

**RESOLUTION OF THE BOARD OF EDUCATION
ORANGE COUNTY, CALIFORNIA**

Support of SB 751 - Fix the Reserve Cap

WHEREAS, School district governing boards have the obligation to provide a quality education that is essential for an informed citizenry, a competitive economy, a fulfilling life for all students, and the foundation of our democratic society; and

WHEREAS, School district governing boards are responsible for maintaining fiscal solvency of the school systems they govern; and

WHEREAS, The Local Control Funding Formula (LCFF), based on the principle of subsidiarity, provides governing boards, working with interested stakeholders, with the authority to prioritize funds in order to provide quality education for all students, especially those who are English learners, from low income households and who are Foster Youth; and

WHEREAS, Funds for crucial services for school operations, such as payroll, classroom materials, school construction projects, technology, home-to-school transportation, deferred maintenance, etc. often require successful ongoing cash-flow management and disciplined planning, including the creation and maintenance of prudent financial reserves; and

WHEREAS, School district reserve levels, as well as their fund balances, are determined and monitored by governing boards to meet local priorities and allow districts to save for potential future expected and unexpected expenditures and for eventual economic downturns; and

WHEREAS, Small school districts (those below 2,501 in Average Daily Attendance) have unique reserve and cash flow requirements because they lack economies of scale to be able to handle necessary planned and emergency programmatic expenditures; and

WHEREAS, Community funded schools (Basic Aid Districts) receive funds only twice a year and must rely on adequate reserves to manage cash flow for normal daily operations and for future purchases and unforeseen events; and

WHEREAS, The statutory minimum for school district reserves for economic uncertainties ranges from one to five percent, depending on district enrollment, and covers between one to five weeks of payroll, or less than 20 days of total cash flow; and

WHEREAS, Prudent budgeting raises expectations for school districts to establish and maintain reserves above the statutory minimum; and

WHEREAS, On June 20, 2014, the Governor signed into law SB 858 (Committee on Budget and Fiscal Review, Chapter 32, Statutes of 2014), the so-called education budget trailer bill; and

WHEREAS, SB 858, added Section 42127.01 to the California State Education Code, which requires school districts to spend their assigned and unassigned account balances down to no more than two to three times the minimum level of the statutory reserve for economic uncertainties (depending on district

size) in the fiscal year following the fiscal year in which the State of California makes a payment of any amount to the Public School System Stabilization Account; and

WHEREAS, Under Education Code Section 42127.01, a deposit by the State of California of even \$1 to the Public School System Stabilization Account would result in school districts throughout California having to spend down billions of dollars in their reserves and ending balances; and

WHEREAS, It could take many years for the State of California to build up an adequate Public School System Stabilization Account; yet, in one year, school districts would be forced to spend down their reserves and ending balances to levels that could jeopardize fiscal solvency; and

WHEREAS, What has become known as the school district reserve cap has been noted by bond rating agencies as a credit negative when those agencies rate school district debt risk; and

WHEREAS, With California school districts facing increasing cost pressures, such as significantly rising employer contribution rates to pensions, districts are relying heavily on existing reserves to avoid budget shortfalls and program cuts; and

WHEREAS, Senate Bill 751 (Hill and Glazer) is sponsored by the California School Boards Association to modify the reserve cap by (1) refining the definition of the funds to which the cap applies, (2) increasing the level of the cap, (3) exempting certain school districts with unique cash flow needs; now, therefore, be it

RESOLVED, That the Orange County Board of Education supports Senate Bill 751 and legislative efforts to modify the reserve cap law to restore school district governing board flexibility over the use of reserves to adequately prepare for economic difficulties and save for investments in educational programs.

BE IT FURTHER RESOLVED, that this resolution be submitted to Governor Jerry Brown and the California State Senate and Assembly representatives of this school district immediately.

AYES: 5

NOES: 0

ABSENT: 0

STATE OF CALIFORNIA, COUNTY OF ORANGE

I, **Linda Lindholm**, President to the Board of Education of Orange County, California hereby certify that the foregoing Resolution was duly and regularly adopted by the said Board at a regular meeting thereof held on the 7th day of June 2017.

IN WITNESS THEREOF, I have hereunto set my hand and seal this 7th day of June 2017.



Linda Lindholm, President
Orange County Board of Education