

# Paul Thissen

## State Representative District 63A



### ISSUE BRIEF: SCHOOL ACCOUNTING SHIFTS

#### SCHOOL AID PAYMENT SHIFT

The State of Minnesota appropriates funds to school districts each year. The state also controls when the payments are made.

School districts use an "accrual method" of accounting. That means a district can show state aid on its books when the Legislature promises it. In contrast, the state uses a "cash method" of accounting. That means an expense does not show up on the state's books until money is actually paid. As a result, the state can promise aid in one fiscal year (allowing a district to balance its books) but pay a portion of the aid in the next year ("saving" the state money in the current year).

#### AID PAYMENT PERCENTAGE

Fiscal Year Aid Promised	Current Year Payment	Previous Year Payment	Appropriation Cost to the State
2007	84.3 %	15.7 %	100 %
2006	84.3 %	15.7 %	100 %
2005	84.3 %	20 %	104.3 %
2004	80 %	17 %	97 %
2003	83 %	10 %	93 %
2002	90 %	10 %	100 %
2001	90 %	10 %	100 %
2000	90 %	10 %	100 %

For instance, in 2003 the state faced a huge budget shortfall. To balance the budget, the state reduced the current year 2003 payment percentage from 90% to 83%. As a result, the state's current year cost was reduced to 93% of the actual appropriation (83% current year plus 10% for the previous year). Of course, the money must eventually be repaid. The shift does not affect district finances except insofar as it creates short-term cash flow deficits.

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## PROPERTY TAX SHIFT AND LEVY RECOGNITION

The property tax recognition shift also relies on the fact that school districts use an “accrual method” of accounting and the state uses a “cash method.” Property taxes are collected by the county, which pays the school district its portion. Property taxes are collected twice a year: half in the spring and half in the fall. Even though counties pay districts in May and June, school districts traditionally recognized the first (spring) half property tax payment in the following fiscal year, which starts July 1.

Under the property tax recognition shift, the state delays aid payments until after July 1 (“saving” the state money in the current year) and requires school districts to recognize early or “borrow” property tax payments from the county instead. The primary challenge for school districts is that the actual money from property taxes may be less than the state aid the district would have received but for the shift. As such, when the state delays a big portion of its aid, districts face short-term cash flow deficits in late

spring. Districts are often forced to borrow and pay interest to cover those cash flow shortfalls.

Minneapolis has engaged in short-term aid anticipation borrowing in recent years:

Fiscal Year	Aid Borrowing
2003	\$75 million
2004	\$60 million
2005	\$30 million

Due to the short-term nature of the borrowing, the district does not expect to see significant interest savings if aid payments are accelerated.

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## EFFECT OF BUDGET SURPLUS

The November 2005 forecast recognized a budget surplus of \$701 million. The forecast does not reflect the court decision striking down the tobacco fee.

Under current law:

- \$370.4 million is allocated to “buyback” the school aid payment shift to a 90%-10% payment schedule. As such, schools will get about 6% more money in this fiscal year. It is not “new” money; it is money paid earlier.
- \$330.7 million is allocated to a partial “buyback” of the property tax recognition shift; reducing, but not eliminating the shift. That means more state aid will be paid in late spring and the school districts will not engage in any or at least significantly less short-term borrowing.

