

What happens if my school runs out of money?

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With the recent threat of state aid cuts becoming a reality for the current fiscal year, many questions arise as to what will happen to an employee's pay if a school district either runs short of money during the fiscal year, or runs out of money before the end of the current fiscal year. There are several remedies available to address either scenario.

If a school district does not have sufficient funds in its bank account to cover the cost of issuing payroll or other checks, one remedy is for the district to issue what are referred to as non-payable warrants instead. A non-payable warrant has the same value to an employee or vendor as a regular school check. Even though the warrant says non-payable, it can still be submitted to a bank for deposit like any other check.

With a non-payable warrant, the school district makes arrangements with its bank to issue non-payable warrants. The bank agrees to issue funds to cover the amount of the warrant. In return, the school district promises to pay the bank at some point in the future the cost of the warrant plus applicable interest. Issuing a non-payable warrant is a method of dealing with cash flow shortages that may occur during a fiscal year, particularly when state aid allocations have been reduced.

If a school district has run out of money for a fiscal year, yet owes money for services already performed or for contracts that have been made and approved within the fiscal year budget, then a more complex scenario may be required to collect the money owed for the services performed or the balance of an employment contract. An employee will likely be required to take legal action against a school district, sometimes referred to as a "friendly suit" since there is no dispute that the money is owed, only that the district does not have sufficient funds to pay what it has lawfully obligated itself to pay.

In those instances, a lawsuit must first be filed on behalf of the employee. Next, a court must rule that the school district owes the employee money for services performed or for the balance of a lawful contract. Finally, once a court issues a judgment in favor of the employee, state law requires that any judgment against a school district be paid from the district's sinking fund over a three-year period. Judgments against a sinking fund may be assigned to a financial institution that will typically pay the employee face value for the judgment and then collect the judgment and accrued interest on the judgment from the sinking fund over the three year period.

While issuing non-payable warrants is a method of quickly paying employees when a school district suffers cash flow problems during a fiscal year, the legal process of collecting a sinking fund judgment when a school district runs out of money during a fiscal year is more time consuming and may result in a delay in ultimately collecting wages owed an employee. If either of these scenarios occurs in your school district, you can contact your OEA Regional Advocacy UniServ Specialist or the OEA Center for Legal and Corporate Services for assistance in dealing with these issues.