K12 Preview for the 2027 Session

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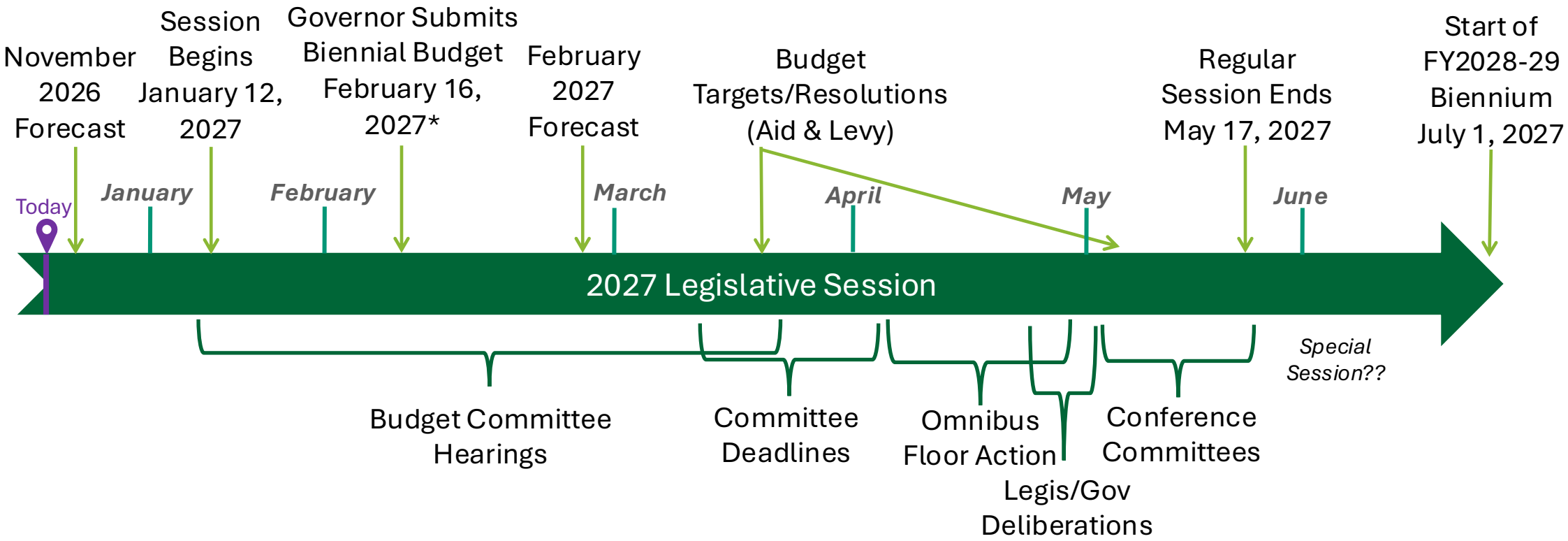
- Presentation to the AMSD Board of Directors, November 6, 2026

Overview of K12 Session

1. Budget Process and Timelines
2. Demographic Issues
3. Specific School Finance Issues
4. General K12 Issues
5. Other Budget Pressures



Budget Development Process



*If a new Governor is elected, the new Governor must submit the Biennial Budget Recommendations by the third Tuesday in February [M.S. § 16A.11]

Budget Process

November 2026

- Estimates revenues and expenditures for the FY 2028-29, and for FY 2030-31 (“the tails”)
- Basis for the initial formation of the Governor’s budget

February 2027

- Much better estimates of spending and revenue
- Basis for the Governor’s revised budget and is the starting point for legislative budget decisions

Budget Process: Deficits and Structural Deficits

- **Surpluses and deficits**. The FY 2028-29 budget begins with the fund balance and then compares the expected revenue, current law expenditures, and inflationary estimates. The 2026 end of session estimates suggested there would be a large fund balance to begin the FY 2028-29 biennium (which starts July 1, 2027).

- **Structural deficit**. In the state's parlance, a structural deficit measures whether expenditures are exceeding revenue for that period without including the state's reserved or unreserved fund balance.

Budget Process: School Data

Data timelines. Schools update and report their updated data to MDE during the fall. This data includes:

- enrollment and pupil unit estimates which form the basis for general education aid and most other program aids; and
- cost estimates for programs where the funding is based on expenditures–the largest of these programs is special education revenue.

