

Talking Points on the Reserve Cap

California's legislators need to hear directly from school board members about the dangers that the current reserve cap law poses to our schools and students. They need to hear directly from you why this law must be fixed – even if this will be the second, or third, or fourth conversation on the issue. These talking points will assist you in discussing this issue with your representatives.

What does the current law say?

- The current reserve cap was enacted by 2014 budget trailer bill SB 858, which became active law when voters approved Proposition 2, the state rainy day fund, in November 2014.
- SB 858 states that, if certain economic conditions are met and any amount of money is reserved within the rainy day fund specifically for schools, a reserve limit (or “cap”) would be activated.
- If enacted, the cap would limit how much money school districts are allowed to save in reserve funds.
- The cap also would require districts to spend down existing reserves to meet the reserve limit – this could be anywhere from **\$5 billion to \$14 billion total statewide**.
- The current reserve cap:
 - Limits districts reserves to **6 percent** of its general fund.
 - Applies to **ALL assigned and unassigned** general fund ending balances.

Why is the current law dangerous?

- The current reserve cap is an affront to local control and prevents school district leaders from making local funding decisions that are in the best interests of their students.
- The reserve cap leaves all districts dangerously vulnerable to future economic downturns – a 6 percent reserve amounts to only a few days' worth of cash flow needs.
- The cap limits districts from using funds for purchases that directly benefit students, such as transportation upgrades, classroom technology or even textbooks.
- The reserve cap is simply bad policy and bad for California's schools.

What changes are proposed to the current law?

- The changes proposed by CSBA would:
 - Significantly increase the level of the reserve limit.
 - Clarify that the cap would apply only to unassigned general and special reserve fund ending balances for other than capital outlay.
 - Exempt all basic aid districts and small school districts (of less than 2,501 ADA).
- These changes are currently in Senate Bill 799 (Hill).

Why are these changes necessary?

- Any modifications to the reserve cap must be viewed in terms of how dangerous the current reserve cap law is for schools.
- Applying the cap to only unassigned ending balances allows districts to continue to use reserve funds for classroom purchases AND increases transparency in district reserve fund policies.
- Small and basic aid school districts have highly volatile cash flow needs, and must be allowed to prudently save to guard against future economic downturns.
- If the reserve cap law is NOT modified, the effects on students in my district could be devastating
 - *NOTE: It will be helpful to cite specific examples of ways in which your district relies on reserve funding, such as:*
 - *Why your district maintains its current level of reserves,*
 - *One-time or regular district expenditures that are made with assigned ending balances, or*
 - *Programs which you were able to continue or potential staff reductions you were able to avoid during the recession due to the reserve funds you had available.*

Please feel free to reach out to Dennis Meyers at dmeyers@csba.org if you have any questions. Thank you for your ongoing engagement and efforts to fix the reserve cap.