

Executive Summary

The state of Minnesota must have a balanced budget and, unlike the federal government, generally may not borrow funds for operating purposes. School aid payment shifts, which delay aid payments to school districts, are one mechanism that the state may use to address a short-term state budget deficiency. There are two school aid related mechanisms that have been used in past years to help the state achieve a balanced budget: (1) the aid payment shift; and (2) the property tax early recognition shift.

Where Does School Revenue Come From?

School districts and charter schools receive revenue from state aid payments (68 percent), local property taxes (22 percent), federal funds (5 percent), and fees charged to parents and other schools (5 percent). The receipt of state aid and local property taxes, and the alignment of the state and school district fiscal year (July 1 through June 30 of the following year) are the conditions that allow a school aid payment shift.

How Do School Aid Payment Shifts Work?

The state of Minnesota uses a cash-based system of accounting for state budget purposes. School districts use a modified accrual system of accounting. This means that the state can save money on a onetime basis by delaying aid payments to school districts beyond the end of the state's fiscal year (June 30). The aid payment shift delays, but does not reduce, the school aid because the school districts recognize the total amount owed to them by the state in the same fiscal year (the school district is essentially recognizing an accounts receivable amount from the state). As a result, the state achieves onetime aid savings for the state budget, and the school district continues to recognize (count) the money owed to it in the school district's fiscal year.

How Do Aid Payments Work in a "Normal" Year?

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 for budgeting. As a result, the "cost" of state aid to schools for the state is only the actual appropriation for the specific school year, not the aid entitlement.

Minnesota statutorily sets the portion of state aid that is paid to a school district for a specific state 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 this reason, the shift tends to be used in years when desired state revenues in all funds are below desired program funding levels. For many “normal” preceding years, and since fiscal year 2013, the current year aid payment percentage has been set equal to 90 percent. The remaining portion, often referred to as the “cleanup payment,” is paid during the subsequent fiscal year. This means that in a normal year the state pays school districts 90 percent of their current year aid entitlement and 10 percent of the previous year’s aid entitlement in that state fiscal year while the school recognizes 100 percent of the aid entitlement in that year.

How Much Does the State Aid Payment Shift Save?

The state aid payment shift saves, on a onetime basis, around \$100 million for each 1 percentage point that the current year aid payment is lowered. If the current 90/10 aid payment shift were reduced to 80/20, the state would have a onetime savings of around \$1 billion. The savings to the state and loss of cash flow to schools from the state aid payment is spread throughout the year because school aid payments are metered out to schools on a twice-monthly basis according to a schedule set in statute.

How Do Schools Receive Local Property Taxes?

School districts receive property tax proceeds in addition to state aid. About 20 percent of most school districts’ total budget comes from the property tax. The property taxes are paid on a calendar-year basis. Taxpayers pay their property taxes in two payments to the county that administers the payments for all of the local units of government within that county. In a normal year, the county then has two main settlement periods where it transfers the payments on to schools and other units of local government. The first settlement period for schools is in June, where roughly half of the total property taxes are paid to school districts just before the beginning of the school year. The second set of settlement payments are made from the county to the school districts in the late fall. Because the first settlement period comes before the school district’s fiscal year starts, the school receives about one-half of its property tax revenue early but waits to recognize those funds until the fiscal year starts.

What is the Property Tax Early Recognition Shift?

When the state puts in place an early recognition shift, the state requires school districts to recognize a portion of the property tax payments from the June settlement period in the previous (just ending) fiscal year—and delays aid payments to the district of the same amount. This is also a onetime shift that reduces the state aid paid to school districts in the current year.

In the subsequent fiscal year, the state makes additional state aid payments in the amount of the property tax receipts that were recognized early. The early recognition shift is more complicated than the aid payment shift. Not all school levies are shiftable, and other school

levies, like the debt service levy that is used to repay bondholders, have specific due dates for when the payments need to be made. The property tax early recognition shift delays the spring aid payments from the state to school districts because it counts back from the June property tax settlement. Charter schools are unaffected by the property tax early recognition shift because they don't receive property tax payments.

