of the formula allowance ~~minus~~
13.30 ~~\$415~~ times the compensation revenue pupil units computed according to section 126C.05,
13.31 subdivision 3. Revenue shall be paid to the district and must be allocated according to
13.32 section 126C.15, subdivision 2.

14.1 (b) When the district contracting with an alternative program under section 124D.69
14.2 changes prior to the start of a school year, the compensatory revenue generated by pupils
14.3 attending the program shall be paid to the district contracting with the alternative program
14.4 for the current school year, and shall not be paid to the district contracting with the
14.5 alternative program for the prior school year.

14.6 (c) When the fiscal agent district for an area learning center changes prior to the start
14.7 of a school year, the compensatory revenue shall be paid to the fiscal agent district for the
14.8 current school year, and shall not be paid to the fiscal agent district for the prior school year.

14.9 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
14.10 and later.

14.11 Sec. 26. Minnesota Statutes 2008, section 126C.10, subdivision 4, is amended to read:

14.12 Subd. 4. **Basic skills revenue.** A school district's basic skills revenue equals the
14.13 sum of:

14.14 (1) compensatory revenue under subdivision 3; plus

14.15 (2) limited English proficiency revenue under section 124D.65, subdivision 5; ~~plus~~

14.16 ~~(3) \$250 times the limited English proficiency pupil units under section 126C.05,~~

14.17 ~~subdivision 17.~~

14.18 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
14.19 and later.

14.20 Sec. 27. Minnesota Statutes 2008, section 126C.10, subdivision 6, is amended to read:

14.21 Subd. 6. **Definitions.** The definitions in this subdivision apply only to subdivisions
14.22 7 and 8.

14.23 (a) "High school" means a public secondary school, except a charter school under
14.24 section 124D.10, that has pupils enrolled in at least the 10th, 11th, and 12th grades. If
14.25 there is no high school in the district and the school is at least ~~19~~ 15 miles from the next
14.26 nearest school, the commissioner must designate one school in the district as a high school
14.27 for the purposes of this section.

14.28 (b) "Secondary average daily membership" means, for a district that has only one
14.29 high school, the average daily membership of pupils served in grades 7 through 12. For a
14.30 district that has more than one high school, "secondary average daily membership" for
14.31 each high school means the product of the average daily membership of pupils served in
14.32 grades 7 through 12 in the high school, times the ratio of six to the number of grades
14.33 in the high school.

(c) "Attendance area" means the total surface area of the district, in square miles, divided by the number of high schools in the district. For a district that does not operate a high school and is less than ~~19~~ 15 miles from the nearest operating high school, the attendance area equals zero.

(d) "Isolation index" for a high school means the square root of 55 percent of the attendance area plus the distance in miles, according to the usually traveled routes, between the high school and the nearest high school. For a district in which there is located land defined in section 84A.01, 84A.20, or 84A.31, the distance in miles is the sum of:

(1) the square root of one-half of the attendance area; and

(2) the distance from the border of the district to the nearest high school.

(e) "Qualifying high school" means a high school that has an isolation index greater than 23 and that has secondary average daily membership of less than 400.

(f) "Qualifying elementary school" means a public elementary school, except a charter school under section 124D.10, that is located ~~19~~ 15 miles or more from the nearest elementary school or from the nearest elementary school within the district and, in either case, has an elementary average daily membership of an average of 20 or fewer per grade.

(g) "Elementary average daily membership" means, for a district that has only one elementary school, the average daily membership of pupils served in kindergarten through grade 6. For a district that has more than one elementary school, "average daily membership" for each school means the average daily membership of pupils served in kindergarten through grade 6 multiplied by the ratio of seven to the number of grades in the elementary school.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 28. Minnesota Statutes 2008, section 126C.10, subdivision 13, is amended to read:

Subd. 13. **Total operating capital and technology revenue.** (a) Total operating capital revenue for a district equals: (1) \$50 times the adjusted pupil units for the school year for technology purposes; (2) for any district not participating in the alternative facilities program under section 123B.59, \$600 times the adjusted pupil units for deferred maintenance and health and safety purposes under sections 123B.57 and 123B.59; (3) the amount determined under paragraph (b) or (c), ~~plus \$75;~~ and (4) \$100 times the adjusted ~~marginal cost~~ pupil units for the school year. The revenue must be placed in a reserved account in the general fund and may only be used according to subdivision 14.

