



## **Statement on Delaying of Payments to School Districts under M.S. §127A.46**

### **Background**

As school finance officials, the members of MASBO recognize:

- The importance of prudent financial management
- The integral relationship between the state and school districts
- The reliance of school districts on the state for a major portion of district revenues
- The financial health of the state heavily influences the financial health of school districts
- The recent and serious structural imbalances in the state budget threaten the long-term sustainability of the state and school districts

Therefore, MASBO recommends that policy-makers take the steps necessary to bring state revenues into balance with spending obligations in order to ensure long-term financial sustainability.

The current state cash flow crisis has caused the state to invoke a heretofore unused tool enacted in 1986. This statute, as currently interpreted, requires the state to delay aid payments to school districts in order to avoid short-term borrowing. MASBO does not dispute that there are occasions where delaying payments to school districts is preferable to short-term borrowing by the state. School districts are dependent on the state for state aids, but also depend on the state's credit rating when districts issue their own long-term debt. This is a time when it appears that such a delay is necessary.

Historically two types of shifts in state payments to schools have been used to generate one-time appropriation savings for the state budget: the first, a shift in the schedule of school aid payments, and the second, a property tax recognition shift.

As part of Governor Pawlenty's unallotments and administrative actions to balance the state's 2010-11 biennial budget both strategies were implemented. First, the state Aid Payment Shift was increased from a 90% current / 10% final payment basis to a 73% current / 27% final payment basis beginning in FY2010. Second, the Governor has proposed an early recognition of Property Tax levies (with a corresponding reduction in state aids) beginning in FY2011. Payment shifts can be a useful tool to help get through unexpected difficult financial times, but they should be used as a last resort, not as the first choice in balancing the budget. Since it was known that the state was facing a deficit before session ended last year, the budget crisis was not unforeseen. The use of shifts at the beginning of the biennium eliminates the ability to use them to the same extent later in the biennium. Anticipated budget deficits should be resolved by real spending

decreases and revenue increases rather than accounting gimmicks and other tactics which only delay the problem. These shifts actually contribute to the problem when the payments are due.

## Recommendations

Once the budget is balanced, on the rare occasion that the need for short-term funds arises, it may be prudent to consider delaying payments to school districts as one tool to meet cash flow needs. The use of such a tool, however, should not do more harm to school districts than the benefit accrued to the state. We therefore recommend the following changes be made to Minnesota Statute § 127A.46:

- Change the language to be permissive, i.e. “the commissioner may modify”, rather than “shall modify”.
- District fund balance information is not available until November 30 each year. Therefore, we recommend the payment modifications begin no sooner than January 1 of each fiscal year, so decisions are based on the most accurate data.
- Delayed funds should be paid in full to districts no later than May 30, to enable districts to meet end of year payroll obligations typically payable in early June.
- Payment delays should not be imposed on districts that will be forced to borrow as a result of the payment delay. Borrowing incurs not only interest costs, but also the cost of debt issuance, and it is inefficient for many districts to be compelled to borrow.
- Districts should be given at least 90 days notice before payment delays are implemented in order to help them avoid penalties on early withdrawals of investments.
- Districts that experience payment delays under this provision should be compensated with interest on the amount delayed. There is precedence for this under M.S § 289A.56.
- Exclude debt service equalization aid when calculating payment delays. The state is currently delaying all aid payments, including those for the debt service fund. If debt payments come due during the time payments have been delayed, the ability of the district to meet its debt obligations would be jeopardized.
- Increase the amounts of the calculations in the statute to \$700 times pupil units for both the cash balance calculation and the fund balance limit; this is consistent with the state’s calculation of payment delays for FY2010 under this statute. These amounts should be adjusted annually to account for inflation.

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