

TO: Members of the House Education Finance Committee

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RE: House Files 1, 53, 134 and 235: Relating to School Payment Schedules

DATE: 2/12/13

We are writing to offer our perspective on the appropriate use of school aid payment and property tax recognition shifts as a tool in state public finance. We realize that the most recent school payment shift, enacted into law as a budget balancing measure during the state government shutdown in July of 2011, has generated a great deal of discussion. While this shift took the school payment schedule to a historically low level, it certainly wasn't an unprecedented move. In fact, the school payment shift has been used to help balance the state's budget five times in the last ten years under a variety of partisan leadership.

We believe that the aid payment and property tax recognition shifts are valuable tools in state public finance. When used appropriately, these shifts can buffer the state's balance sheet from sudden or unexpected fiscal shocks and provide some measure of protection against severe cuts to education funding. We do believe that one-time solutions, such as the payment shifts, should be used sparingly and should not be relied upon to address long-term structural deficits.

It is important to understand that payment shifts are delays in school payments and not, as some in the public interpret it, a cut in education entitlements. Virtually every education organization over the years has testified that school payment shifts, while less than ideal, are far preferable to actual cuts in programs. While payment delays can cause local districts to engage in short-term borrowing, historically low interest rates have significantly mitigated the impact that borrowing may have otherwise had.

Current law (MS 16A.152, Subd. 2, Clause 3) requires the Commissioner of MMB to accelerate school aid payments toward a 90/10 schedule when surpluses are projected. Remarkably, the payment shifts used to balance state budgets through the national fiscal crisis that "saved" the state billions of dollars have been accelerated to the current level of 82.5% under the current law. This is the best cash flow level public schools have seen from the state since FY '09 and a clear demonstration that current law works to restore school district cash flow.

From 1983 to 1996 state law required a school payment schedule of 85/15. Since 1997 the state has had a 90/10 payment schedule on the books. The 90/10 payment schedule has proven to be difficult for the state to manage, especially in the wake of income tax cuts in the late 1990's, the elimination of the general education levy in 2001, an unmet promise from the state to pay for the entire amount of general education programming from the state's general fund and the national fiscal crisis. All told, the state has averaged an 87.5% payment schedule over the last 30 years.

HF 1 would cost the state about \$550 million, an amount well above Governor Dayton's proposed \$340 million for early childhood through 12th grade education. Repaying the property tax recognition shift, as called for in HF 134, would cost another \$550 million. Cash flow is important, but the recent repayments have largely relieved cash flow pressures on school districts. Of much greater concern to school officials are the increasing special education cross-subsidy, a basic formula allowance that has lost significant ground to inflation, and a host of unfunded state educational mandates. In addition, it is imperative that the State make new investments in initiatives like full-day kindergarten if we are to close achievement gaps and prepare each and every student for post-secondary training.

HF 53 and HF 235 would require super-majorities in the legislature for enacting future payment or property tax recognition shifts. Super-majorities are prudent when legislatures are considering binding the hands of future legislatures, for example with debts incurred in a bonding bill reliant on general fund obligations.

Payments shifts are used to balance a two-year budget cycle and as recent history has shown, current law requiring repayment is working to restore those school payments. We don't believe this legislature should bind the hands of future legislatures' from using what can be an effective tool to balance budgets and protect education funding in difficult economic times. Requiring a super-majority to shift payments could force a future legislature into enacting unnecessary tax increases, destructive budget cuts or both.

In summary, the current law mechanism to repay the education shifts is working well. We urge state policymakers to work in a bi-partisan manner to establish a funding target for E-12 education that will address past funding deficiencies and make the necessary new investments to ensure that all Minnesota students have the educational opportunities they need to graduate from high school prepared to enter post-secondary education.