Resolution # 1

2025 Delegate Assembly
Proposed Legislative Resolution

TITLE OF RESOLUTION: Fund Reallocation Authority

SUBMITTED BY: Moorhead Area Public Schools, ISD 152, Brandon Lunak, Superintendent and Dilworth-Glyndon-Felton, ISD 2164, Shannon Hunstad, Superintendent

RECOMMENDATION: Passage

BE IT RESOLVED, THAT MSBA URGES THE LEGISLATURE TO provide a Fund Reallocation Authority provision which would enable districts to transfer restricted, non-federally encumbered funds between internal restricted operating funds through formal school board resolutions, thereby granting local school boards the authority to address financial needs without requiring additional state aid or property tax authority. Key safeguards include:

- Transfers must not reduce any fund to a level below the minimum threshold established by the local school board.
- Transfers must not lead to increased state aid requirements or higher property tax levies.
- Each transfer requires a board resolution that clearly states the purpose and amount, is posted publicly, and is submitted to the Commissioner of Education.
- Transfers should be coordinated with the school's annual audit to ensure that restricted funds remain viable and protected for future needs.

Provided by the Moorhead Area Public Schools, ISD 152

DESCRIBE THE PROBLEM:

Minnesota school districts face increasing financial pressures that restrict their ability to provide consistent, high-quality education. To address this, we propose legislation that would permit an annual, one-time, locally approved internal reallocation of restricted funds within Minnesota's public schools, charter schools, and cooperatives.

EXPLAIN WHY THIS IS A PROBLEM:

Current Minnesota statutes limit how local school boards can manage their finances due to restrictions on the expenditure of certain funds. These restrictions limit the school board's ability to manage district funds. Often, school districts have money in restricted accounts but are unable to access those funds due to current laws. These laws don't offer flexibility, ultimately forcing school districts to use their general fund dollars to cover deficits in other restricted accounts. This negatively affects local school districts, causing them to make cuts that impact students and staff, not because of a lack of funds overall, but because of restrictions on how funds can be used. This reallocation authority would:

- Strengthen local control to manage financial pressures. Protect core programs and staff, minimizing disruptions to students' learning.
- Ensure districts stay fiscally responsible while addressing diverse educational needs.

One-time reallocation per fiscal year is a sensible response to persistent economic pressures and fluctuations in enrollment. Current restrictions prevent districts from using available funds to address urgent student and staffing needs.

BACKGROUND PROVIDED BY SCHOOL DISTRICT:
See supplemental document

Provided by the Dilworth-Glyndon-Felton, ISD 2164

DESCRIBE THE PROBLEM:
Outstate public schools are unable to pass local levies. This board authority will empower local school boards to respond proactively to financial challenges by reallocating existing resources where they are most needed.

EXPLAIN WHY THIS IS A PROBLEM:
The Fund Transfer Pilot Program will empower local school boards to respond proactively to financial challenges by reallocating existing resources where they are most needed. Which they do not currently have the authority to do.

CURRENT POSITION:
1.010 Urges the Legislature to enact permanent authority for a school district to transfer funds and accounts within the general fund.

CURRENT LAW:
Minn. Stat. 123B.79 governs how and when a Minnesota school district may permanently transfer money between its various funds. In general, districts cannot move money between operating and non-operating funds, except in specific circumstances—such as to correct prior-year errors, cover deficits in discontinued programs, support under-funded operating areas, or pay certain retirement obligations.

123B.79 PERMANENT FUND TRANSFERS.
Subdivision 1. Limitations. Except as provided in this subdivision, sections 123B.51, 123B.80, 475.61,and 475.65, a district may not permanently transfer money from (1) an operating fund to a nonoperating fund; (2) a nonoperating fund to another nonoperating fund; or (3) a nonoperating fund to an operating fund. Permanent transfers may be made from any fund to any other fund to correct for prior fiscal years' errors discovered after the books have been closed for that year. Permanent transfers may be made from the general fund to any other operating funds according to section 142D.093 or if the resources of the other fund are not adequate to finance approved expenditures from that other fund. Permanent transfers may also be made from the general fund to eliminate deficits in another fund when that other fund is being discontinued. When a district discontinues operation of a district-owned bus fleet or a substantial portion of a fleet, the balance shall cancel to the district's general fund.
Subd. 2. [Repealed, 2016 c 189 art 30 s 26]
Subd. 3. TRA and FICA transfer. (a) Notwithstanding subdivision 1, a district may transfer money from the general fund to the community service fund for the employer contributions for