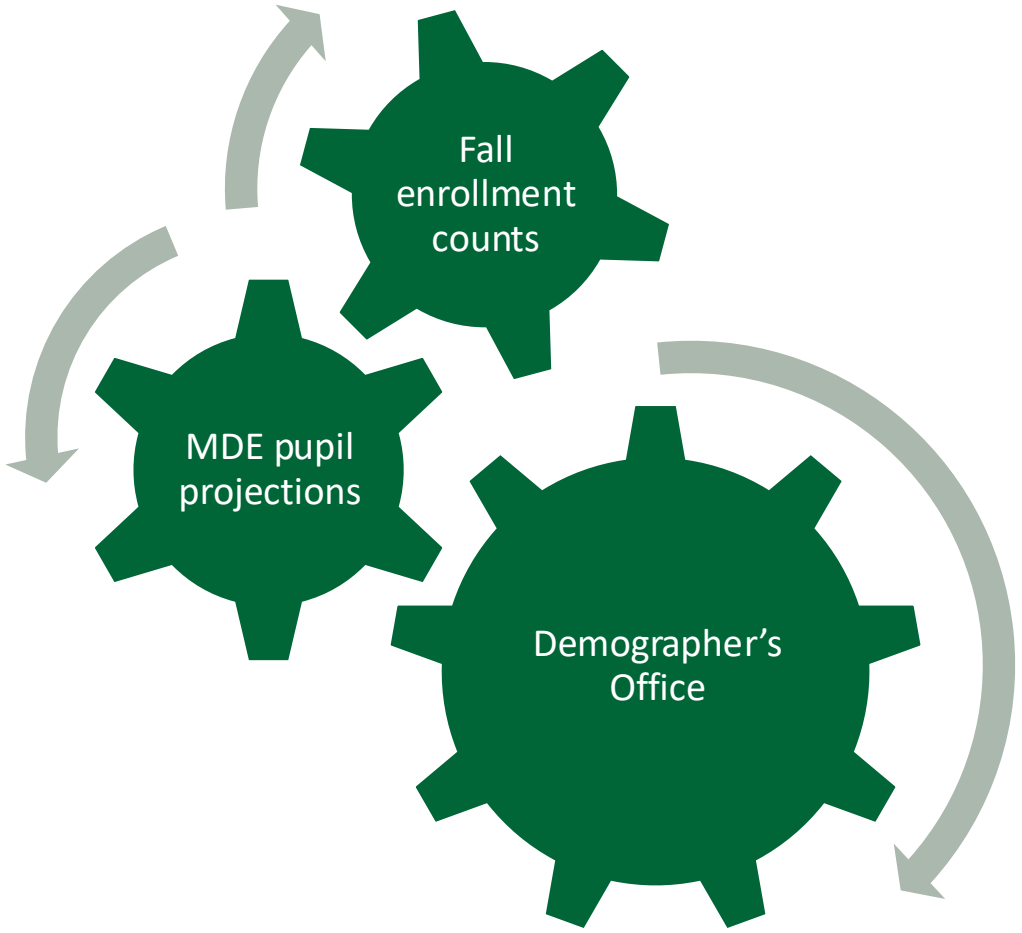
Legislative and executive branch staff use the same data. To ensure consistency across the legislature, the executive branch and legislative staff use the same locked-in data from the February Forecast.