(b) Capital revenue for a district equals \$100 times the district's maintenance cost index times its adjusted ~~marginal cost~~ pupil units for the school year.

(c) The revenue for a district that operates a program under section 124D.128, is increased by an amount equal to \$30 times the number of ~~marginal cost~~ adjusted pupil units served at the site where the program is implemented.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 29. Minnesota Statutes 2008, section 126C.10, subdivision 14, is amended to read:

Subd. 14. **Uses of total operating capital revenue.** Technology revenue may only be used for purposes in clauses (18), (19), (21), (23), and (24). Total operating capital revenue may be used only for the following purposes:

- (1) to acquire land for school purposes;
- (2) to acquire or construct buildings for school purposes;
- (3) to rent or lease buildings, including the costs of building repair or improvement that are part of a lease agreement;
- (4) to improve and repair school sites and buildings, and equip or reequip school buildings with permanent attached fixtures, including library media centers;
- (5) for a surplus school building that is used substantially for a public nonschool purpose;
- (6) to eliminate barriers or increase access to school buildings by individuals with a disability;
- (7) to bring school buildings into compliance with the State Fire Code adopted according to chapter 299F;
- (8) to remove asbestos from school buildings, encapsulate asbestos, or make asbestos-related repairs;
- (9) to clean up and dispose of polychlorinated biphenyls found in school buildings;
- (10) to clean up, remove, dispose of, and make repairs related to storing heating fuel or transportation fuels such as alcohol, gasoline, fuel oil, and special fuel, as defined in section 296A.01;
- (11) for energy audits for school buildings and to modify buildings if the audit indicates the cost of the modification can be recovered within ten years;
- (12) to improve buildings that are leased according to section 123B.51, subdivision 4;
- (13) to pay special assessments levied against school property but not to pay assessments for service charges;
- (14) to pay principal and interest on state loans for energy conservation according to section 216C.37 or loans made under the Douglas J. Johnson Economic Protection Trust Fund Act according to sections 298.292 to 298.298;

- 17.1 (15) to purchase or lease interactive telecommunications equipment;
- 17.2 (16) by board resolution, to transfer money into the debt redemption fund to: (i)
- 17.3 pay the amounts needed to meet, when due, principal and interest payments on certain
- 17.4 obligations issued according to chapter 475; or (ii) pay principal and interest on debt
- 17.5 service loans or capital loans according to section 126C.70;
- 17.6 (17) to pay operating capital-related assessments of any entity formed under a
- 17.7 cooperative agreement between two or more districts;
- 17.8 (18) to purchase or lease computers and related materials, copying machines,
- 17.9 telecommunications equipment, and other noninstructional equipment;
- 17.10 (19) to purchase or lease assistive technology or equipment for instructional
- 17.11 programs;
- 17.12 (20) to purchase textbooks;
- 17.13 (21) to purchase new and replacement library media resources or technology;
- 17.14 (22) to purchase vehicles;
- 17.15 (23) to purchase or lease telecommunications equipment, computers, and related
- 17.16 equipment for integrated information management systems for:
- 17.17 (i) managing and reporting learner outcome information for all students under a
- 17.18 results-oriented graduation rule;
- 17.19 (ii) managing student assessment, services, and achievement information required
- 17.20 for students with individual education plans; and
- 17.21 (iii) other classroom information management needs; and
- 17.22 (24) to pay personnel costs directly related to the acquisition, operation, and
- 17.23 maintenance of telecommunications systems, computers, related equipment, and network
- 17.24 and applications software.

17.25 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011.

17.26 Sec. 30. Minnesota Statutes 2008, section 126C.10, subdivision 18, is amended to read:

17.27 Subd. 18. **Transportation sparsity revenue allowance.** ~~(a)~~ A district's

17.28 transportation sparsity allowance equals the greater of zero or the result of the following

17.29 computation:

17.30 (i) Multiply the formula allowance according to subdivision 2, by .1469.

17.31 (ii) Multiply the result in clause (i) by the district's sparsity index raised to the

17.32 26/100 power.

