

Fix the Reserve cap **SB 799**

SB 799 (Hill & Glazer) - School Reserve Cap Reform

In June 2014, SB 858 was passed as part of the state budget and included a provision that has come to be known as the school district reserve cap. It is a requirement whereby in a year following a year in which there is a contribution of any amount to the state-level Prop 98 reserve account (created in Prop 2), then school districts would be forced to spend down their assigned and unassigned ending balances to just two times their minimum required level of reserve for economic uncertainty. For most districts, their minimum reserve amount is 3 percent so the reserve cap would be two times that.

While the trigger for the cap to actually require districts to spend their funds may not be pulled in the nearest future, school districts, bond rating agencies, school boards, school administrators, parents, public interest groups and press statewide are all calling for a repeal of the reserve cap, or short of a repeal, reform of the cap to ensure that districts have the means to protect employees and programs during the next recession and the flexibility to set monies aside for large purchases like text books, technology and school buses while also funding school construction, self-insurance, large maintenance projects, etc. Reforming the reserve cap in SB 799 includes:

1. Provide hard cap of 17 percent of unassigned balances in General Fund and Special Reserve Fund for Other than Capital Outlay Projects without regard to district size.
 - 17 percent represents the minimum recommended amount of reserves local governments should maintain (2 months) from the Government Finance Officers Association.
2. Modify language to clarify application only to unassigned balances in the General Fund and Special Reserve Fund for Other than Capital Outlay.
 - This will ensure that the cap does not affect monies set aside by school districts for such things as emergencies or future large purchases such as technology, instructional materials, school buses, etc., or for future obligations such as construction projects, retiree benefits, or self-insurance.
3. Add requirement for adoption of board policy on fund balances. Policy to include annual report to board of education.
 - Increase transparency at the local level specific to reserve levels and why they exist.
4. Require county superintendent to adopt policy on appeal procedures to allow districts to know requirements up front.
5. Exempt small school districts (definition consistent with Education Code-fewer than 2,501 ADA) and basic aid districts from the provisions of this section.
 - Small and basic aid districts have unique and extreme needs for higher reserves because of their stressed cash flow needs. Small districts can be hit with sudden expenses at any moment such as increased special education costs or loss of enrollment. Basic aid districts receive no state aid and as such receive local property tax revenues only twice each year to cover 12 months of expenses.