



The Education Trust–West



CHILDREN NOW

May 11, 2015

Dear Legislator:

On behalf of the undersigned organizations we are writing to express our continued opposition to the school district reserve cap adopted as part of last year's budget trailer bill, Senate Bill 858.

This legislation limits a school district's assigned and unassigned ending balances to two or three times a school district's minimum reserve in the year following a year that there is a Proposition 2 contribution to the Proposition 98 reserve account. As written, the cap would limit these funds for most districts to six percent of their general fund, or two to three weeks of cash flow.

The myriad of problems created by this provision are due, in large part, to how broadly the term assigned and unassigned ending balances can be interpreted. As written in SB 858, the cap on assigned and unassigned ending balances could sweep up money that school districts have set aside for school construction, bond repayment, retiree benefits such as health care, deferred maintenance and self-insurance, among others. Even a tighter definition of assigned and unassigned ending balances would include funds being saved for future large purchases such as technology, school bus replacement, and instructional materials.

Other problems created by the arbitrary cap include:

- Bond rating agencies, including Fitch, Standard and Poor's, and Moody's have noted that having the cap on the books is by itself a credit negative and will result in extra costs for districts, leaving less money for the classroom.

- The resulting higher interest on bonds will cost working families across California millions of dollars in additional property tax.
- The state's Fiscal Crisis and Management Assistance Team (FCMAT) has noted that forcing districts to spend down their assigned and unassigned ending balances will put them at greater risk of financial insolvency. In fact, FCMAT has noted for many years that insufficient reserves is one of the largest contributing factors to future financial problems for school districts.
- Even the smallest payment toward the Proposition 98 reserve would trigger the reserve cap and apply to billions in school district savings.
- School districts could be forced to spend savings in a matter of months if the appeal to their county superintendent is not granted.
- 40 percent of the state's school districts have less than 1,000 students. More than 10% percent of districts in the state are fully property tax funded and only receive payment twice a year. Many more receive a high percentage of their funds from property tax. Cash flow management and being able to respond to emergency fiscal issues becomes exponentially more difficult for these types of school districts with the cap on reserves.
- Capping the amount of assigned and unassigned ending balances will make it much more difficult to weather financial hardship during the next recession. During the Great Recession, it was school district reserves that helped districts meet payroll and other obligations and lessen the impact of mid-year cuts.

This cap has generated a lot of discussion and controversy since last year as noted by the numerous calls by the state's largest newspapers for its repeal. Even the Legislative Analyst's Office, which is known for presenting various options when making recommendations, offered only one recommendation in its January 21, 2015, report "Analysis of School District Reserves;" and that was to repeal this law.

Our collective opinion on the issue comes from our concern for what is best for the state's six million students and the taxpayers who support their education as well as the fiscal solvency of the state's diverse range of school districts.

Our organizations urge you to take one or more of the following actions on the reserve cap:

- Vote yes on bills that come before you that would repeal the reserve cap.
- Urge your legislative leadership to repeal the cap this session.
- Speak with your local school district leadership about the impact the cap policy has had or will have on local control and prudent fiscal management

Page Three
May 11, 2015

Sincerely,



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Director of Legislative & Community Affairs
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Helen L. Hutchison
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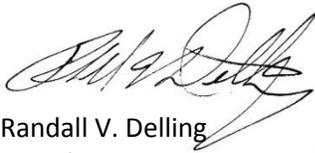
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