A bill for an act

relating to education finance; increasing general education and special education funding for school districts; increasing funding for early education programs; modifying individual income tax rates; depositing revenues in a K-12 education account; appropriating money; amending Minnesota Statutes 2006, sections 124D.13, by adding a subdivision; 124D.15, by adding a subdivision; 290.06, subdivision 2c; 290.62; Minnesota Statutes 2007 Supplement, sections 124D.135, subdivisions 1, 5; 124D.15, subdivision 3; 125A.76, subdivisions 1, 2; 125A.79, subdivisions 1, 5; 126C.10, subdivision 2; repealing Minnesota Statutes 2007 Supplement, sections 125A.76, subdivisions 4, 5; 125A.79, subdivision 6.

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

Section 1. Minnesota Statutes 2006, section 124D.13, is amended by adding a subdivision to read:

Subd. 4a. **At-risk program.** (a) Each district operating an early childhood family education program under this section must use $30 times the greater of 150 or the number of people under five years of age residing in the district on October 1 of the previous school year to serve at-risk families. These funds must be used to provide parental education on child development and support parents in enhancing verbal stimulation and literacy in their children. Programs must collaborate with community agencies with the ability to reach at-risk families and must contract for services as necessary to ensure culturally appropriate practices and diverse staffing.

(b) For purposes of this section, "at-risk family" is defined as a family with low education levels, a family whose income is at or below 200 percent of the federal poverty level, or a family where English is not the primary language.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 2. Minnesota Statutes 2007 Supplement, section 124D.135, subdivision 1, is amended to read:

Subdivision 1. **Revenue.** The revenue for early childhood family education programs for a school district equals $112 for fiscal year 2007 ~~and~~, $120 for fiscal year 2008, and ~~later~~ $150 for fiscal year 2009 and later, times the greater of:

(1) 150; or

(2) the number of people under five years of age residing in the district on October 1 of the previous school year.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 3. Minnesota Statutes 2007 Supplement, section 124D.135, subdivision 5, is amended to read:

Subd. 5. **Use of revenue restricted.** (a) Early childhood family education revenue may be used only for early childhood family education programs.

(b) Not more than five percent of early childhood family education revenue, as defined in subdivision 7, may be used to administer early childhood family education programs.

(c) An early childhood family education program may use up to ten percent of its early childhood family education revenue as defined in subdivision 1, including revenue from participant fees, for equipment that is used in the early childhood family education program. This revenue may only be used for the following purposes:

(1) to purchase or lease computers and related materials; and

(2) to purchase or lease equipment for instruction for participating children and their families.

If a district anticipates an unusual circumstance requiring its early childhood family education program capital expenditures to exceed the ten percent limitation, prior approval to exceed the limit must be obtained in writing from the commissioner.

(d) An early childhood family education program must use $30 times the greater of 150 or the number of people under five years of age residing in the district on October 1 of the previous school year for the at-risk program under section 124D.13, subdivision 4a.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 4. Minnesota Statutes 2007 Supplement, section 124D.15, subdivision 3, is amended to read:

Subd. 3. **Program requirements.** A school readiness program provider must:

(1) assess each child's ~~cognitive~~ kindergarten readiness skills when the child enters and again before the child leaves the program to inform program planning and promote kindergarten readiness;

(2) ~~provide comprehensive program content based on early childhood research and professional practice that is focused on children's cognitive skills and development and prepares~~ align program curriculum and learning standards with kindergarten curriculum and learning standards to prepare children for the transition to kindergarten~~, including early literacy skills~~;

(3) arrange for early childhood screening and appropriate referral;

(4) involve parents in program planning and decision making;

(5) ~~coordinate with relevant community-based services; and~~ have a total class size of no more than 18 students and a child to adult ratio of no more than nine to one;

(6) meet a minimum of 2.5 hours per day, four days per week;

(7) have a strong accountability system with documented learning standards and be highly rated by the Quality Rating System;

(8) provide compensatory services in language, literacy, and mathematical thinking in a developmentally appropriate manner;

(9) cooperate with adult basic education programs and other adult literacy programs; and

(10) provide children's mental health consultation as needed.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 5. Minnesota Statutes 2006, section 124D.15, is amended by adding a subdivision to read:

Subd. 3b. **Program alignment.** Each school district operating a school readiness program must ensure that the school readiness program curriculum and learning standards are aligned with kindergarten curriculum and learning standards.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 6. Minnesota Statutes 2007 Supplement, section 125A.76, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** For the purposes of this section, the definitions in this subdivision apply.

