

## Attachment to Maintenance of Effort (MOE) Waiver Request

### Summary:

In fiscal year 2023, the State of Minnesota continued to provide crucial state funding for elementary and secondary education as well as higher education, areas that are vital to the current and future success of Minnesotans. Compared to the average level of support provided during state fiscal years (FY) 2017, 2018, and 2019, total state support for elementary and secondary education (“E-12”) and higher education in FY 2023 was higher on a total dollar basis and on a per-pupil basis. Federal funding provided in the American Rescue Plan (ARP) Act was intended to expand resources for schools and students, not replace existing state commitments; and that is exactly what happened in Minnesota. In fact, the state’s commitment to education in FY 2023 was stronger than ever, despite declining student enrollment. However, due to the ARP’s unique definition of Maintenance of Effort (MOE), which looks at support for E-12 education and higher education as a proportion of total state spending, Minnesota did not technically achieve compliance. As such, Minnesota is requesting a waiver under the authority provided to the Secretary of Education in section 2004(a)(2) of the ARP Act.

Minnesota failed to meet the ARP’s proportional MOE requirement for FY 2023 by \$994.9 million for E-12 education and \$46.6 million for higher education due to several factors described in this waiver request. Minnesota experienced fiscal burdens preventing, preparing for, and responding to the coronavirus, particularly in FY 2020 and FY 2021. These commitments left fewer resources available in spring 2021 when Minnesota set its budget for FY 2022 and FY 2023.

However, after spring 2021 Minnesota began accruing and projecting substantial surpluses. A large portion of that surplus was “one-time” in nature, meaning it was not expected to be available for ongoing commitments that are necessary to provide predictable and stable funding for education. Much of those one-time funds were enacted by the legislature in 2023 for expenditure in FY 2023, which increased total state spending in that year, thereby decreasing the percent of total state spending on education (despite the fact that education spending increased overall and on a per-pupil basis in that year). This is discussed further in response to question number 3 later in this document.

But a considerable amount of the *ongoing* surplus was in fact dedicated to education. The table below shows that the year-over-year increases for E-12 education and higher education in FY 2024 far outweigh the amounts by which Minnesota failed to achieve compliance in FY 2023. The year-over-year spending increase projected for FY 2024 in E-12 education is **nearly twice the size of the E-12 education FY 2023 shortfall**, the **higher education FY 2024 increase is more than six times the FY 2023 shortfall**.

<i>(\$ thousands)</i>	<b>E-12</b> (State support for elementary and secondary education)	<b>Higher Ed</b> (State support for higher education minus research)
FY 2023 spending	\$ 10,270,162	\$ 1,713,800
Additional spending that would have been needed in FY 2023 to achieve compliance*	\$ 994,933	\$ 46,595
<b>FY 2024 projected year-over-year spending increase</b>	<b>\$ 1,877,543</b>	<b>\$ 281,691</b>
Amount that FY 2024 projected year-over-year spending exceeds spending needed in FY 2023 to achieve compliance	\$ 882,610	\$ 235,096

\*This is the amount that would have been needed to be added to E-12 and Higher Ed spending in FY 2023 to achieve compliance with the MOE requirement, assuming that – per US Ed guidance – the difference between the FY 2023 percent and the baseline percent may be rounded to the nearest whole number.

Minnesota’s increased commitment to education does not end in FY 2024; rather, these total spending and per-pupil increases continue into the future. Minnesota currently forecasts state spending through FY 2027. In FY 2027, E-12 spending is expected to be **\$13.0 billion, which is a 41% increase over the MOE baseline period**. Higher Ed spending is expected to be **\$1.9 billion, which is a 24% increase over the MOE baseline period**. These increases are in spite of the fact that enrollment in both E-12 and higher education is expected to be lower in the near future than in the baseline period.

The primary pieces of legislation that increased education funding for FY 2024 and later are [Minnesota Laws 2023, Chapter 55](#) (K-12 education) and [Minnesota Laws 2023, Chapter 41](#) (Higher Education).

Further information to help in the consideration of Minnesota’s waiver application is provided in the following pages.