teacher retirement and FICA for employees who are members of a teacher retirement association and who are paid from the community service fund.
(b) A district must not transfer money under paragraph (a) for employees who are paid with money other than normal operating funds, as defined in section 354.05, subdivision 27.
Subd. 4. Operating fund; nonoperating fund; defined. As used in this section, "operating fund" and "nonoperating fund" have the meanings specified in the uniform financial accounting and reporting standards for Minnesota school districts. Any transfer for a period in excess of one year shall be deemed to be a permanent transfer.
Subd. 5. Deficits; exception. For the purposes of this section, a permanent transfer includes creating a deficit in a nonoperating fund for a period past the end of the current fiscal year which is covered by moneys in an operating fund. A deficit in the reserve for operating capital account pursuant to section 123B.78, subdivision 5, does not constitute a permanent transfer.
Subd. 6. [Repealed, 2016 c 189 art 30 s 26]
Subd. 7. Account transfer for designated separation and retirement benefits. A district may separately maintain in a designated for separation and retirement benefit account the amount necessary to meet the obligations for separation and retirement benefits, including compensated absences, termination benefits, pension benefits, and other postemployment benefits, not accounted for elsewhere. The amount necessary
must be calculated according to standards established by the department.
Subd. 8. Account transfer for reorganizing districts. A district that has reorganized according to sections 123A.35 to 123A.43, 123A.46, or 123A.48, or has conducted a successful referendum on the question of combination under section 123A.37, subdivision 2, or consolidation under section 123A.48, subdivision 15 or has been assigned an identification number by the commissioner under section 123A.48, subdivision 16, may make permanent transfers between any of the funds or accounts in the newly created or enlarged district with the exception of the debt redemption fund, building construction fund, food service fund, and long-term facilities maintenance account of the general fund. Fund transfers under this section may be made for up to one year prior to the effective date of combination or consolidation by the consolidating boards and during the year following the effective date of reorganization by the consolidated board. The newly formed board of the combined district may adopt a resolution on or before August 30 of the year of
the reorganization authorizing a transfer among accounts or funds of the previous independent school districts which transfer or transfers shall be reported in the affected districts' audited financial statements for the year immediately preceding the consolidation.
Subd. 9. Elimination of reserve accounts. Any balance in the district's reserved account for deferred maintenance as of June 30, 2016, shall be transferred to the reserved account for long-term facilities maintenance in the school district's general fund. Any balance in the district's reserved account for health and safety as of June 30, 2019, shall be transferred to the unassigned fund balance account in the district's general fund. Any balance in the district's reserved account for alternative facilities as of June 30, 2016, shall be transferred to the reserved account for long-term facilities maintenance in the district's building
construction fund.
123B.83 EXPENDITURE LIMITATIONS. Provides special rules for reorganized or consolidated districts, allowing them to transfer funds among most accounts (excluding debt redemption, food service, building construction, and certain facility funds) for up to one year before and one

year after the reorganization's effective date. The statute also directs the transfer of balances from discontinued reserve accounts (e.g., deferred maintenance, health and safety) into designated current accounts.

Subdivision 1. [Repealed, 1Sp2005 c 5 art 1 s 55]

Subd. 2.Net unreserved general fund balances. A school district must limit its expenditures so that its net unreserved general fund balance does not constitute statutory operating debt under section 123B.81.

Subd. 3.Failure to limit expenditures. If a district does not limit its expenditures in accordance with this section, the commissioner may so notify the appropriate committees of the legislature by no later than February 15 of the year following the end of that fiscal year.

Subd. 4.Special operating plan. (a) If the net negative unreserved general fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts, as of June 30 each year, is more than 2-1/2 percent of the year's expenditure amount, the district must, prior to January 31 of the next fiscal year, submit a special operating plan to reduce the district's deficit expenditures to the commissioner for approval. The commissioner may also require the district to provide evidence that the district meets and will continue to meet all high school graduation requirements.

Notwithstanding any other law to the contrary, a district submitting a special operating plan to the commissioner under this clause which is disapproved by the commissioner must not receive any aid pursuant to chapters 120B, 122A, 123A, 123B, 124D, 125A, 126C, and 127A until a special operating plan of the district is so approved.

(b) A district must receive aids pending the approval of its special operating plan under paragraph (a). A district which complies with its approved operating plan must receive aids as long as the district continues to comply with the approved operating plan.

BACKGROUND PROVIDED BY MSBA:

School District Accounting[1]

Two aspects of school district accounting are of major significance to the legislature: the accounting system that school districts are required to use, because it provides an important view of school districts' financial status; and the accounting methods that the legislature uses to pay or meter revenue to school districts, because it provides a way to carefully manage the state's payment of funds to the local school districts.

School District Accounting System

Uniform Financial Accounting and Reporting Standards. The legislature requires school districts to adopt and use a uniform system of records and accounting for public schools. The adopted system, a modified accrual accounting system, is known as Uniform Financial Accounting and Reporting Standards (UFARS). UFARS is important because it provides a uniform basis for comparing and evaluating school district revenue and expenditures. Under UFARS, every district must maintain at least the following funds.

