

OFFICE OF POLICY AND LEGAL ANALYSIS

Date: April 20, 2021

To: Committee on Education and Cultural Affairs

From: Samuel Senft, Legislative Analyst

LD 1198 “An Act authorizing an Increase to the Maximum Annual Fund Balance for Public School Districts” (Carlow)

SUMMARY

This bill provides that a school board may carry forward unallocated balances in excess of 15% of the previous year's school budget, instead of 3% as current law provides.

TESTIMONY

<p>Proponents: Rep. Nathan Carlow (sponsor); Trish Hayes, RSU 22; Trevor Hustus, MSAD 6; Eileen King, MSBA, MSSA</p> <ul style="list-style-type: none">• The current set aside limit creates precarious financial situations for SAUs• This bill would allow SAUs to save for large capital projects• Has no relation to EPS formula• Set aside limit not enough to cover monthly payroll• Many districts over past year had to seek Tax Revenue Anticipation Notes to cover expenses due to pandemic while they waited for federal relief funds. Interest passed to taxpayers.• 3% cap put in place at a time schools were paid “up front”. Now the system is a reimbursement based system.• Best accounting practices for private industry is to maintain 3-6 months cash on hand.• Lack of sufficient carry forward retracts SAUs ability to keep tax increases low if state share declines, which it has in recent years.• In 208 the cap was removed under FYs 2014-15.• Financial impacts of pandemic still not fully understood; increasing the cap is a wise move.
<p>Opponents: John Kosinski, MEA</p> <ul style="list-style-type: none">• Schools should use resources they have to support students and should take pause before increasing property taxes.• Currently, districts that carry forward more than 3% in unallocated balances find these funds counted against them for purposes of the school funding form• If a board saves for a large project and then board is replaced, new board could use funds for something completely different• Recommend amendment allowing school districts to keep 9% of the previous year’s school budget as reserve funds with a sunset provision on June 30, 2024. This coincides with the expiration of American Rescue Plan funds in September 2023.
<p>Neither For Nor Against</p> <ul style="list-style-type: none">• none
<p>Information Only: Joanne Allen (DOE)</p> <ul style="list-style-type: none">• Currently, SAUs may carry over 3% of unallocated funds from the prior year and may disburse those funds over a period not to exceed three years• Purpose of limit was to ensure taxpayers were not paying for unnecessary funds• Increase in limit to 15% allows SAUS to better prepare for emergencies.

- May also result in allocation of fewer funds from the ending balance to the next year's budget, requiring taxpayers to raise more funds
- The GFOA (Government Finance Officers Association) recommends a minimum level of fund balance between 5% and 15%
- Usually higher minimum reserve amounts are provided for government entities without consistent financial resources, which SAUs have in the form of property taxes and state subsidy

INFORMATION REQUESTS:

- 1) It was asked if carry forward unallocated balances must have a designated purpose identified

They do not.

ADDITIONAL INFORMATION:

- The bill can be found [here](#)
- Current law v bill

[20-A §15689-B, sub-§6](#) (current)

6. Balance of allocations. Notwithstanding any other law, general operating fund balances at the end of a school administrative unit's fiscal year must be carried forward to meet the unit's needs in the next year or over a period not to exceed 3 years. Unallocated balances in excess of 3% of the previous fiscal year's school budget must be used to reduce the state and local share of the total allocation for the purpose of computing state subsidy. School boards may carry forward unallocated balances in excess of 3% of the previous year's school budget and disburse these funds in the next year or over a period not to exceed 3 years. For fiscal years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 only, the carry-forward of a school administrative unit's unallocated balances is not limited to 3% of the previous fiscal year's school budget.

[20-A §15689-B, sub-§6](#) (bill)

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- For Maine statute dealing with municipal serve funds, see [30-A MRSA §5801](#). Municipalities may appropriate 5% of tax commitment to an emergency reserve fund.

Additional funds may be rolled over for capital improvement and capital equipment purposes.

FISCAL IMPACT: Not yet determined