

Background

The primary funding for California's public school districts comes from the state budget General Fund (with much smaller support provided from local and federal sources), which in turn largely derives its revenue from income taxes, sales taxes, and use taxes that are highly dependent upon the overall health of California's economy. As a result, school district funding can be volatile and vary significantly from year to year.

School districts maintain reserves in order to protect against the adverse impact of fluctuating funding levels, as well as to address unexpected costs, meet irregular cash flow demands, and reduce borrowing costs. Specifically, California public school districts are required to maintain a minimum level of reserves **which varies from 1% to 5%**¹, depending upon the size of their enrollment. Per 5 CCR 15450, PVPUSD is currently required to maintain a minimum available annual reserve (which consists of the unrestricted amounts in the Reserve for Economic Uncertainties and Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects) that is equivalent to 3% (or approximately 11 days) as applied to total expenditures and other financing uses². **As a best practice**, the Governmental Finance Officers Association suggests that, when attainable, general purpose governments should maintain an unrestricted budgetary fund reserve balance of no less than two months (or approximately 17%) of general fund operating expenses.³

Rationale and Purpose for a Reserve Policy

Our district is continually challenged to maintain the highest quality services and programs while balancing volatile funding with both current and future spending. By adopting an explicit reserve policy, the board acknowledges its fiduciary responsibility to establish a framework for accumulating and managing reserves that includes both an early warning system and remedies for avoiding financial distress.

Description

The Board intends to maintain a minimum reserve (also known as a fund balance) that is deemed sufficient to maintain fiscal stability and to protect the district against unforeseen circumstances. This minimum **will be comprised of reserves that have no external constraint⁴ or legal restrictions on their use⁵**, and includes (1) unrestricted amounts in the General Fund's Reserve

¹ California Code of Regulations. 5 15450 . Also see California Department Of Education, *School District Budgets 2020-21: Criteria and Standards for reviewing school district 2020-21 budgets*"

² California Code of Regulations. 5 15450. Also see California Department Of Education, *School District Budgets 2020-21: Criteria and Standards for reviewing school district 2020-21 budgets*"

³ Government Finance Officers Association, *Fund Balance Guidelines for the General Fund*. Gfoa.org

⁴ Legislative Analyst's Office, *School District Reserves*. 2015

⁵ Legislative Analyst's Office, *Update on State and School District Reserves*. April 23, 2020

for Economic Uncertainties, (2) all assigned and unassigned fund balances in the General Fund, and (3) any assigned and unassigned balances that may be maintained in the Special Reserve Fund for Other Than Capital Outlay Projects.

The recommended minimum reserve will initially be **no less than** 10% of annual total expenditures and other financing uses, **which balances the practical challenge of trying to achieve the aspirational target suggested by the Government Finance Officers Association with the potential for greatly increased financial risk associated with the minimum prescribed by California law.**

Monitoring

The Board will review this reserve policy as part of the regular budgeting process and evaluate whether there are opportunities to increase the reserve level or whether there are circumstances that justify reducing it below the targeted minimum balance. If the minimum reserve balance is in any danger of falling below the 10% threshold due to circumstances such as an emergency situation, unexpected expenditures, or revenue shortfalls, the Board **and Superintendent** shall develop a plan to recover the fund balance minimum which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources. **Per the GFOA recommendation, this plan should seek to replenish fund balances within 1-3 years of use.**