



Senator Jerry Hill, 13th Senate District

SB 751 – School Reserve Cap

IN BRIEF

SB 751 expands the local school reserve cap from 6% to 10%. Basic aid districts and small school districts (ADA of less than 2,501 students) are also exempted.

BACKGROUND

In June 2014, SB 858 (Budget Trailer Bill) 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 school district's rainy day reserves are limited. Specifically, 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 ending balances to just two times their **minimum** required level of reserve for economic uncertainty. For most districts, their minimum reserve amount is 3% so the reserve cap would be just 6%.

Local educational control is the very premise of the state's major reform movement with the Local Control Funding Formula (LCFF) and Local Control Accountability Plans (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.

School districts need to have the means to protect employees and programs during the next recession and the flexibility to set funds aside for large purchases like text books, new technology and school buses, while also funding school construction, self-insurance, large maintenance projects, etc.

The reserve cap further imposes a unique hardship for small and basic aid districts. The cap affects small and basic aid districts in different ways. Small districts, by definition, have low average daily attendance (ADA), which means they also have small budgets. Applying a 6% cap to these districts would result in inadequate reserves.

The concern with basic aid districts is that they do not receive state funding. Presumably, the state would use the LCFF to distribute funds from the Public School System Stabilization Account (PSSSA) to local school districts when conditions warrant. Since basic aid districts do not receive LCFF funding, they would not benefit from this distribution mechanism. Additionally, they only receive funding from their counties twice a year and must keep additional monies in reserve for cash flow purposes.

SB 751 fixes both of these problems by exempting small and basic aid districts from the cap.

THE SOLUTION

SB 751 raises the level of statutory reserve limit from 6% to 10%. It also modifies the reserve cap trigger to require an accumulation of an amount equal to at least 3 percent of the Prop 98 guarantee (\$1.9 billion in the current year) before the trigger would be pulled; And clarifies the cap applies only to General Fund revenues, not other accounts such as construction, cafeteria, charter school or other funds.

SUPPORT

Association of California School Administrators
California Association of Suburban School Districts
California School Boards Association (CSBA)
Children Now
Fresno Unified School District
Kings Canyon Unified School District
Los Angeles County Office of Education (LACOE)
Public Advocates
School Employees Association of California (SEAC)
Schools for Sound Science

FOR MORE INFORMATION

Meegen Murray
916-651-4013 / Meegen.Murray@sen.ca.gov