

MEMORANDUM

Date: October 17, 2013

To: School District Superintendents
Charter School Directors
Business Managers

From: Tom Melcher, Director
School Finance Division

Subject: Aid and Tax Shift Buyback Update

This memorandum is to provide an update on my memorandum of October 3, 2013 regarding the aid and tax shift buyback.

As required by Minnesota Laws 2013, Chapter 116, Article 7, Section 20, on September 30th Minnesota Management & Budget certified a positive unrestricted state general fund balance at the close of fiscal year 2013 of \$636.089 million. Of this amount, \$291.468 million will be used to fully repay the aid payment shift to school districts, returning to a 90/10 payment schedule. Additionally, \$343.517 million will be used to reduce the property tax recognition shift percentage from 48.6% to 23.1%. The remaining \$1.104 million remains unspent due to rounding of the property tax recognition shift percentage and is added to the state's general fund budgetary balance. As of June 30, 2015, the property tax recognition shift remaining to be repaid is \$224.578 million.

MDE implemented the 90/10 payment schedule beginning with the October 15, 2013 IDEAS payment. The October 15 payment for school districts was increased by approximately 27 percent of the difference between state aid metered entitlements at 90 percent less the general reduction and state aid metered entitlements at 86.4 percent less the general reduction. The remainder of the increase will occur incrementally based on statutory percentages in Minnesota Statutes, section 127A.45, throughout the remainder of the year. Initial cash flow projections for the remainder of the fiscal year are included in the IDEAS combined payment report for October 15.

The tax shift pay back resulting from the decreased tax shift percentage will occur on June 20, 2014. The change in the tax shift percentage will also affect the receipts used in the metering formula for allocating 90 percent current payments among pay periods. This will slightly impact the timing of metered payments during the remainder of the fiscal year. This change will be implemented in the October 30 state aid payment period. The IDEAS combined payment report

for October 30 will include a revised aid payment projection by pay period for the remainder of Fiscal Year 2014 that will reflect this change.

With the change to 90 percent current aid payments, charter schools have returned to a 24-period payment schedule rather than the 16-period payment schedule July 15 through February 28, as required by Minnesota Statutes, section 124D.11, Subdivision 9 (a). As a result, charter schools will not receive a current year payment for two to three payment periods until they are due state aid based on the 24-period schedule.

A spreadsheet showing the approximate net impact of the aid and tax shift buybacks on school district and charter school cash flow by pay period has been posted to the [School Finance page of the MDE website](#). The amount of the payback shown on the spreadsheet is lower than the total payback amounts outlined above for the following reasons:

- 1) Current estimates of state aid entitlements for FY 2014 on IDEAS are lower than the official state forecast due to incomplete aid entitlement data on IDEAS and pupil unit estimates submitted by districts being lower in aggregate than the official state forecast.
- 2) In addition, the total payback of \$635 million is a biennial number, not an FY 2014 number. Because aid entitlements and property tax levies are projected to grow in FY 2015 and later, the state has budgeted savings in FY 2015 that result from the application of the aid payment shift percentage to the increase in aid entitlements between FY 2014 and FY 2015, and from the application of the property tax shift percentage to the increase in levies between taxes payable in 2014 and taxes payable in 2015. When the shift percentages are lowered, the state will not accrue these savings. Part of the \$635 million cost recognized for the payback is this additional shift that was projected for FY 2015 but will not now occur. The table below provides a breakdown by fiscal year:

	FY 2014	FY 2015	Biennium
Aid Shift Payback	268.2	23.3	291.5
Tax Shift Payback	329.1	14.4	343.5
Total Payback	597.3	37.7	635.0
\$ in Millions			

Contact Audrey Bomstad at audrey.bomstad@state.mn.us if you have questions regarding this information.