
SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair

2017 - 2018 Regular

Bill No: SB 751 **Hearing Date:** September 13, 2017
Author: Hill & Glazer
Version: September 5, 2017
Urgency: No **Fiscal:** Yes
Consultant: Ian Johnson

Subject: School finance: school districts: annual budgets: reserve balance

SUMMARY

This bill increases the cap on school district reserves, adds a minimum fund balance in the Public School System Stabilization Account (PSSSA) to the conditions that must be met for the cap on school district reserves to be triggered, and exempts small and basic aid school districts from the reserve cap requirement.

BACKGROUND

Existing law places a cap on school district reserves in years following a deposit in the PSSSA, established by Proposition 2 (2014). Additionally, districts are required to disclose certain information about their reserves each year. Specifically, in a fiscal year immediately after a fiscal year in which a transfer is made to the PSSSA, a school district budget that is adopted or revised may not have a combined assigned or unassigned ending fund balance that is in excess of the following:

- 1) For school districts with fewer than 400,000 units of average daily attendance (ADA), the sum of the school district's applicable minimum recommended reserve for economic uncertainties adopted by the State Board of Education (SBE), as specified, multiplied by two.
- 2) For school districts with more than 400,000 units of ADA, the sum of the school district's applicable minimum recommended reserve for economic uncertainties adopted by the SBE, as specified, multiplied by three.

Existing law authorizes a county superintendent of schools to grant a school district under its jurisdiction an exemption from the cap for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances, including, but not limited to, multi-year infrastructure or technology projects, substantiate the need for a combined assigned or unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties. As a condition of receiving an exemption, a school district shall do all of the following:

- 1) Provide a statement that substantiates the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties.

- 2) Identify the funding amounts in the budget adopted by the school district that are associated with the extraordinary fiscal circumstances.
- 3) Provide documentation that no other fiscal resources are available to fund the extraordinary fiscal circumstances.

ANALYSIS

This bill:

- 1) Provides that a cap on local school district reserves of 10 percent will be imposed whenever the level of funding in the Public School System Stabilization Account (PSSSA) is equal to or exceeds 3 percent of the combined total General Fund revenues and local proceeds of taxes for school districts for that fiscal year.
- 2) Clarifies that the cap applies to the total of assigned and unassigned ending balances in the general fund accounts of school districts, including in the Special Fund for Other Than Capital Outlay.
- 3) Exempts basic aid districts and small school districts from the cap.
- 4) Requires the Superintendent of Public Instruction to notify school districts and county superintendents of schools when the conditions for imposing the reserve cap have been met and when they are no longer in effect.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author's office, local educational control is the very premise of the state's major reform movement with the Local Control Funding Formula (LCFF) and the Local Control and Accountability Plan (LCAP). Local school districts need to have the ability to make budget decisions that best serve their students and allow planning for economic uncertainties before a crisis hits. The longer the current cap is in place, the more it threatens the ability of California's schools to maintain their fiscal solvency and provide their students the best possible education.

With budget projections looking uncertain in the coming years, the trigger for the cap may be activated in coming budget cycles. This could cause districts to spend their rainy day funds, creating turmoil for school districts, bond rating agencies, school boards and school administrators, and putting districts at risk of state bailout.

The cap affects small and basic aid districts in different ways. Small districts, by definition, have low average daily attendance, which means they also have small budgets. Applying a 6 percent cap to these districts would result in inadequate reserves. The concern with basic aid districts is that they do not receive state funding, therefore they would not benefit from a distribution from the state's school reserve account when conditions warrant. Further, basic aid districts only receive funding from their counties twice a year and must keep additional monies in reserve for cash flow purposes.

- 2) ***When will the reserve cap requirement be triggered?*** The reserve cap requirement is triggered once the state makes a deposit into the Public School System Stabilization Account (PSSSA), which only occurs when certain conditions are met. Among these conditions, Test 1 must be the applicable Proposition 98 test level and the state must have paid off all maintenance factor created before 2014-15. According to multi-year forecasts published as part of the 2017-18 Governor's Budget, no Test 1 operative years are projected through 2020-21, making a state deposit very unlikely in the near term.
- 3) ***Exemptions for school districts already in law?*** To the extent that school districts are concerned about the potential impact the cap would have on their ability to maintain adequate reserve levels and save for future and unanticipated expenditures, existing law provides two types of exemptions for school districts. First, school districts can change the way in which they treat their reserves, increasing the amount of their committed reserves and decreasing the amount of assigned and/or unassigned reserves. Reserves become committed for a specific purpose upon a vote of the district governing board. Second, a county superintendent of schools is authorized to grant a school district under its jurisdiction an exemption if a school district is able to provide documentation that demonstrates extraordinary fiscal circumstances.
- 4) ***LAO's assessment and recommendations.*** The Legislative Analyst Office (LAO) released a report, "Analysis of School District Reserves" in January 2015. In the report, the LAO provided its assessment and recommendations on the reserve caps. Specifically, the LAO indicated, "to the extent districts begin shifting monies to avoid the caps, we are concerned that local budgeting practices could become more confusing. To the extent districts begin spending down their reserves, we are concerned that they would incur a number of risks." The risks include difficulty for school districts to maintain programs in tight fiscal times, difficulty addressing unexpected costs, greater fiscal distress, and higher borrowing costs. The LAO also indicated concern that the caps become operative following any deposit into the state school reserve, even if the size of that deposit is smaller than the triggered reduction in local reserves. To avoid all of these risks, the LAO has recommended the Legislature repeal the reserve caps.
- 5) ***Related Legislation.***

SB 590 (Moorlach) repeals the current maximum reserve level school districts are allowed to maintain in any year following a deposit being made into the PSSSA. The measure was held by this Committee.

AB 235 (O'Donnell) changes the conditions under which the cap on local school district reserves would be imposed and exempts basic aid districts and small districts from the cap. The measure is currently pending on the Senate Floor.

AB 1164 (Thurmond) extends the probationary period up to three years for certificated employees in school districts and teachers in county offices of education with an average daily attendance greater than 250 pupils, and

increases the cap on school district reserves, changes the conditions that must be met for the cap to be triggered, and exempts small and basic aid school districts from the cap. The measure was held in this Committee at the author's request.

6) ***Prior Legislation.***

AB 1048 (Baker, 2015) proposed to repeal the statutory cap on the amount of fiscal reserves that a school district would be allowed to maintain under specified conditions. The measure was held in Assembly Education Committee.

AB 1318 (Gray, 2015) proposed to modify the calculation of the statutory cap on fiscal reserves. The measure was held in Assembly Education Committee.

SB 799 (Hill, 2015) would have modified various provisions in existing law related to school district budget ending reserves. The measure was held in Assembly Education Committee.

SUPPORT

Association of California School Administrators
California School Boards Association (sponsor)
California Teachers Association
Children Now
Education Trust-West
Kings Canyon Unified School District
League of Women Voters of California
Los Angeles County Office of Education
Public Advocates
Schools for Sound Finance

OPPOSITION

None received

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