The property tax early recognition shift aid savings are not linear. A shift of 1 percentage point saves about \$14 million. A shift of 10 percentage points saves about \$151 million while a shift of 30 percentage points saves the state about \$566 million and the maximum property tax shift of just under 50 percentage points in a normal year (one without extreme late payments by taxpayers) saves about \$980 million.

Are School Districts Affected by Aid Payment Shifts?

Yes. While a school does not lose any revenue due to the state imposing a more substantial aid payment shift, the school loses cash flow. Some school districts and charter schools may need to engage in short-term borrowing to pay their bills. Other school districts with larger cash balances might not need to borrow to pay their bills, but may forego other uses of their cash flow.

How Do Schools Borrow?

Minnesota Statutes allow school districts to engage in short-term borrowing. School districts may issue tax and aid anticipation certificates to provide them with cash flow. This is general obligation (G.O.) borrowing (often through a 13-month note) and comes at a fairly competitive interest rate. Charter schools are not able to issue G.O. notes, and instead must establish a line of credit through a bank or engage in other borrowing that often comes at a much higher interest rate.

What Are the Implications of the Aid Shifts?

School district aid payment shifts are a way for the state to avoid deeper cuts to the state's spending and/or taxes increases when there is a temporary downturn in state revenues and the state general fund balances are insufficient to cover the shortfall. The aid payment shifts allow the state to delay aid payments and save the state money on a onetime basis.

Payment shifts do not cut school district revenue, but they do delay a district's cash flow and may have the effect of imposing borrowing costs on schools without adequate reserves. Once better economic conditions return, the school aid shifts are repaid by the state. In these years, the cost to the state of state appropriations for schools exceeds the school's aid entitlements for that year (because the current year payment and clean-up payment exceed 100% of the aid entitlement). The statute prescribing the state budget reserve has provisions repaying any school shift that was previously enacted.

What Have the Historical Shift Percentages Been?

Minnesota has employed aid payment shifts for the last 40 years. Table 1 shows the percent of the aid entitlement paid in the current year over this time period.

Table 1: Aid Payment Percentage

Fiscal Year of Entitlement	Current Year Aid Payment Percentage	Previous Year Aid Payment Percentage	Appropriation Cost to State
2015 – 2021	90.0%	10.0%	100.0%
2014	90.0	13.6	103.6
2013	86.4	35.7	122.1
2012*	64.3	30.0	94.3
2011	70.0	27.0	97.0
2010	73.0	10.0	83.0
2007 – 2009	90.0	10.0	100.0
2006	90.0	15.7	105.7
2005	84.3	20.0	104.3
2004	80.0	17.0	97.0
2003	83.0	10.0	93.0
1999 - 2002	90.0	10.0	100.0
1998	90.0	15.0	105.0
1983 - 1997	85.0	15.0	100.0

* Note: During the 2011 special session, the legislature and the governor agreed to set the aid payment percentage at 60, but the allocation of the February 2012 budget surplus restored \$314 million to increase the aid payment percentage to 64.3.

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Table 2 shows the percentage of local property taxes that were subject to early recognition over the last 40 years.

Table 2: Property Tax Early Recognition Shifts

Fiscal Year(s)	Property Tax Payable Year (s)	Property Tax; Percentage Shifted to Previous Fiscal Year
2015 - 2021	2014 - 2020	0.0%
2011 - 2014	2010 - 2013	48.6

Fiscal Year(s)	Property Tax Payable Year (s)	Property Tax; Percentage Shifted to Previous Fiscal Year
2007 - 2010	2006 - 2009	0.0
2006	2005	48.6
2005	2004	47.0
2000 - 2004	1999 - 2003	0.0
1998 - 1999	1997 - 1998	7.0
1997	1996	19.0
1995 - 1996	1994 - 1995	37.4
1994	1993	50.0
1993	1992	37.0
1991 - 1992	1990 - 1991	31.0
1989 - 1990	1988 - 1989	27.0
1986 - 1988	1985 - 1987	24.0
1984 - 1985	1983 - 1984	32.0

See the report [Minnesota School Finance Guide](#), published by House Research, for more details on the history of the school aid payment shifts over the last 40 years.



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