

HOUSE RESEARCH

Bill Summary

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Overview

The total state aid owed to a school district for a particular fiscal year is referred to as the school district's state aid entitlement. Because the state uses a cash accounting system for funding school districts while the districts use an accrual accounting system, the state can save money on a one-time basis by delaying, or shifting, a payment of state aid to school districts. Beginning with fiscal year 2004, the state pays (appropriates to) school districts 80 percent of their aid entitlement in the current fiscal year and pays the district the remaining 20 percent in cleanup payments during the summer and fall. The portion of the aid entitlement that was paid in the current year was 83 percent in fiscal year 2003, 90 percent for fiscal years 1998 to 2002, and 85 percent for many years prior to fiscal year 1998. The estimated one-time cost of undoing this shift is roughly \$62 million for each percentage point that the aid appropriation for the current year is raised.

A second accounting shift, called the property tax recognition shift, requires a school district to recognize, or shift a portion of the property taxes that are paid to school districts by the county treasurer in June of each year for the following fiscal year into the current fiscal year. Just as with the aid payment shift, this shift allows the state to delay a certain portion of state aid payments to school districts until after July 1. This procedure allows the state to balance its books in a current fiscal year by postponing an aid payment to a school district until the following fiscal year.

Section

Prior to the creation of the property tax recognition shift, the full amount of the first-half property tax payment, received by school districts in June, was revenue attributable to the following fiscal year. As a result of the shift, the state delays paying a portion of the aid payments to school districts, and instead, requires the school districts to "borrow" or recognize early, the statutorily specified portion of the June property tax payment instead of receiving the state aid payments. The shift is a one-time savings to the state, unless the shift percentage is increased or the total amount of net school levy increases. The net effect for most school districts is that the state aid payments promised for the late spring (primarily April, May, and June) are delayed until the following fiscal year, and the district instead relies on the June property tax payment from the county to meet its financial obligations during the late spring (generally for April, May, and June). Because of the property tax recognition shift, many school districts engage in short-term borrowing in order to meet their cash flow needs during the late spring. When instituted by the 2003 Legislature, this shift was expected to save the state \$230 million in fiscal year 2004.

Since the shift was instituted in fiscal year 1983, the shift percentage fluctuated greatly. The shift percentage is currently estimated at 47 percent for fiscal years 2004 and later. The shift percentage was first instituted at 32 percent in fiscal year 1983, and reached the maximum amount possible (50 percent) in fiscal year 1993, but was reduced by the 1994 Legislature to 37.4 percent for fiscal years 1994 and 1995. The shift percentage was initially expected to increase to 48 percent for fiscal year 1996, but because of a substantial state general fund budgetary balance, the percentage was reduced to 19 percent for fiscal year 1996. The shift was reduced to 7 percent for fiscal years 1997 and 1998 and funds sufficient to eliminate the shift for fiscal year 1999 through 2003 were appropriated by the 1998 Legislature.

This bill adds the repayment of the school district aid payment shift and the property tax recognition shift as the third and fourth priorities for the use of general fund surpluses once the cash flow account reaches \$350 million and the state budget reserve reaches \$653 million.

Section

- 1 Additional revenues; priority.** Adds as a third priority to the list of uses for state general fund surpluses, the amounts needed to undo the property tax recognition shift. Adds a fourth priority to make aid payments to increase the school district aid payment schedule from 80 percent of the aid entitlement to 90 percent of the aid entitlement.