Demographic Changes

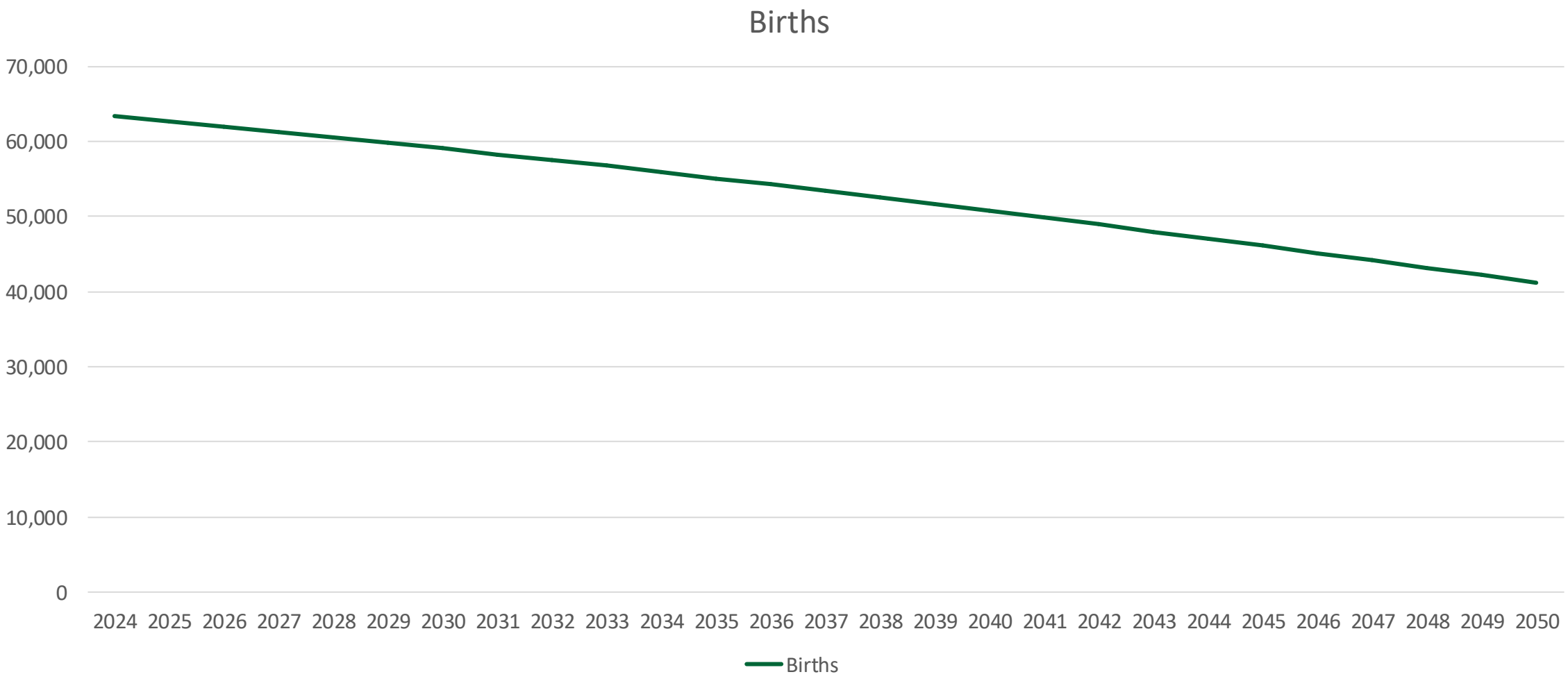
Demographer's office: long-range population, birth, and migration estimates.

MDE: Estimates based on district-reported pupil estimates.

