



June 19, 2014

The Honorable Edmund G. Brown Jr.  
Governor, State of California  
State Capitol, First Floor  
Sacramento, CA 95814

Dear Governor Brown:

I am writing this letter to respectfully request that when you act on SB 858, the education budget trailer bill, that absent an outright veto of the bill, you include a signing message asking the Legislature to develop a cleanup of the language that limits the amount of reserves that school districts can carry in the fiscal year following the state's contribution to the Proposition 98 reserve.

There are a number of reasons why that language is bad for school districts, but for you to consider, it also goes against your very own message of fiscal prudence and local control. The thought that the state's contribution to the Proposition 98 reserve of any amount, even \$50-100 million, could result in school districts statewide spending down their reserves to the tune of billions of dollars runs completely counter to good budgeting, fiscal prudence, and the ability for locally elected boards of education to plan ahead for economic surprises and future expenses.

Capping reserves at the twice the state minimum would give districts about 2 weeks of payroll and 3 weeks of cash flow.

Legislative and Department of Finance staff have said that the provisions are years away from kicking in, or that there are exemptions allowed by county superintendents, but nothing in the bill covers the concerns of school board members. As stated above, even the smallest contribution by the state results in a reserve account sell off that may receive a temporary exemption.

An alert from the California Teachers Association to its members stated that district reserves on average equal about 30% of the size of their budgets. A 30% reserve is about four months of cash for a district. The alert also references some districts with reserves in the 100% and 200% range. Yet there is no mention of the circumstances surrounding reserves of that level. Here are some thoughts:

- District reserve levels as well as their fund balances are determined by local priorities. For example:
  - Small districts need extra resources set aside to weather any kind of urgent need. For example, if a roof or HVAC system fails and needs to be replaced, a small district needs to draw upon reserves to cover that sudden cost. Some are so small that if one family moves away the reduction in revenue is a recognizable hit to the budget.
  - Mid-year cuts were enacted and threatened to be enacted during the recession. Districts maneuvered through that storm through the use of their prudent reserves. Same with deferrals. At one point, one-third of district apportionments were deferred into the subsequent fiscal year. Add to that unfunded COLAs and actual funding cuts and districts were operating on 50 percent of what was called for in statute various times during the fiscal year.
  - While the economy is impossible to predict, most people do expect some kind of a dip between now and when LCFF is fully implemented. On top of that Prop 30 begins to expire in 2016-17. Districts survived the last downturn because of good cash flow management which included prudent reserves.
  - Small districts (and others too) have to plan ahead for major expenditures, such as textbooks, technology, and even school buses. Reserves as well as assigned and unassigned balances are used for those purposes. Forcing districts to expend these funds prematurely could jeopardize planned purchases and cause fiscal turmoil.
  - San Diego USD two years ago adopted a policy to move toward a reserve level of 8% to increase its cash position. Is 8% too much for a district of that size?
  - Basic Aid districts, some 10% of the districts in the state receive no LCFF funding. Most of those districts are not wealthy. But since they are funded primarily through local property taxes and no state LCFF funding, they receive their funds in only two installments each year. Those districts need prudent reserves to be able to pay their employees and buy basic services throughout the school year.

Districts take years to slowly build up reserves. SB 858 would wipe that away with even the slightest set aside at the state level.

Think about this: a small district with 250 students has an annual budget of say \$2,500,000 with a reserve of 30%, or \$750,000. If the state's Proposition 98 reserve account is fully funded at \$5 billion and all of that money is allocated on a per-ADA basis, that district would get \$833 per ADA, or about \$208,000. They would have been forced to spend down reserves of \$750,000 while the state might someday send them \$208,000.

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For these reasons, we think more time has to be given to coming up with language that works for local communities. The state alone cannot make up for the planning that must take place locally and for the thousands of reasons governing boards set aside what they do.

Please consider calling upon the Legislature to fix the trailer bill language that caps school districts reserves before it closes out the 2013-14 legislative session in August. We would welcome honest participation in that process.

Sincerely,



Dennis Meyers  
Assistant Executive Director, Governmental Relations

cc: Nancy McFadden, Executive Secretary, Governor's Office  
Cathy McBride, Deputy Legislative Secretary, Governor's Office  
Karen Stapf Walters, Executive Director, State Board of Education