## Additional Submission Requirements

- 1. A description of the extent to which the State experienced fiscal burdens in preventing, preparing for, and responding to the coronavirus and an explanation of how those fiscal burdens affected the State's ability to maintain fiscal effort (e.g., the status of and any changes to the State's rainy day fund, whether the State experienced a decline in revenues, or an increase in other emergency expenses resulting from the pandemic, such as expenses related to health care, unemployment insurance, or support for small businesses).**

Minnesota experienced a number of fiscal burdens that impacted our ability to maintain effort under the proportional MOE calculation. State tax revenues in fiscal year 2020 dropped \$584 million (2.5 percent) compared to the prior year. FY 2020 was the most recent closed fiscal year at the time the biennial budget for FY 2022 and FY 2023 was established. If FY 2020 revenues had instead been in line with Minnesota's prior revenue trend, state policymakers would have had significantly more funding available to them when setting the FY 2022-23 biennial budget in spring 2021.

In addition to revenue losses experienced during fiscal year 2020, the state also committed \$755 million in state funds (not including federal sources) to pandemic response in FY 2020 and FY 2021. State funded response activities included testing, emergency food shelf response, housing, shelter, personal protective equipment, long term care staffing, business payments, grants to health care providers, and staffing for local public health. These expenditures are detailed in response to Question 2 below. Despite these limitations, Minnesota enacted large increases in funding for E-12 education and higher education in its FY 2022-23 biennial budget established during the 2021 legislative session.

In the 2022 legislative session, which was considered a "supplemental" budget year in Minnesota, additional budget investments were primarily pandemic-related. These included:

- \$405.8 million payment into the state's Unemployment Insurance (UI) Trust Fund
- \$499.9 million in payments to pandemic frontline workers
- \$190 million for miscellaneous pandemic response items such as testing and vaccines

Like many states, Minnesota experienced increased demands on its unemployment insurance program during the pandemic. In 2022, Minnesota's UI Trust Fund owed \$1.4 billion to the U.S. Treasury Department. Legislation (<https://www.revisor.mn.gov/laws/2022/0/Session+Law/Chapter/50/>) enacted in 2022 used a combination of ARP State Fiscal Recovery Funds and state general funds to repay that outstanding loan with the federal government and to replenish the state's UI Trust fund. This action meant that businesses across the state were held harmless from the effects of the pandemic, and it ensured that vital UI benefits would be available to Minnesotans in the future. The same legislation also provided bonus pay to frontline workers who worked during the pandemic to keep Minnesotans safe, healthy, fed, and cared for. Finally, the legislation included \$190 million for testing, vaccines, COVID-19 outbreak management, and health system supports. More detail is available here: <https://mn.gov/deed/newscenter/press-releases/?id=526839>.

As noted in the response to Question 3 below, Minnesota increased support for E-12 and higher education in FY 2023 despite these fiscal burdens. In the absence of these fiscal burdens, Minnesota would have had an even greater ability support education as a percentage of overall state spending.

**2. Documentation and data supporting the description of the State’s fiscal burdens (e.g., revenue data, appropriation tables, unemployment statistics, etc.) including any State action that impacted State revenue (e.g., tax increases or decreases).**

The \$405.8 million Unemployment Insurance payment in FY 2022 is shown on page 8 of the November 2022 General Fund Balance Analysis published by Minnesota Management and Budget: <https://mn.gov/mmb-stat/documents/budget/operating-budget/forecast/nov-2022/nov22-fba-summary.pdf>.

The \$499.9 million for Frontline Worker payments in FY 2023 is shown on page 12 of the October 2023 General Fund Balance Analysis published by Minnesota Management and Budget, and expenditures from the \$190 million in COVID-19 response appropriation are included throughout the same document: <https://mn.gov/mmb-stat/documents/budget/operating-budget/actual23/close23-fba.pdf>.