Fall enrollment counts: Individual district counts as of October 1; statewide fall counts available in January 2027.



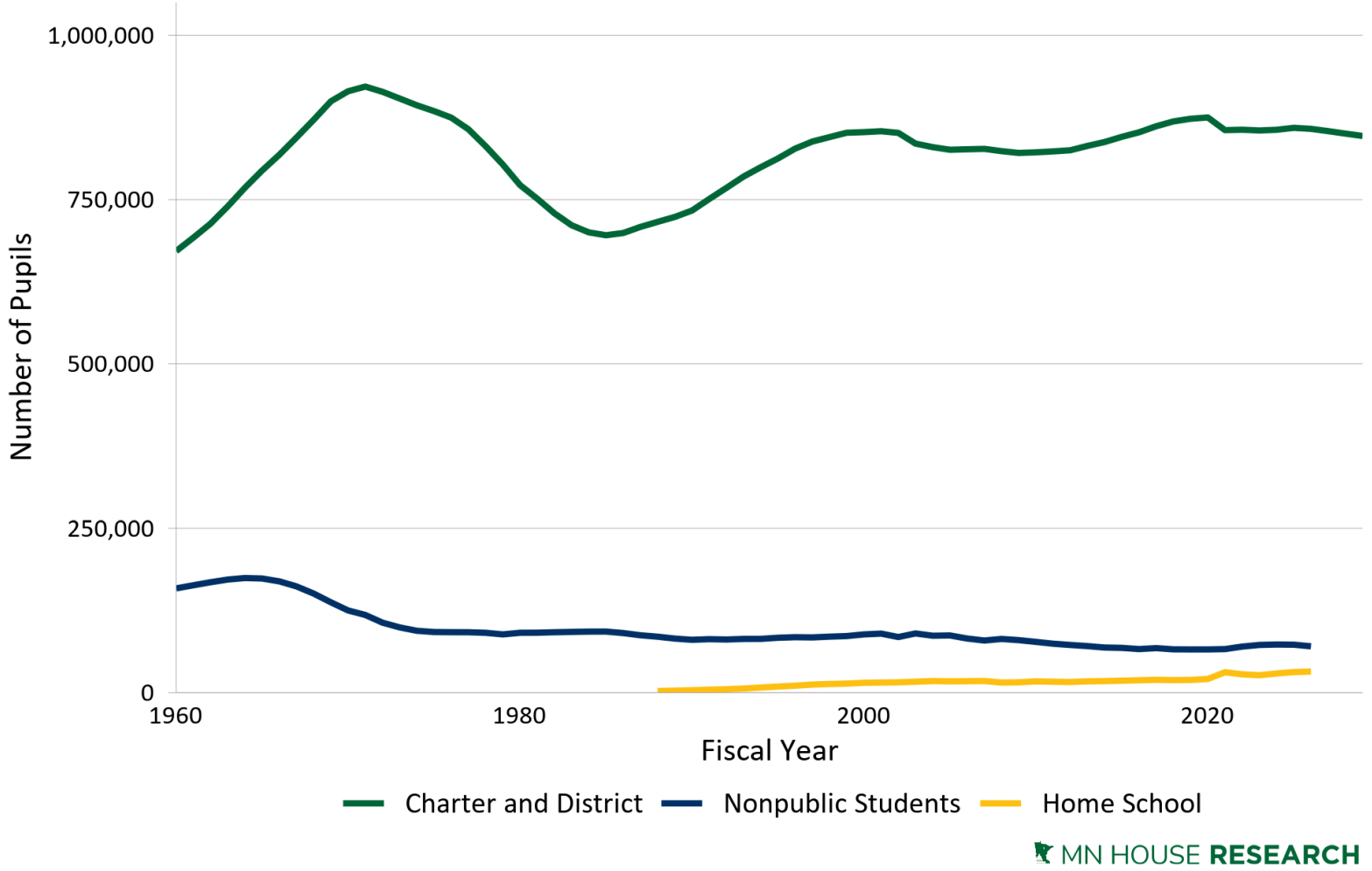
Minnesota Births Estimated to 2050
(Data from State Demographer's 2024 Report)



