

HOUSE RESEARCH

Bill Summary

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Subject: State Aid Percentage for School District State Aid Payments

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Overview

The state aid share of school district revenue that is promised to the school district through Minnesota's school finance formulas is called the "aid entitlement." The amount paid to school districts by the state during each fiscal year is called the "appropriation." Since school districts use the accrual method of accounting, the full amount of the aid entitlement owed to the district for a fiscal year is booked as revenue for that year, regardless of when the state aid is actually received. The state, on the other hand, uses a cash-based system of accounting. As a result, the "cost" to the state is only the actual appropriation for a particular school year, not the aid entitlement.

Minnesota statutorily sets the portion of state aid that is paid to a school district for a specific fiscal year. This percentage is sometimes called the "aid payment percentage." In a year in which the aid payment percentage is lowered, the state "saves" money through an accounting shift because the appropriation is smaller than the aid entitlement. For fiscal years 2006 and later, the current year aid payment percentage is set equal to 90 percent. The remaining portion, often referred to as the "cleanup payment," is paid during the subsequent fiscal year. For fiscal year 2006 and later, this means that the state pays school districts 90 percent of their current year aid entitlement and 10 percent of the previous year's aid entitlement.

Section

This bill increases the aid payment percentage from 90 percent to 95 percent of the state aid entitlement for that year beginning in FY 2008 and costs roughly \$300 million.

- 1** **Definitions.** Increases the school district aid payment percentage from 90 percent to 95 percent of the state aid entitlement for that year beginning in FY 2008.