Additional General Fund investments totaling \$755 million are detailed in Table 1 below. Expenditures were primarily in FY 2020 and FY 2021 and are included in the November 2021 General Fund Balance Analysis published by Minnesota Management and Budget: <https://mn.gov/mmb-stat/documents/budget/operating-budget/forecast/nov-2021/nov21fcst-fba-detail.pdf>

**Table 1. State of Minnesota COVID Response**

*General Fund Commitment*

*\$ in thousands*

COVID-19 MN Fund	200,000
Peacetime Emergency Child Care Grants	29,964
Military Veterans COVID-19 Response Assistance	6,200
Emergency Food Shelf Response	9,000
Housing Support	5,530
Emergency Services Grants - Shelter, PPE, Supplies, & Staffing	26,537
Tribal Nations Staffing	11,000
Business Relief Payments	87,750
Unemployment Trust Fund	25,000
Movie Theater and Convention Center Grants	13,900
County Relief Grants	114,728
Health Care Response Fund - Provider Grants	150,000
Public Health Contingency Account - Provider Grants	50,000
Public Health Contingency Account - Staffing and Local Public Health	25,511
<b>Total General Fund Investment</b>	<b>755,120</b>

**Documentation of Economic Impact of Pandemic on Minnesota**

Minnesota Management and Budget (MMB) issues two Budget and Economic Forecasts each year, in November and February. In addition, MMB issued a special interim projection in May 2020 when it was clear that the pandemic would have a significant budget and economic impact. Below are links to published forecasts since the beginning of the pandemic. In each document, the executive summary, economic outlook and appendix contain charts and tables showing economic indicators such as GDP, consumer spending, employment, wage and salary, personal income, and business impact. Each of these indicators show the impact of the pandemic on Minnesota’s economy.

May 2020 Interim Budget Projection: <https://mn.gov/mmb-stat/budget/may-interim-budget-projection-document.pdf>

November 2020 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2020/budget-and-economic-forecast/november-2020-forecast.pdf>

February 2021 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2021/budget-and-economic-forecast/february-2021-forecast.pdf>

November 2021 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2021/budget-and-economic-forecast/november-2021-forecast.pdf>

February 2022 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2022/budget-and-economic-forecast/february-2022-forecast.pdf>

November 2022 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2022/budget-and-economic-forecast/november-2022-forecast.pdf>

February 2023 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2023/budget-and-economic-forecast/february.pdf>

November 2023 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2023/budget-and-economic-forecast/november.pdf>

February 2024 Budget and Economic Forecast: <https://mn.gov/mmb-stat/000/az/forecast/2024/budget-and-economic-forecast/february.pdf>

**3. In addition, in its waiver request, a State should submit information on the relevant factors listed below to support its request. The Secretary may ask States for additional information after States submit the MOE waiver request form.**

*Has the State increased support for education?*

As indicated on the data submission table and Table 2 below, Minnesota has increased its state support for E-12 education and higher education every year from the baseline period to FY 2023, with annual average growth of 2.41% for E-12 Education and 2.49% for Higher Education. The state's primary E-12 education per-pupil formula -- which is set via legislation -- has increased every year since 2011, most frequently at 2.0% per year. June 2021 legislation enacted a 2.45% increase for FY 2022 and 2.0% for FY 2023, and May 2023 legislation enacted a 4.0% increase for FY 2024 and a 2.0% increase for FY 2025, which both outpace per-pupil increases during the MOE baseline period.

**Table 2. E-12 Education and Higher Education Spending and Enrollment**

Year	E-12			Higher Education		
	Total Expenditures	Public Student Enrollment	Expenditures per Student	Total Expenditures (minus research)	Public Student Enrollment	Expenditures Per Student
FY 2017	\$8,901,333,000	861,624	\$10,331	\$1,478,603,000	259,600	\$5,696
FY 2018	\$9,233,048,000	868,952	\$10,625	\$1,568,081,000	255,209	\$6,144
FY 2019	\$9,587,811,000	873,022	\$10,982	\$1,559,334,000	249,536	\$6,249

<i>Avg. FYs 2017-2019</i>	\$9,240,731,000	867,866	\$10,648	\$1,535,339,000	254,782	\$6,026
FY 2020	\$9,835,739,000	874,999	\$11,241	\$1,610,260,000	247,276	\$6,512
FY 2021	\$9,919,135,000	855,704	\$11,592	\$1,631,223,000	238,342	\$6,844
FY 2022	\$10,000,769,000	856,357	\$11,678	\$1,675,105,000	226,686	\$7,390
FY 2023	\$10,270,162,000	855,224	\$12,009	\$1,713,800,000	223,093	\$7,682