(a) "Basic revenue" has the meaning given it in section 126C.10, subdivision 2. For the purposes of computing basic revenue pursuant to this section, each child with a disability shall be counted as prescribed in section 126C.05, subdivision 1.

(b) "Essential personnel" means teachers, cultural liaisons, related services, and support services staff providing direct services to students. Essential personnel may also include special education paraprofessionals or clericals providing support to teachers and students by preparing paperwork and making arrangements related to special education compliance requirements, including parent meetings and individual education plans.

(c) "Average daily membership" has the meaning given it in section 126C.05.

~~(d) "Program growth factor" means 1.046 for fiscal year 2012 and later.~~

Sec. 7. Minnesota Statutes 2007 Supplement, section 125A.76, subdivision 2, is amended to read:

Subd. 2. **Special education ~~initial~~ aid.** ~~The~~ <u>A school district's</u> special education ~~initial~~ aid equals the sum of the following amounts computed using current year data:

(1) 68 percent of the salary of each essential person employed in the district's program for children with a disability during the fiscal year, whether the person is employed by one or more districts or a Minnesota correctional facility operating on a fee-for-service basis;

(2) for the Minnesota State Academy for the Deaf or the Minnesota State Academy for the Blind, 68 percent of the salary of each instructional aide assigned to a child attending the academy, if that aide is required by the child's individual education plan;

(3) for special instruction and services provided to any pupil by contracting with public, private, or voluntary agencies other than school districts, in place of special instruction and services provided by the district, 52 percent of the difference between the amount of the contract and the general education revenue, excluding basic skills revenue and alternative teacher compensation revenue, and referendum equalization aid attributable to a pupil, calculated using the resident district's average general education revenue and referendum equalization aid per adjusted pupil unit for the fraction of the school day the pupil receives services under the contract. This includes children who are residents of the state, receive services under this subdivision and subdivision 1, and are placed in a care and treatment facility by court action in a state that does not have a reciprocity agreement with the commissioner under section 125A.155 as provided for in section 125A.79, subdivision 8;

(4) for special instruction and services provided to any pupil by contracting for services with public, private, or voluntary agencies other than school districts, that are

supplementary to a full educational program provided by the school district, 52 percent of the amount of the contract for that pupil;

(5) for supplies and equipment purchased or rented for use in the instruction of children with a disability, an amount equal to 47 percent of the sum actually expended by the district, or a Minnesota correctional facility operating on a fee-for-service basis, but not to exceed an average of $47 in any one school year for each child with a disability receiving instruction;

(6) for fiscal years 1997 and later, special education base revenue shall include amounts under clauses (1) to (5) for special education summer programs provided during the base year for that fiscal year;

(7) the cost of providing transportation services for children with disabilities under section 123B.92, subdivision 1, paragraph (b), clause (4); and

(8) the district's transition-disabled program initial aid according to section 124D.454, subdivision 3.

The department shall establish procedures through the uniform financial accounting and reporting system to identify and track all revenues generated from third-party billings as special education revenue at the school district level; include revenue generated from third-party billings as special education revenue in the annual cross-subsidy report; and exclude third-party revenue from calculation of excess cost aid to the districts.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2009.

Sec. 8. Minnesota Statutes 2007 Supplement, section 125A.79, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** For the purposes of this section, the definitions in this subdivision apply.

(a) "Unreimbursed special education cost" means the sum of the following:

(1) expenditures for teachers' salaries, contracted services, supplies, equipment, and transportation services eligible for revenue under section 125A.76; plus

(2) expenditures for tuition bills received under sections 125A.03 to 125A.24 and 125A.65 for services eligible for revenue under section 125A.76, subdivision 2; minus

(3) revenue for teachers' salaries, contracted services, supplies, equipment, and transportation services under section 125A.76; minus

(4) tuition receipts under sections 125A.03 to 125A.24 and 125A.65 for services eligible for revenue under section 125A.76, subdivision 2.