17.33 (iii) Multiply the result in clause (ii) by the district's density index raised to the

17.34 13/100 power.

17.35 (iv) Multiply the formula allowance according to subdivision 2, by .0485.

(v) Subtract the result in clause (iv) from the result in clause (iii).

~~(b) Transportation sparsity revenue is equal to the transportation sparsity allowance times the adjusted marginal cost pupil units.~~

EFFECTIVE DATE. This section is effective for fiscal year 2011 and later.

Sec. 31. Minnesota Statutes 2008, section 126C.10, is amended by adding a subdivision to read:

Subd. 18a. **Transportation revenue.** (a) A school district's transportation revenue equals the sum of its transportation sparsity revenue, hazardous transportation revenue, and bus purchase revenue.

(b) A school district's transportation sparsity revenue equals its transportation sparsity allowance times its adjusted pupil units for that year.

(c) A school district's hazardous transportation aid equals the amount necessary to provide transportation services to students facing hazardous transportation conditions. A district's hazardous transportation aid must not exceed 20 percent of the district's total regular to and from school transportation costs for that year. For any year, a school district may receive aid under this paragraph only after the school board has considered the comprehensive plan for hazardous transportation submitted by the district's pupil transportation safety committee at a regularly scheduled meeting of the school board. The comprehensive plan may not be adopted until after the board has allowed the public reasonable time to testify on the plan.

(d) A school district's bus purchase revenue equals five percent of the district's spending on transportation services for the previous fiscal year.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 32. **[126C.115] INNOVATION REVENUE.**

(a) A school district must use its innovation revenue to implement evidence-based innovation premised on research-based curriculum and instruction and other education programs and practices, including best teaching practices, that are known to improve academic performance for diverse groups of students. If a school district demonstrates low growth and needs to improve students' current achievement and educational growth, as measured by a growth-based value-added system under section 120B.35, the school district must submit a plan to the commissioner, developed in consultation with interested parents, that describes how the district proposes to use its innovation revenue to

H.F. No. 2944, as introduced - 86th Legislative Session (2009-2010) [10-5261]

supplement state reading requirements under section 120B.12, subdivision 1, and state math and science requirements under section 120B.023, subdivision 2, paragraphs (b) and (d), and improve student outcomes. The plan must:

(1) identify specific education goals, consistent with this section, and the indicators to demonstrate progress toward achieving those goals, which may include a value-added assessment model under sections 120B.35 and 120B.362;

(2) supplement current district initiatives that may transform district programs, practices, and processes sufficient to significantly improve student outcomes, which may include, among other initiatives, an organizational assessment and performance improvement process under section 120B.3625; and

(3) demonstrate how innovation revenue helps narrow and eliminate differences in student academic achievement in reading, math, and science based on student measures of mobility, attendance, race and ethnicity, gender, English language learner status, eligibility for free or reduced price lunch, and special education, among other outcomes.

(b) After transmitting its plan to the commissioner, a district must spend its innovation revenue effectively and efficiently, consistent with its plan. A school district that submits an innovation revenue plan under paragraph (a) must report annually by June 30 to the commissioner and post on the district's official Web site reliable and accessible information and supporting longitudinal data showing the amount of progress the district made in the immediately preceding school year and previous school years in realizing its innovation revenue goals. The commissioner must analyze the data from the annual district reports and post the analysis on the department's official Web site.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 33. Minnesota Statutes 2008, section 126C.13, subdivision 4, is amended to read:

Subd. 4. **General education aid.** ~~For fiscal years 2007 and later,~~ A district's general education aid ~~is the sum of the following amounts equals its:~~

~~(1) general education revenue, excluding equity revenue, total operating capital revenue, alternative teacher compensation revenue, and transition revenue;~~

~~(2) operating capital aid under section 126C.10, subdivision 13b;~~

~~(3) equity aid under section 126C.10, subdivision 30;~~

~~(4) alternative teacher compensation aid under section 126C.10, subdivision 36;~~

~~(5) transition aid under section 126C.10, subdivision 33 for that year;~~

~~(6) (2) shared time aid under section 126C.01, subdivision 7;~~

~~(7) (3) referendum aid under section 126C.17, subdivisions 7 and 7a; and~~

20.1 ~~(8)~~ (4) online learning aid according to section 124D.096.