*Are there exceptional circumstances that caused the State to be unable to maintain support for education?*

Minnesota has a long record of not just maintaining but regularly increasing support for education. However, there are exceptional circumstances that have caused Minnesota to not achieve compliance with the proportional MOE in the ARP Act, including declining E-12 enrollment, one-time FY 2023 expenditures in areas other than education, and increased health and human services spending.

Like many other states, Minnesota has experienced declining enrollment in its public K-12 schools. The number of pupils in K-12 public schools declined 1.5 percent from the baseline period to FY 2023. Because Minnesota’s K-12 education funding is primarily tied to the number of students enrolled in public schools, declining enrollment leads to lower spending than would otherwise occur. Enrollment dropped sharply in FY 2021, due in large part to families delaying enrollment into kindergarten or pursuing non-public or homeschool options because of the pandemic. Enrollment rebounded slightly in FY 2022 and then decreased slightly in FY 2023, remaining 12,642 students below the average enrollment during the baseline period. It is unsurprising that Minnesota’s per-pupil funding has increased year-over-year, since statutory increases in the primary per-pupil funding and a special education formula that largely reimburses prior year costs make this all but inevitable. What is notable, however, is that year-over-year total spending has increased, even when enrollment decreased. Declining enrollment had a significant impact on total E-12 expenditures in FY 2023, limiting Minnesota’s ability to achieve MOE compliance.

In addition, as discussed above, the state used balances in FY 2022 to pay back federal government loans for the unemployment insurance program during the pandemic as well as replenish this fund’s balance to ensure a safety net for families in the future.

In FY 2023, Minnesota made an atypically large number of one-time expenditures that increased total state spending, thereby decreasing the percentage of state spending that went towards education. These included both pandemic-related spending and non-pandemic-related spending. This one-time spending was possible due to a large budget surplus, much of which was one-time in nature, i.e. the available funds were not anticipated to be available for ongoing spending. This anomalously high amount of one-time FY 2023 spending makes a proportional spending comparison between the baseline period of FY 2017-19 and FY 2023, as required by the ARP Act, misleading in what it suggests about Minnesota’s E-12 education and higher education spending. Large one-time expenditures made in FY 2023 include:

- \$499.9 million for pandemic frontline worker pay
- \$378.3 million for early repayment of debt taken out to support stadium construction, allowing freed up resources in future years to be used for other state priorities (such as education)
- \$300.1 million to support the individual health insurance market through operating a reinsurance program

- \$115 million to match federal funds coming into the state through the Infrastructure Investment and Jobs Act (IIJA) and Inflation Reduction Act (IRA)

In addition, health and human services (HHS) spending increased substantially in FY 2023 relative to the baseline period of FY 2017-19. The primary causes of this increase are 1) increased Medicaid reimbursement rates to providers; 2) increases in Medicaid waiver programs; and 3) additional supports for personal care assistance. These investments are vital to the health and well-being of Minnesotans, issues which the pandemic brought to the front and center.

In the absence of declining E-12 enrollment, significant one-time spending, and increased HHS spending, Minnesota would not need a waiver of the proportional maintenance of effort requirement for FY 2023.

Minnesota has not only maintained state support for education on a year-over-year basis, but it has also chosen to direct certain resources from the State Fiscal Recovery Fund (SFRF) to elementary and secondary education as well as to higher education as a supplement to state funds. SFRF allocations include [\\$75 million for E-12 summer learning](#), \$29 million for [school districts that have experienced declining enrollment](#), \$35 million for [higher education tuition assistance](#), and smaller amounts for education-related nonprofits and grants.

*Has the state used or will the state use ESSER, GEER, or Higher Education Emergency Relief (HEER) funding to replace State funding for education?*

No. Minnesota has enacted increases to General Fund spending on elementary and secondary education as well as Higher Education. ESSER, GEER, and HEER funds are supplementing these increases.