



MEMORANDUM

TO: School District Superintendents
Charter School Directors
School Business Managers

FROM: Alice Seagren
Commissioner

SUBJECT: **State Aid Payment Delay under Minn. Stat. § 127A.46**

DATE: January 26, 2010

Under Minn. Stat. § 127A.46, if the Commissioner of Minnesota Management and Budget (MMB) determines that modifications in the state aid payment schedule to school districts would reduce the need for state short-term borrowing, the state must first use its authority to delay state aid payments to school districts to the maximum extent allowable before engaging in state short term borrowing. Today I received notice from MMB Commissioner Tom Hanson that the state is projected to have a cash flow shortage in March, April and May of 2010 that will require implementation of this statute.

The formula in Minn. Stat. § 127A.46 establishes the maximum amount of payments that could be delayed for each school district, but authorizes the Commissioner of Education to implement a smaller delay as appropriate. Since the amount needed to avoid state short term borrowing is less than the maximum that could be delayed under the statute, the factors in the statutory formula have been adjusted as follows:

- The delay will apply only to school districts with a net unreserved operating fund balance as of June 30, 2009 exceeding \$700 times the district's resident weighted ADM pupil units for FY 2009.
- For districts subject to the delay, the amount of the delay will equal:
 - a. The net cash and investment balance in the district's operating funds as of June 30, 2009, minus
 - b. \$700 times the district's resident weighted ADM pupil units for FY 2009, minus
 - c. The portion of the property tax and other receipts paid to the district by the county treasurer in May, June and July of 2009 that are considered revenue for FY 2010.

The attached spreadsheet shows the *estimated* amount of state aid payments that will be delayed on March 15, March 30, and April 15, and the data used to calculate the payment delays. The *estimated* total amount of payments to be delayed is \$423.3 million, including \$168.8 million on March 15, \$171.3 million on March 30, and \$83.3 million on April 15. The amounts shown on the spreadsheet are subject to change as updated data is received on school district state aid entitlements and special education tuition adjustments.

The aid payment delay applies only to school districts, and does not apply to cooperatives, intermediate school districts or charter schools. In all, 231 of Minnesota's 337 districts will be affected. School districts will receive their normally scheduled payments on April 30 and May 15. The amounts delayed in March and April will be paid in full on May 30. Federal aid payments will not be delayed.

A district may appeal the payment delay according to the procedures established under Minn. Stat. §127A.45, subd. 4. Those procedures require there to be an emergency, or that there are serious cash flow problems that cannot be resolved by issuing warrants or other forms of indebtedness.

Before initiating an appeal, a school district should consider the following questions:

- Does the district or school have any investments? If so, they must cash and use.
- Has the district contacted the county for an advance of tax settlements? If not, contact the county.
- Has the district borrowed to the extent allowed by law? If not, it must make the best attempt to do so.
- Would update of data used in the payment process (student counts, Title or Federal Special Education data) result in payment that would resolve the issue? If so, what can be done to expedite the process?

Definitions of terms used in the appeal statute are as follows:

1. Emergency - An emergency is an event where the cash shortage is discovered too late to be resolved by borrowing against state aid receivable under Minn. Stat. §126C.50-56, taxes receivable, issuing warrants under Minn. Stat. §123B.12(a), establishing and borrowing on a line of credit under Minn. Stat. § 123B.12(b).

The district or school must be solvent, with a balanced budget, but facing a crisis of a short-term nature. Cash is advanced for the period to allow the district or school to make arrangements to borrow money.

2. Serious Cash Flow Problems Not Solved by Borrowing - The district or school must present documentation from two financial institutions refusing to issue credit through line-of-credit, documentation that the district has borrowed to legal maximum against state aids and property taxes or using warrants. District or school must provide revenue and expenditure budgets and cash flows to document that the cash problem results from the metered payment schedule not matching the district or schools disbursement schedule, rather than a deficit

budget. The cash flow must document when, in the current year, the district has excess cash to return.

Cash is advanced with return to the state at the earliest possible date.

3. Abatements - The district must provide documentation from the county(ies) regarding the amount of property tax abatements and the effect on cash settlements. The district must provide evidence of borrowing against state aid or property tax levies.

Cash is advanced in an amount sufficient to meet current obligations, with return to the state at the earliest possible date.

School districts making a cash flow appeal must:

1. Communicate the reason for the cash shortfall.
2. Communicate the time period the shortfall is expected to affect.
3. Provide documentation of borrowing through normal means including amounts and terms of repayment.
4. Provide documentation of inability to borrow through normal means.
5. Provide revenue and expenditure budgets.
6. Provide cash flow to date and projected through year-end including the point when the state can be repaid.
7. Provide documentation of abatements affecting collection of property taxes.

Questions concerning the state aid payment delay should be directed to Tom Melcher at tom.melcher@state.mn.us or (651) 582-8828. Questions concerning cash flow appeals under Minn. Stat. §127A.45, subd. 4, should be directed to Audrey Bomstad at (651) 582-8793 or Audrey.bomstad@state.mn.us.

[Attachment](#)