20.2 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
20.3 and later.

20.4 Sec. 34. Minnesota Statutes 2008, section 126C.13, subdivision 5, is amended to read:

20.5 Subd. 5. **Uses of revenue.** ~~Except as provided in sections 126C.10, subdivision~~
20.6 ~~14, 126C.12, and 126C.15, (a)~~ General education revenue may be used during the
20.7 regular school year and the summer for general and special school purposes and for
20.8 prekindergarten programs except as limited by paragraph (b).

20.9 (b) General education revenue set-asides include:

20.10 (1) 1.0 percent of basic revenue must be used only for gifted and talented activities
20.11 consistent with section 120B.15;

20.12 (2) 5.0 percent of basic revenue must be used only to implement a district's
20.13 innovative revenue program activities under section 126C.115;

20.14 (3) basic skills revenue must be used according to section 126C.15; and

20.15 (4) operating capital revenue must be spent according to section 126C.10,
20.16 subdivision 14.

20.17 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
20.18 and later.

20.19 Sec. 35. Minnesota Statutes 2008, section 126C.17, subdivision 1, is amended to read:

20.20 Subdivision 1. **Referendum allowance.** ~~(a) For fiscal year 2003 and later, a district's~~
20.21 ~~initial referendum revenue allowance equals the sum of the allowance under section~~
20.22 ~~126C.16, subdivision 2, plus any additional allowance per resident marginal cost pupil~~
20.23 ~~unit authorized under subdivision 9 before May 1, 2001, for fiscal year 2002 and later,~~
20.24 ~~plus the referendum conversion allowance approved under subdivision 13, minus \$415.~~
20.25 ~~For districts with more than one referendum authority, the reduction must be computed~~
20.26 ~~separately for each authority. The reduction must be applied first to the referendum~~
20.27 ~~conversion allowance and next to the authority with the earliest expiration date. A~~
20.28 ~~district's initial referendum revenue allowance may not be less than zero.~~

20.29 ~~(b) For fiscal year 2003, a district's referendum revenue allowance equals the initial~~
20.30 ~~referendum allowance plus any additional allowance per resident marginal cost pupil unit~~
20.31 ~~authorized under subdivision 9 between April 30, 2001, and December 30, 2001, for~~
20.32 ~~fiscal year 2003 and later.~~

~~(e) For fiscal year 2004 and later,~~ A district's referendum revenue allowance equals the sum of:

~~(1) the product of (i) the ratio of the resident marginal cost pupil units the district would have counted for fiscal year 2004 under Minnesota Statutes 2002, section 126C.05, to the district's resident marginal cost pupil units for fiscal year 2004, times (ii) the greater of zero or the district's initial referendum allowance plus any additional allowance per resident marginal cost pupil unit authorized under subdivision 9 between April 30, 2001, and May 30, 2003, for fiscal year 2003 and later 2014 less \$500, plus~~

~~(2) any additional allowance per resident marginal cost pupil unit authorized under subdivision 9 after May 30, 2003 2012, for fiscal year 2005 2014 and later.~~

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 36. Minnesota Statutes 2008, section 126C.17, subdivision 5, is amended to read:

Subd. 5. **Referendum equalization revenue.** (a) ~~For fiscal year 2003 and later,~~ A district's referendum equalization revenue equals the sum of the first tier referendum equalization revenue and the second tier referendum equalization revenue.

~~(b) A district's first tier referendum equalization revenue equals the district's first tier referendum equalization allowance times the district's resident marginal cost pupil units for that year.~~

~~(c) For fiscal year 2006, a district's first tier referendum equalization allowance equals the lesser of the district's referendum allowance under subdivision 1 or \$500. For fiscal year 2007, a district's first tier referendum equalization allowance equals the lesser of the district's referendum allowance under subdivision 1 or \$600.~~

~~For fiscal year 2008 and later, (b)~~ A district's first tier referendum equalization allowance equals the lesser of the district's referendum allowance under subdivision 1 or \$700.

