



House  
Legislative  
Analysis  
Section

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## STATE AID PAYMENTS TO SCHOOLS BY EFT

House Bill 5330 as enrolled  
Second Analysis (7-10-90)

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Lansing, Michigan 48909  
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Sponsor: Rep. Timothy L. Walberg  
House Committee: Education  
Senate Committee: Education & Mental Health

### ***THE APPARENT PROBLEM:***

The School Aid Act provides for the state treasurer to make regular payments to public schools by delivering to the treasurer of each local or intermediate school district an installment amount based on figures determined by the Department of Education for each district. Generally, the state treasurer mails each school district's installment in the form of a warrant or check. Districts, however, have to wait — sometimes as long as 5 days — for a check to be cleared through their financial institutions before they can actually use the money. This procedure was established long before electronic banking was made available for use by the general public. Some people now feel that school districts should be permitted to request that regular school aid payments be made via electronic funds transfer (EFT) so that schools would have access to their funds sooner.

### ***THE CONTENT OF THE BILL:***

The bill would amend the School Aid Act to specify that, beginning December 1, 1990, the state treasurer would have to deliver the warrant for payment of school aid by electronic funds transfer to a school district's or intermediate school district's treasurer if he or she received a written request by the district's treasurer indicating an account into which the school's state aid payment would be made. Also, the bill would require the state treasurer to pay the installments on the first day of October, December, February, April, June, and August (which, under the current law, are the deadlines for the Department of Education to notify the state treasurer of amounts owed to school districts) or on the next business day following each of these dates.

MCL 388.1617

### ***FISCAL IMPLICATIONS:***

According to the Department of Treasury, the bill would cost the state anywhere from \$750,000 to \$1 million annually due to the loss of "float" time, during which the state earns interest on payments made to districts by warrant before the checks have cleared. The float can range from 2-5 days, depending on the the check-clearing capability of each individual district's financial institution. Local school districts, conversely, would have access to these funds sooner and could earn interest from the day of transfer. (2-27-90)

### ***ARGUMENTS:***

#### ***For:***

The bill would require the state treasurer to make regular school aid payments via EFT at the request of a local school district's treasurer and upon receipt of an account number into which the transfer would be made. In this way, a school district would receive the state aid payment on the

first day of each payment period rather than having to wait 2-5 days for mail delivery and processing by a financial institution. Sometimes, checks are mailed to the wrong address which causes an even longer delay for a district. Also, it costs districts time and money to have a district employee actually deposit a check in person into the district's financial institution. The bill, however, would provide for same-day transfer and deposit; thus, schools not only would have quicker access to their funds but could invest the money sooner and earn more interest on the investment.

#### ***Against:***

The state could lose up to \$1 million under the bill since it could no longer rely on the "float" time that paying by check affords. The additional 2-5 days of lag time allows the state to earn interest on the money. Although there are obvious advantages to permitting school aid payments by EFT, it would be more appropriate — and fair — to permit EFT for both state payments and receipts, and to apply this provision to all financial transactions made between the state and other government and non-government groups. In this way, the fiscal impact from permitting electronic transfers would essentially remain neutral.

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