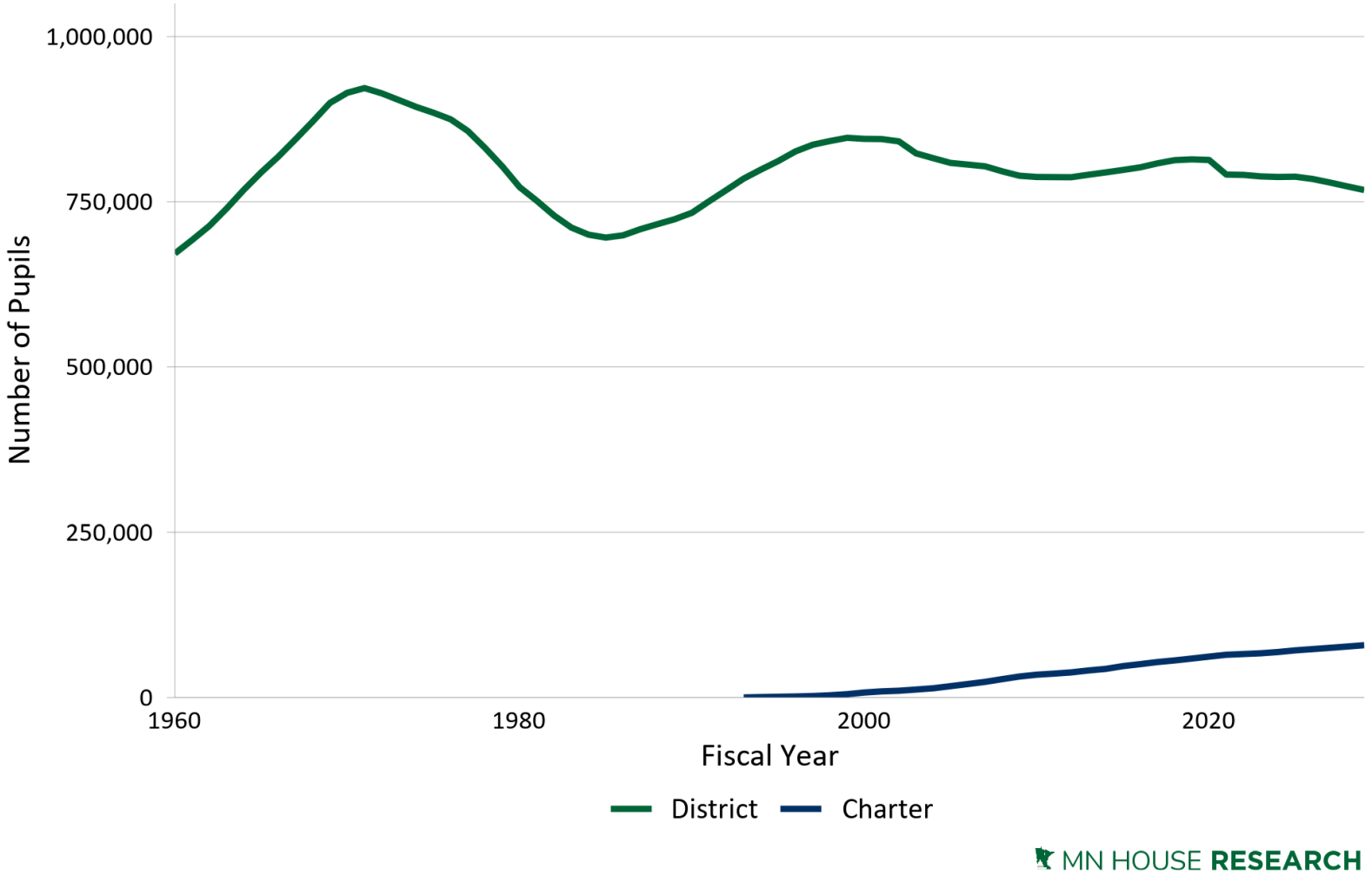
In-Migration and Out-Migration

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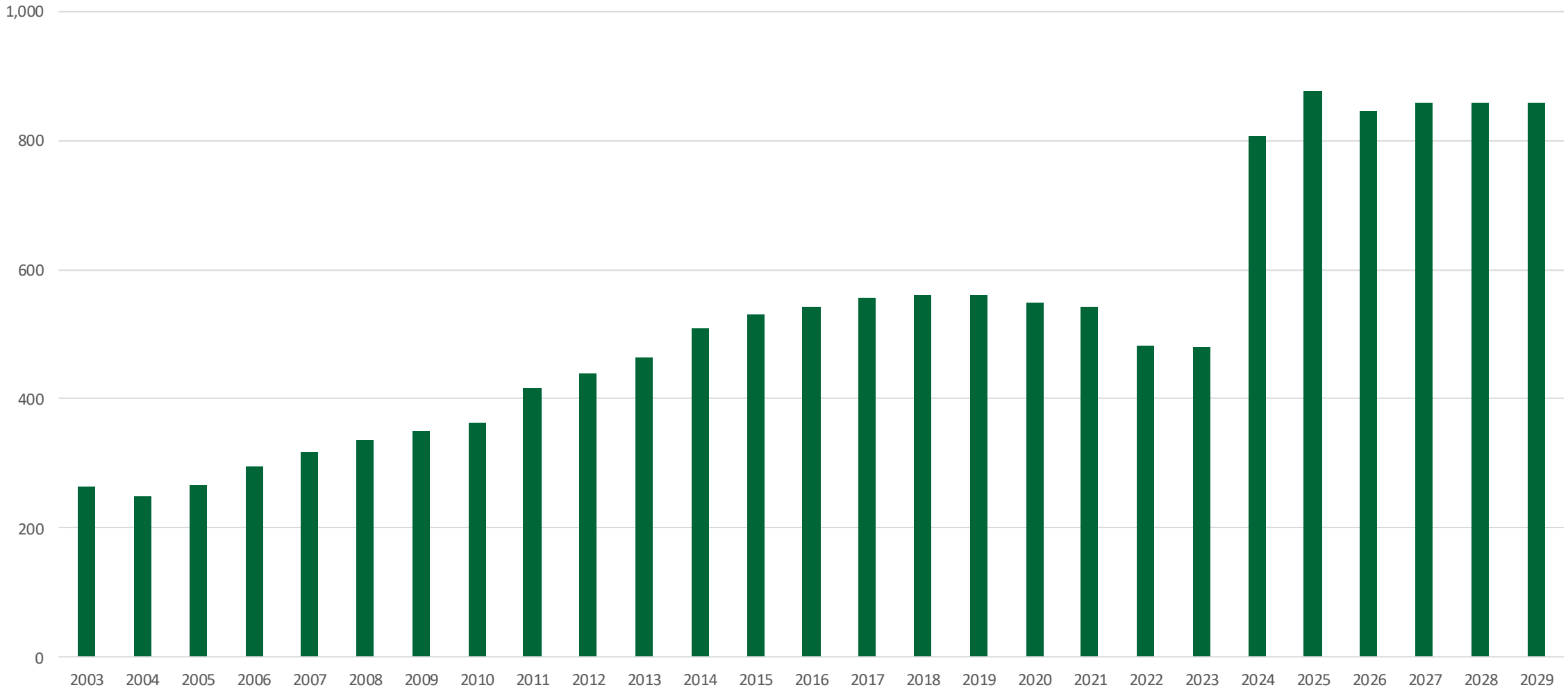
Enrollment Changes; Public and Nonpublic