~~(d)~~ (c) A district's second tier referendum equalization revenue equals the district's second tier referendum equalization allowance times the district's resident marginal cost pupil units for that year.

~~(e) For fiscal year 2006, a district's second tier referendum equalization allowance equals the lesser of the district's referendum allowance under subdivision 1 or 18.6 percent of the formula allowance, minus the district's first tier referendum equalization allowance.~~

~~For fiscal year 2007 and later, (d)~~ A district's second tier referendum equalization allowance equals the lesser of the district's referendum allowance under subdivision 1 or

22.1 26 percent of the formula allowance, minus the district's first tier referendum equalization
22.2 allowance.

22.3 ~~(f)~~(e) Notwithstanding paragraph ~~(e)~~(d), the second tier referendum allowance for a
22.4 district qualifying for secondary sparsity revenue under section 126C.10, subdivision 7, or
22.5 elementary sparsity revenue under section 126C.10, subdivision 8, equals the district's
22.6 referendum allowance under subdivision 1 minus the district's first tier referendum
22.7 equalization allowance.

22.8 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011.

22.9 Sec. 37. Minnesota Statutes 2008, section 126C.17, subdivision 6, is amended to read:

22.10 Subd. 6. **Referendum equalization levy.** (a) ~~For fiscal year 2003 and later,~~
22.11 A district's referendum equalization levy equals the sum of the first tier referendum
22.12 equalization levy and the second tier referendum equalization levy.

22.13 (b) A district's first tier referendum equalization levy equals the district's first tier
22.14 referendum equalization revenue times the lesser of one or the ratio of the district's
22.15 referendum market value per resident marginal cost pupil unit to ~~\$476,000~~ 100 percent of
22.16 the statewide referendum market value equalizing factor.

22.17 (c) A district's second tier referendum equalization levy equals the district's second
22.18 tier referendum equalization revenue times the lesser of one or the ratio of the district's
22.19 referendum market value per resident marginal cost pupil unit to ~~\$270,000~~ 60 percent of
22.20 the statewide referendum market value equalizing factor.

22.21 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011.

22.22 Sec. 38. Minnesota Statutes 2008, section 126C.20, is amended to read:

22.23 **126C.20 ANNUAL GENERAL EDUCATION AID APPROPRIATION.**

22.24 There is annually appropriated from the general fund to the department the ~~amount~~
22.25 amounts necessary for: (1) general education aid; (2) special education aid; (3) debt
22.26 service aid; and (4) the school bond agricultural credit. ~~This amount~~ These amounts must
22.27 be reduced by the amount of any money specifically appropriated for the same purpose
22.28 in any year from any state fund.

22.29 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2011
22.30 and later.

22.31 Sec. 39. Minnesota Statutes 2008, section 126C.40, subdivision 1, is amended to read:

Subdivision 1. **To lease building or land.** (a) When an independent or a special school district or a group of independent or special school districts finds it economically advantageous to rent or lease a building or land for any instructional ~~purposes or~~ administrative purpose, or for school storage or furniture repair, and it determines that the operating capital revenue authorized under section 126C.10, subdivision 13, is insufficient for this purpose, it may apply to the commissioner for permission to make an additional capital expenditure levy for this purpose. An application for permission to levy under this subdivision must contain financial justification for the proposed levy, the terms and conditions of the proposed lease, and a description of the space to be leased and its proposed use.

(b) The criteria for approval of applications to levy under this subdivision must include: the reasonableness of the price, the appropriateness of the space to the proposed activity, the feasibility of transporting pupils to the leased building or land, conformity of the lease to the laws and rules of the state of Minnesota, and the appropriateness of the proposed lease to the space needs and the financial condition of the district. The commissioner must not authorize a levy under this subdivision in an amount greater than the cost to the district of renting or leasing a building or land for approved purposes. The proceeds of this levy must not be used for custodial or other maintenance services. A district may not levy under this subdivision for the purpose of leasing or renting a district-owned building or site to itself.

(c) For agreements finalized after July 1, 1997, a district may not levy under this subdivision for the purpose of leasing: (1) a newly constructed building used primarily for regular kindergarten, elementary, or secondary instruction; or (2) a newly constructed building addition or additions used primarily for regular kindergarten, elementary, or secondary instruction that contains more than 20 percent of the square footage of the previously existing building.

