



## Frequently Asked Questions about the School Payment Shift

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### What is the school aid payment shift?

A school aid payment shift has to do with the percentage of funding paid to school districts over the two fiscal years in the biennium. Historically, the percentage was set at 90/10 to account for fluctuations in student enrollment. By having a 10 percent “clean-up” payment, the state can send accurate payments to school districts and avoid overpayments. The shift has been used over the years as an accounting maneuver by the state to balance the budget. The percentage number (90/10, 70/30, etc.) refers to the percentage of the appropriation that is paid over two fiscal years (the first number is the percentage paid in the current fiscal year and the second number is the percentage paid the following fiscal year).

### What is the history of the shift in Minnesota?

The shift has been used several times over the years by state policymakers to balance the state budget. The payment schedule has varied from the normal 90/10 configuration to the recently enacted 60/40 framework. Figure 1 highlights the changes in the shift percentage since 1996 as well as the appropriation cost to the state.

**Figure 1: Aid Payment Percentage<sup>1</sup>**

Aid Payment Percentage			
Fiscal Year of Entitlement	Current Year Aid Payment Percentage	Previous Year Aid Payment Percentage	Appropriation Cost to State
2012	60.0	30.0	90.0
2011	70.0	27.0	97.0
2010	73.0	10.0	83.0
2009	90.0	10.0	100.0
2008	90.0	10.0	100.0
2007	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
2002	90.0	10.0	100.0
2001	90.0	10.0	100.0
2000	90.0	10.0	100.0
1999	90.0	10.0	100.0
1998	90.0	15.0	105.0
1997	85.0	15.0	100.0
1996	85.0	15.0	100.0

House Research Department

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<sup>1</sup>Minnesota School Finance: A Guide for Legislators (St. Paul: Minnesota House of Representatives Research Department) 110.

### **How much does each percentage change save the state?**

Each percentage change in the shift saves the state approximately \$70 million for that biennium.<sup>2</sup>

### **What position did the Governor and the Legislature take on the shift?**

Early in the session, the Governor and legislative leaders agreed to maintain the 70/30 payment framework that was enacted last biennium to help balance the state budget. Maintaining the 70/30 framework reduced the projected \$5 billion state budget deficit by about \$1.4 billion. The budget agreement that was finally reached between the Governor and legislative leaders to end the state government shutdown included increasing the shift to 60/40. This move saves the state approximately \$700 million in the 2012-13 biennium and helped bridge the gap that existed between the Governor and legislative leaders.

### **What impact does a shift have on districts?**

- Forces school districts to drain budget reserves.
- Exacerbates an already stressed budget environment for school districts.
- Forces short-term borrowing by school districts so they can meet their obligations.
  - For example, \$15 million borrowed by Rosemount-Apple Valley Eagan in 2011 with interest of \$44,000 (the cost of a teacher).<sup>3</sup>
  - According to a 2010 budget survey, the 70/30 shift enacted last biennium cost AMSD school districts \$5 million.

### **What impact does a shift have on the state of Minnesota?**

While the school aid payment shift can help state policymakers balance the budget, a recent development has highlighted a negative impact of the shift. Fitch Ratings downgraded Minnesota's bond rating from AAA to AA+. The downgrade is attributed to several factors including the state's current budget gridlock and a repeated use of one-time budget solutions such as the school payment shift. This downgrade may have a negative impact on the borrowing rates for the state and local governments including school districts.

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<sup>2</sup> Charley Shaw and Jake Grovum, "Revenue without Taxes," *Politics in Minnesota* 1 June 2011, 12 July 2011 <<http://politicsinminnesota.com/2011/06/revenue-without-taxes/>>.

<sup>3</sup> "Delayed Payments Balances Books, but Burden Schools," *Minnesota Public Radio*, 5 July 2011, Tom Weber, 12 July 2011 <<http://minnesota.publicradio.org/display/web/2011/07/05/shutdown-school-budget-money-shift/>>