(b) "General revenue" means the sum of the general education revenue according to section 126C.10, subdivision 1, excluding alternative teacher compensation revenue, plus the total qualifying referendum revenue specified in paragraph (e) minus transportation sparsity revenue minus total operating capital revenue.

(c) "Average daily membership" has the meaning given it in section 126C.05.

(d) ~~"Program growth factor" means 1.02 for fiscal year 2012 and later.~~

~~(e)~~ "Total qualifying referendum revenue" means two-thirds of the district's total referendum revenue as adjusted according to section 127A.47, subdivision 7, paragraphs (a) to (c), for fiscal year 2006, one-third of the district's total referendum revenue for fiscal year 2007, and none of the district's total referendum revenue for fiscal year 2008 and later.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2009.

Sec. 9. Minnesota Statutes 2007 Supplement, section 125A.79, subdivision 5, is amended to read:

Subd. 5. **~~Initial~~ Excess cost aid.** ~~For fiscal years 2008 and later,~~ A school district's ~~initial~~ excess cost aid equals the greater of:

(1) 75 percent of the difference between (i) the district's unreimbursed special education cost and (ii) 4.36 percent of the district's general revenue; or

(2) zero.

Sec. 10. Minnesota Statutes 2007 Supplement, section 126C.10, subdivision 2, is amended to read:

Subd. 2. **Basic revenue.** The basic revenue for each district equals the formula allowance times the adjusted marginal cost pupil units for the school year. The formula allowance for fiscal year 2007 is $4,974. The formula allowance for fiscal year 2008 is $5,074 and the formula allowance for fiscal year 2009 and subsequent years is ~~$5,124~~ $5,227.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2009.

Sec. 11. Minnesota Statutes 2006, 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, 5.35 percent;

(2) On all over $25,680, but not over $102,030, 7.05 percent;

(3) On all over $102,030, ~~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, 5.35 percent;

(2) On all over $17,570, but not over $57,710, 7.05 percent;

(3) On all over $57,710, ~~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, 5.35 percent;

(2) On all over $21,630, but not over $86,910, 7.05 percent;

(3) On all over $86,910, ~~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), and (9), 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), and (16), 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), and (9), and reduced by the

amounts specified in section 290.01, subdivision 19b, clauses (1), (9), (10), (14), (15), and (16).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2007.

Sec. 12. Minnesota Statutes 2006, section 290.62, is amended to read:

290.62 DISTRIBUTION OF REVENUES.

Subdivision 1. **General fund.** All revenues derived from the taxes, interest, penalties and charges under this chapter shall, notwithstanding any other provisions of law, be paid into the state treasury and credited to the general fund, and be distributed as follows:

(1) There shall, notwithstanding any other provision of the law, be paid from this general fund all refunds of taxes erroneously collected from taxpayers under this chapter as provided herein;

(2) There is hereby appropriated to the persons entitled to payment herein, from the fund or account in the state treasury to which the money was credited, an amount sufficient to make the refund and payment.

Subd. 2. **K-12 education account.** By July 15 of each odd-numbered year, the commissioner of finance, in consultation with the commissioner of revenue, shall estimate the amount of revenue anticipated for the biennium resulting from enactment of the rate changes in section 11. The estimated amounts must be deposited in the K-12 education account in the special revenue fund. Amounts in the account, along with its investment earnings, are credited to the account and are available for appropriation to fund K-12 education.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 13. **SCHOOL READINESS ASSESSMENTS AND KINDERGARTEN TRANSITION STRATEGIES.**

Subdivision 1. **Establishment.** In order to increase the capacity of school districts to improve the performance of children at risk for not being fully prepared for kindergarten, school readiness assessment and kindergarten transition strategy grants are established.

Subd. 2. **Technical assistance.** (a) The commissioner of education must provide resources and technical assistance to enable a participating school district to offer comprehensive and developmentally appropriate assessments to entering kindergartners, or where applicable, children in prekindergarten programs and to develop and implement kindergarten transition strategies.