(d) Notwithstanding paragraph (b), a district may levy under this subdivision for the purpose of leasing or renting a district-owned building or site to itself only if the amount is needed by the district to make payments required by a lease purchase agreement, installment purchase agreement, or other deferred payments agreement authorized by law, and the levy meets the requirements of paragraph (c). A levy authorized for a district by the commissioner under this paragraph may be in the amount needed by the district to make payments required by a lease purchase agreement, installment purchase agreement, or other deferred payments agreement authorized by law, provided that any agreement include a provision giving the school districts the right to terminate the agreement annually without penalty.

H.F. No. 2944, as introduced - 86th Legislative Session (2009-2010) [10-5261]

(e) The total levy under this subdivision for a district for any year must not exceed \$150 times the resident pupil units for the fiscal year to which the levy is attributable.

(f) For agreements for which a review and comment have been submitted to the Department of Education after April 1, 1998, the term "instructional purpose" as used in this subdivision excludes expenditures on stadiums.

(g) The commissioner of education may authorize a school district to exceed the limit in paragraph (e) if the school district petitions the commissioner for approval. The commissioner shall grant approval to a school district to exceed the limit in paragraph (e) for not more than five years if the district meets the following criteria:

(1) the school district has been experiencing pupil enrollment growth in the preceding five years;

(2) the purpose of the increased levy is in the long-term public interest;

(3) the purpose of the increased levy promotes colocation of government services; and

(4) the purpose of the increased levy is in the long-term interest of the district by avoiding over construction of school facilities.

(h) A school district that is a member of an intermediate school district may include in its authority under this section the costs associated with leases of administrative and classroom space for intermediate school district programs. This authority must not exceed ~~\$43~~ \$50 times the adjusted marginal cost pupil units of the member districts. This authority is in addition to any other authority authorized under this section.

(i) In addition to the allowable capital levies in paragraph (a), a district that is a member of the "Technology and Information Education Systems" data processing joint board, that finds it economically advantageous to enter into a lease purchase agreement for a building for a group of school districts or special school districts for staff development purposes, may levy for its portion of lease costs attributed to the district within the total levy limit in paragraph (e).

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011 and later.

Sec. 40. Minnesota Statutes 2008, section 127A.51, is amended to read:

127A.51 STATEWIDE AVERAGE REVENUE.

By October 1 of each year the commissioner must estimate the statewide average adjusted general revenue per adjusted marginal cost pupil unit and the disparity in adjusted general revenue among pupils and districts by computing the ratio of the 95th percentile

to the fifth percentile of adjusted general revenue. The commissioner must provide that information to all districts.

If the disparity in adjusted general revenue as measured by the ratio of the 95th percentile to the fifth percentile increases in any year, the commissioner shall recommend to the legislature options for change in the general education formula that will limit the disparity in adjusted general revenue to no more than the disparity for the previous school year. The commissioner must submit the recommended options to the education committees of the legislature by January 15.

For purposes of this section and section 126C.10, adjusted general revenue means:

(1) for fiscal year 2002, the sum of basic revenue under section 126C.10, subdivision 2; supplemental revenue under section 126C.10, subdivisions 9 and 12; transition revenue under section 126C.10, subdivision 20; referendum revenue under section 126C.17; and equity revenue under section 126C.10, subdivisions 24a and 24b; ~~and~~

(2) for fiscal year 2003 ~~and later~~ through 2010, the sum of basic revenue under section 126C.10, subdivision 2; referendum revenue under section 126C.17; and equity revenue under section 126C.10, subdivisions 24a and 24b; ~~and~~

(3) for fiscal year 2011 and later, the sum of basic revenue under section 126C.10, subdivision 2, and referendum revenue under section 126C.17.

EFFECTIVE DATE. This section is effective for fiscal year 2011 and later.

