

Current law discourages school districts from saving for a rainy day

Are you kidding me?

FIX the cap on local school district reserves.

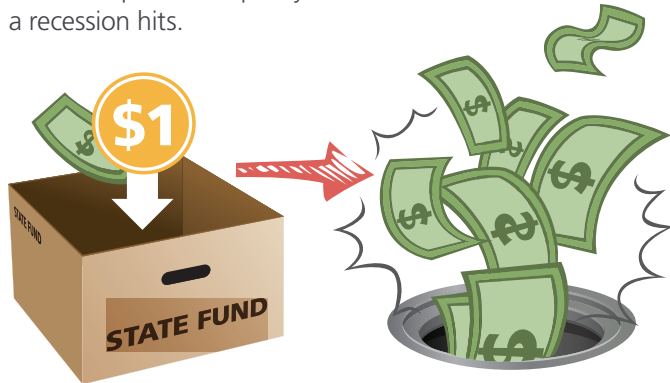
FIX the cap

The reserve cap, passed as part of the 2014 budget deal, undermines local control and fiscal prudence by discouraging school districts from maintaining adequate budget reserves to protect their students and employees during economic downturns. The reserve cap also jeopardizes the ability of school districts to save funds needed for large expenses such as textbooks, buses and technology upgrades, just to name a few. This fiscally reckless law leaves California's schools and students dangerously vulnerable to the next inevitable recession.

Here's why school officials, parents, education advocates and many others are urging legislators to fix the reserve cap:

Under current law, a contribution of only \$1 to the state's education rainy day fund would trigger billions in eliminated savings for local schools.

A deposit into the Public School System Stabilization Account would force California school districts to eliminate at least \$5 billion and as much as \$14 billion in existing reserves and balances. Bringing reserves down a maximum of 6% — only 3% more than the minimum required by law — would leave districts with only a few days of cash flow, and financially unable to provide a quality education for their students when a recession hits.



Eliminating school district savings leaves kids and classroom education vulnerable.

By prohibiting local school districts from maintaining fiscally prudent reserves, the current reserve cap law jeopardizes important programs both in a recession and out. Districts use these savings to:

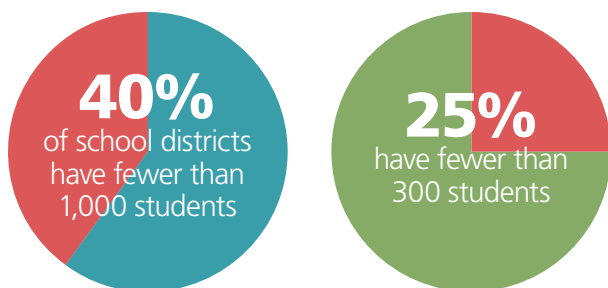
- 1 Save for a rainy day.** During the Great Recession, districts used their savings to protect classroom services in the wake of the deep state budget cuts.
- 2 Protect teacher and school employee jobs during downturns.** On average, the new cap is barely enough to cover 6-9 days of payroll.
- 3 Build up savings for large school expenses, such as:**
 - » Textbooks
 - » School technology upgrades
 - » Fixing aging classrooms and maintenance projects
 - » New buses



Eliminating school district savings disproportionately harms small, rural and disadvantaged school districts with less revenue.

Forty percent (40%) of the school districts in the state have fewer than 1,000 students and almost one-quarter have 300 or fewer students. Small school districts and disadvantaged districts with less revenue typically need to hold greater percentages of their budgets in savings because of their size and higher fluctuations in their revenue streams. Paying a teacher salary, repairing a classroom or buying a new bus in a small school district costs the same as in a larger district; but it represents a much larger share of the budget in smaller districts.

Additionally, some school districts rely solely on funding from local property taxes, which they receive only twice each year. Leaving these districts with only a few days of cash flow puts them dangerously close to financial ruin.



Fix the cap:

- » Define the funds to which the cap applies
- » Raise the cap to the nationally recognized standard
- » Exempt certain school districts with unique cashflow challenges

Budget experts, credit agencies, school leaders, political and community leaders all urge a fix of the current reserve cap law

Legislative Analyst's Office — Jan. 2015

Reserves allow districts to manage cash flow, mitigate funding volatility, address unexpected costs, save for large purchases, and reduce borrowing costs. We recommend the Legislature repeal the reserve caps.

Moody's — Nov. 2014

(A cap on reserves) impairs a district's ability to adequately protect itself against economic uncertainty...

S.F. Chronicle — May 2016

The volatility of the state's economy should give the governor good reason to restore the authority of local school districts to create a buffer for future downturns.

L.A. Times – Jan. 2016

Legislators also should take the time to fix the school district reserve cap, a provision of the state's rainy day fund that perversely restricts districts from saving money during surplus years to help during downturns.

S.D. Union Tribune — Sept. 2015

Districts could be devastated by just one major, unexpected financial hit.