(b) A district's assessment tool must be research-based and must assist with identifying risk and informing instructional improvement. A participating school district must coordinate with community and school-based early childhood programs.

(c) An effective kindergarten transition strategy may include:

(1) transition plans for children entering kindergarten;

(2) a transition planning team composed of representatives from early care and education providers; elementary school staff, including kindergarten teachers; parents; and community members;

(3) information and education for parents, program providers, and educators on:

(i) comprehensive child development;

(ii) the skills and knowledge incoming kindergartners should demonstrate; and

(iii) related community resources;

(4) building community awareness about the importance of children's school readiness; and

(5) fostering collaboration among child care, Head Start, early childhood family education, school readiness, family, friends and neighbors, and other early childhood programs and elementary school providers.

Subd. 3. **Application.** A school district must submit its application to the commissioner in the form and manner required by the commissioner. The commissioner must select school districts to receive grants giving priority to districts with high poverty rates. To the extent practical, the selected districts must be located throughout the state.

Subd. 4. **Annual report.** A school district that receives a grant must submit an annual report to the commissioner in the form and manner required by the commissioner. The report must include a description of the assessment tool, process, and results.

Sec. 14. **APPROPRIATION.**

Subdivision 1. **Department of Education.** The sums indicated in this section are appropriated from the general fund to the Department of Education for the fiscal years designated. The appropriations in this section are in addition to any other appropriations for these programs, including those under Laws 2007, chapter 146.

Subd. 2. **Early childhood and family education revenue.** For revenue for early childhood and family education programs under Minnesota Statutes, section 124D.135:

$ 9,388,000 2009

The 2009 appropriation includes $0 for 2008 and $9,388,000 for 2009.

Subd. 2. **School readiness.** For revenue for school readiness programs under Minnesota Statutes, sections 124D.15 and 124D.16:

$ 9,000,000 2009

The 2009 appropriation includes $0 for 2008 and $9,000,000 for 2009.

Subd. 3. **School readiness and kindergarten transition strategies.** For school readiness and kindergarten transition strategies:

$ 1,500,000 2009

Subd. 4. **Head Start.** For Head Start programs under Minnesota Statutes, section 119A.52:

$ 10,100,000 2009

Subd. 5. **Special education revenue.** For special education revenue under Minnesota Statutes, sections 125A.76 and 125A.79:

$ 74,300,000 2009

Any excess in the 2009 appropriation for special education excess cost aid must be applied to the 2009 appropriation for regular special education aid.

Subd. 6. **General education revenue.** For general education aid:

$ 97,156,000 2009

Sec. 15. **REPEALER.**

Minnesota Statutes 2007 Supplement, sections 125A.76, subdivisions 4 and 5; and 125A.79, subdivision 6, are repealed.

125A.76 SPECIAL EDUCATION REVENUE.

Subd. 4. **State total special education aid.** The state total special education aid equals $529,247,000 for fiscal year 2007, $694,063,000 for fiscal year 2008, $719,470,000 for fiscal year 2009, $735,693,000 for fiscal year 2010, and $786,586,000 for fiscal year 2011. The state total special education aid for later fiscal years equals:

(1) the state total special education aid for the preceding fiscal year; times

(2) the program growth factor; times

(3) the greater of one, or the ratio of the state total average daily membership for the current fiscal year to the state total average daily membership for the preceding fiscal year.

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 initial special education aid to the state total initial special education aid.

125A.79 SPECIAL EDUCATION EXCESS COST AID.

Subd. 6. **State total special education excess cost aid.** The state total special education excess cost aid equals $104,700,000 for fiscal year 2007, $110,641,000 for fiscal year 2008, $110,918,000 for fiscal year 2009, $110,847,000 for fiscal year 2010, and $110,892,000 for fiscal year 2011. The state total special education excess cost aid for later fiscal years equals:

(1) the state total special education excess cost aid for the preceding fiscal year; times

(2) the program growth factor; times

(3) the greater of one, or the ratio of the state total average daily membership for the current fiscal year to the state total average daily membership for the preceding fiscal year.