Sec. 41. Minnesota Statutes 2009 Supplement, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

(1) On the first ~~\$25,680~~ \$33,280, 5.35 percent;

(2) On all over ~~\$25,680~~ \$33,280, but not over ~~\$102,030~~ \$132,220, 7.05 percent;

(3) On all over ~~\$102,030~~ \$132,220, ~~7.85~~ 8.5 percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

(1) On the first ~~\$17,570~~ \$22,770, 5.35 percent;

(2) On all over ~~\$17,570~~ \$22,770, but not over ~~\$57,710~~ \$74,780, 7.05 percent;

(3) On all over ~~\$57,710~~ \$74,780, ~~7.85~~ 8.5 percent.

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

(1) On the first ~~\$21,630~~ \$28,030, 5.35 percent;

(2) On all over ~~\$21,630~~ \$28,030, but not over ~~\$86,910~~ \$112,620, 7.05 percent;

(3) On all over ~~\$86,910~~ \$112,620, ~~7.85~~ 8.5 percent.

(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than \$100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

(e) An individual who is not a Minnesota resident for the entire year must compute the individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), (16), and (17), and reduced by the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), and the subtractions under section 290.01, subdivision 19b, clauses (9), (10), (14), (15), (16), and (18), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), (16), and (17), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1), (9), (10), (14), (15), (16), and (18).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2009, except that for taxable years beginning after December 31, 2009, and before January 1, 2011, the 8.5 percent rate in paragraphs (a), (b), and (c) is reduced to 8.175 percent.

Sec. 42. Minnesota Statutes 2008, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after December 31, ~~2000~~ 2010, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2009, and before January 1, ~~2001~~ 2011. The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount.

(b) The commissioner shall adjust the rate brackets and by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~" "2009" shall be substituted for the word "1992." For ~~2001~~ 2011, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~1999~~ 2009, to the 12 months ending on August 31, ~~2000~~ 2010, and in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2009, to the 12 months ending on August 31 of the year preceding the taxable year. The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

No later than December 15 of each year, the commissioner shall announce the specific percentage that will be used to adjust the tax rate brackets.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2009.

Sec. 43. **PHASE-IN.**

Subdivision 1. Baseline revenue. A school district's baseline revenue equals the revenue amounts for the aid appropriations calculated under Minnesota Statutes, section 126C.20, calculated using the current year's data and the revenue formulas in place in Minnesota Statutes 2008.

Subd. 2. New revenue. A school district's new revenue equals the revenue amounts for the aid appropriations calculated under Minnesota Statutes, section 126C.20, calculated using the current year's data and the revenue formulas in place under this act.

Subd. 3. Phase-in schedule. A school district's revenue amounts for the revenue formulas listed in subdivisions 1 and 2 equals the district's baseline revenue plus the

percent of the difference specified in subdivision 6 multiplied by the number of years of the phase in specified in subdivision 7.

Subd. 4. **Aid.** A school district's aid entitlement for the formulas listed under this act equals the district's baseline aid plus the phase-in percentage times the new aid amounts calculated under this act.

Subd. 5. **Levy.** A school district levy for the formulas listed in this act equals the levy for the same formulas calculated under Minnesota Statutes 2008, and the phase-in percentage times the new revenue amounts for the levy calculated under this act.

Subd. 6. **Percentage.** The phase-in percentage equals 12.5 percent for fiscal years 2011, 2012, and 2013, 25 percent for fiscal year 2014, 50 percent for fiscal year 2015, 75 percent for fiscal year 2016, and 100 percent for fiscal year 2017 and later.

Subd. 7. **Years of phase-in.** The new revenue under this section is phased in over seven years according to the schedule in subdivision 6.

EFFECTIVE DATE. This section is effective July 1, 2010.

Sec. 44. **REVISOR'S INSTRUCTION.**

The revisor of statutes shall change all references to "adjusted marginal cost pupil units" to "adjusted pupil units" and all references to "resident marginal cost pupil units" to "resident pupil units."

EFFECTIVE DATE. This section is effective July 1, 2010.

Sec. 45. **REPEALER.**

Minnesota Statutes 2008, sections 123B.54; 123B.57, subdivisions 3, 4, and 5; 123B.591; 125A.76, subdivision 4; 125A.79, subdivision 6; 126C.10, subdivisions 2b, 13a, 13b, 24, 25, 26, 27, 28, 29, 30, 31, 31a, 31b, 32, 33, 34, 35, and 36; 126C.12; 126C.126; and 127A.50, are repealed.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2011.