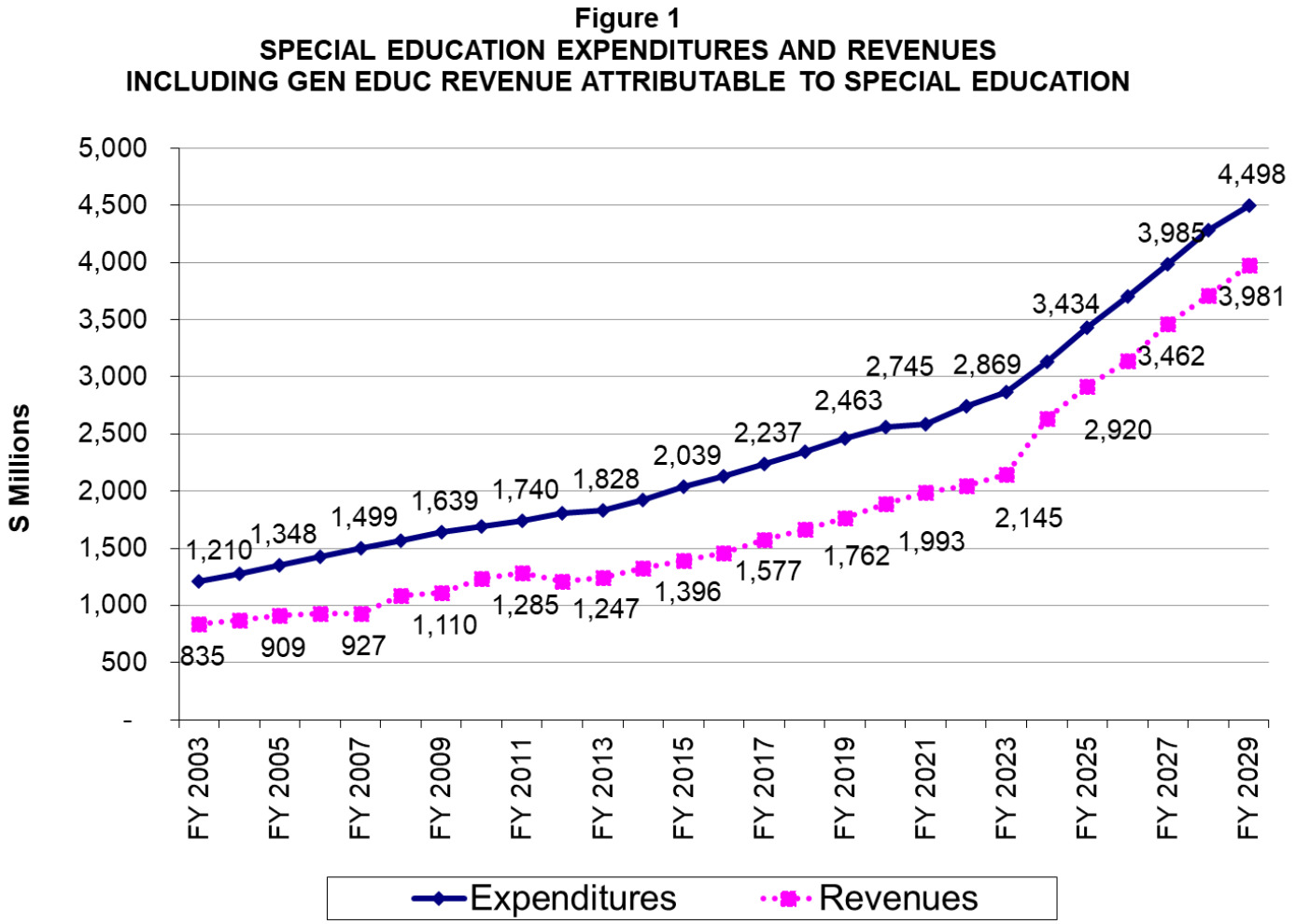
Enrollment Changes; District vs. Charter



Compensatory Revenue Change Over Time



Special Education Expenditures and Revenue
(Data from MDE Cross Subsidy Report)