[1] Minnesota School Finance: A Guide for Legislators, by Tim Strom, Legislative Analyst, November 2024

Table 82: School Funds

Fund Number	Operating Funds	Common Purposes
01	General	Money used to pay general operating costs, such as teacher salaries, administrative costs, and to purchase textbooks and equipment
02	Food Service	Money for nutrition programs—primarily school lunch and breakfast
04	Community Service	Money for community education programs
Fund Number	**Nonoperating Funds**	**Common Purposes**
06	Building Construction	Proceeds of bond sales used to pay contractors for building projects
07	Debt Redemption	Money necessary to repay bond holders
47	Postemployment Benefits Debt Service Fund	Money from levy proceeds to repay OPEB bonds
Fund Number	**Fiduciary Funds**	**Common Purposes**
08	Trust	Money held in trust for others
18	Custodial	Fiduciary activities not reported elsewhere for the benefit of others
45	Postemployment Benefits Irrevocable Trust Fund	Money held in an irrevocable trust for postemployment benefits

The UFARS statute (Minn. Stat. § 123B.79) generally prohibits a district from permanently transferring money from an operating fund to a nonoperating fund, although a procedure is set forth in statute for the Commissioner of Education to approve transfers in exceptional circumstances. Also, the creation by the 1995 Legislature of operating capital revenue accounts in the general fund means that districts can spend any undesignated or unreserved general fund money for capital equipment and facilities purposes. Additionally, almost every year the legislature approves specific fund transfers for individual school districts. In contrast to the usual limitations on fund transfers, the 1991 Legislature authorized two types of fund transfers:

- Reorganization Fund Transfers: A school district that has reorganized may make permanent transfers between any of the funds in the newly created or enlarged district, with the exception of the debt redemption fund. These fund transfers may be made only during the fiscal year following the effective date of the district's reorganization.
- Nonoperating Fund Transfer: On June 30, 1992, a school district could transfer money from its capital expenditure fund and from its debt redemption fund (to the extent the funds are not needed to make debt service payments) to the transportation fund, capital fund, or debt redemption fund.

The UFARS statute also prescribes the fiscal years when revenues and expenditures are to be recognized on district books. The legislature uses these recognition provisions to distribute state aid payments to school districts and to balance the state budget. The revenue recognition procedures established by the legislature determine a district's operating debt and expenditure limitations.

Statutory Operating Debt. Operating debt is defined as the net negative unappropriated fund balance on June 30 of any year in all of the school district's operating funds. Districts for which the operating debt is greater than 2.5 percent of the expenditures in operating funds in the most recent fiscal year are considered to be in statutory operating debt. At the close of fiscal year 2023, eight school districts and five operating charter schools were in statutory operating debt. Three other charter schools in statutory operating debt as of June 30, 2023, closed during that fiscal year.

Statutory Operating Debt Levies. A series of levies were approved in 1977, 1983, 1985, and 1992 that allowed districts to pay off past statutory operating debt amounts. The authority under each of these levies has now expired.

Expenditure Limitations. A school district in statutory operating debt must limit its expenditures in each subsequent fiscal year such that its statutory operating debt is not increasing. A district in statutory operating debt must submit a special operating plan to reduce its deficit expenditures to the Commissioner of Education for approval. If the plan is disapproved, the district receives no state aid until a plan is approved.

Temporary Waiver of Fund Transfer Limits. For fiscal years 2012 through 2017, a school district could transfer money from any account or fund (except the community service and food service fund) to any other account or fund as long as that transfer did not affect the school district's state aid or local levy.

For fiscal years 2020 and 2021, a school district could transfer moneys from any operating account or fund to another to adjust the district's budget in response to COVID-19.

RATIONALE:
Minnesota school districts face increasing financial pressures that restrict their ability to provide consistent, high-quality education. To address this, the proposed resolution calls on the Legislature to allow local school boards to authorize an annual, one-time reallocation of restricted, non-federally encumbered funds between internal restricted operating funds through formal board resolutions.

MSBA currently has an existing legislative position supporting broad authority for school boards to make permanent fund transfers between any funds. This long-standing position reflects MSBA's commitment to local control and fiscal flexibility, recognizing that locally elected boards are best positioned to decide how to allocate available resources to meet the needs of their students.

The new resolution builds on this foundation but introduces practical parameters that the Legislature is likely to consider prudent. By proposing a one-time, annual reallocation of restricted, non-federally encumbered operating funds, subject to specific safeguards, this resolution addresses legislative concerns about maintaining fiscal discipline and transparency while still expanding local authority. These additional safeguards include:

- Transfers must not reduce any fund below thresholds set by the local board.
- Transfers must not increase state aid requirements or local property taxes.
- Each transfer must be formally approved by a school board resolution, clearly stating the purpose and amount, publicly posted, submitted to the Commissioner of Education, and coordinated with the district's annual audit to ensure the integrity of restricted funds.

Some of these safeguards offered in this resolution reflect a bill that was introduced in the 2025 legislature, HF 2239/SF 1489.

This approach recognizes the Legislature's interest in accountability while preserving the local flexibility districts need to respond to ongoing budgetary pressures such as fluctuating enrollment, inflation, and rising costs for student support services. It provides a measured, transparent pathway for districts to tap existing resources, when necessary, without increasing the overall burden on taxpayers or the state.

Adopting this resolution as an official MSBA position would align with our existing position for fund transfer flexibility, while demonstrating to policymakers that school boards are willing to operate within reasonable guardrails to maintain fiscal responsibility. This balanced proposal strengthens local decision-making, helps protect core programs and staffing, and ensures that existing resources can be deployed to meet immediate student needs, advancing both educational stability and legislative confidence.

Therefore, MSBA recommends passage.