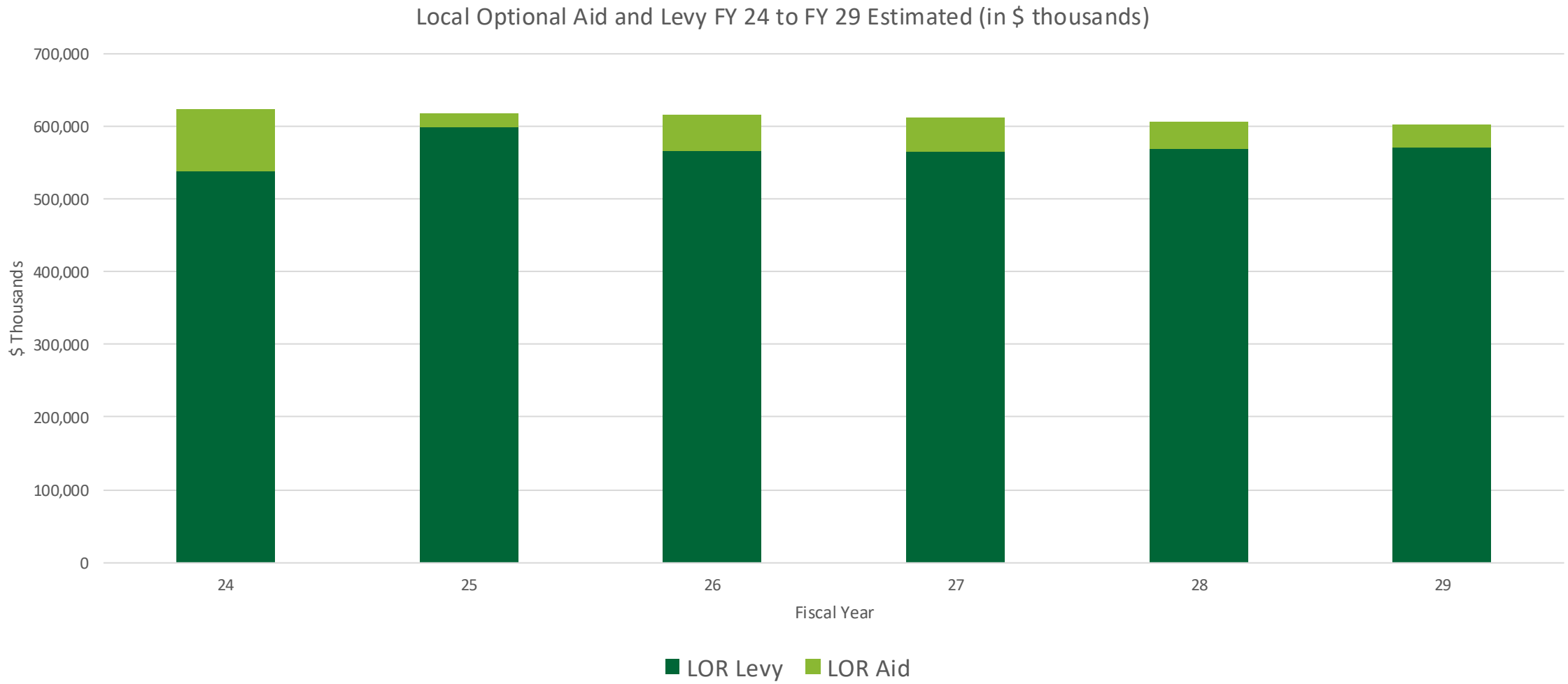
Local Optional Revenue

Local optional revenue is an equalized aid and levy, limited to $724 per pupil unit. The per pupil allowance is not indexed and has not changed in the last decade.

Local optional levy is equalized at two different levels for the two tiers of revenue. The first $300 per pupil unit (Tier 1) is equalized at $800,000 per pupil unit and the second tier of $424 per pupil unit equalized at $671,345 per pupil unit.

Local optional aid is decreasing each year as the equalizing factors are fixed and per pupil property values continue to increase for school districts. For fiscal year 2027, 224 school districts qualify for equalization aid in the first tier, and 136 districts qualify for aid in the second tiers.

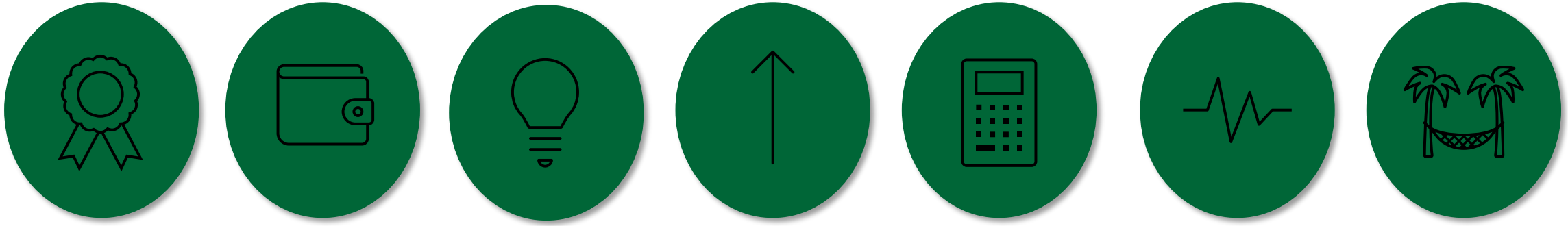
Local Optional Aid and Levy Over Time



Unemployment Aid for Schools FY 23 to FY 27

Fiscal Year	Summer Term	State Unemployment Aid Appropriation	Aid Payments to Schools	Feb 2026 Estimate of Remaining Balance
2024	2023	$135,000,000	$40,400,000	$94,600,000
2025	2024		$60,700,000	$33,900,000
2026	2025	$100,000,000	$69,900,000	$64,000,000
2027	2026		$70,000,000	-$6,000,000

Budget Issues



Blue Ribbon Commission

$125M per year

Unemployment Insurance

Compensatory Task Force

Inflationary Increase

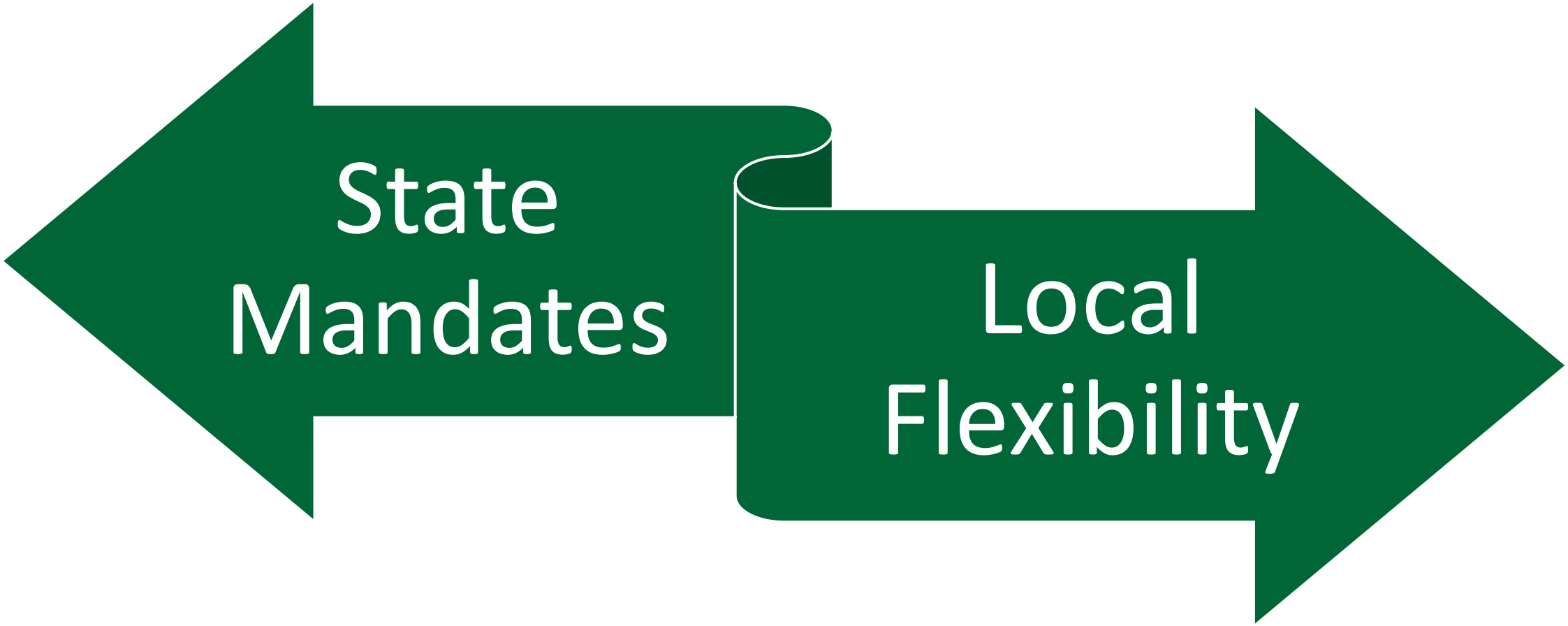
2% to 3%

Formulas not Linked to Inflation

Employee Health Insurance

Early Retirement Incentives

Who decides?



Potential Issues

Standards and Curriculum	The Read Act	Student Discipline
Consolidations and Closures	PSEO	Federal Changes
Open Enrollment, Charter School Enrollment	School Calendar	Mental Health

Other Budget Areas

Health & Human Services

- Increased caseloads
- Reduced federal funds
- Higher costs for elderly and disabled

Higher Education

- State Grant Program
- North Star Promise

Taxes

- Property taxes
- Other local government aid

Questions?



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