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The Reserve Cap and the Classroom Expense Allocations Need to be Addressed by the Legislature—An Editorial by SSC

Most school agencies in California were more than surprised that in Governor Jerry Brown's 2017-18 Budget proposal, even after adding in the expected revenues from Proposition 55, the state's out-year revenue projections were lower than forecast in June 2016. We understand the rationale supporting conservative estimates as we watch state General Fund revenues come in below expectations month after month. However, the impact on school agencies is real and it is significant.

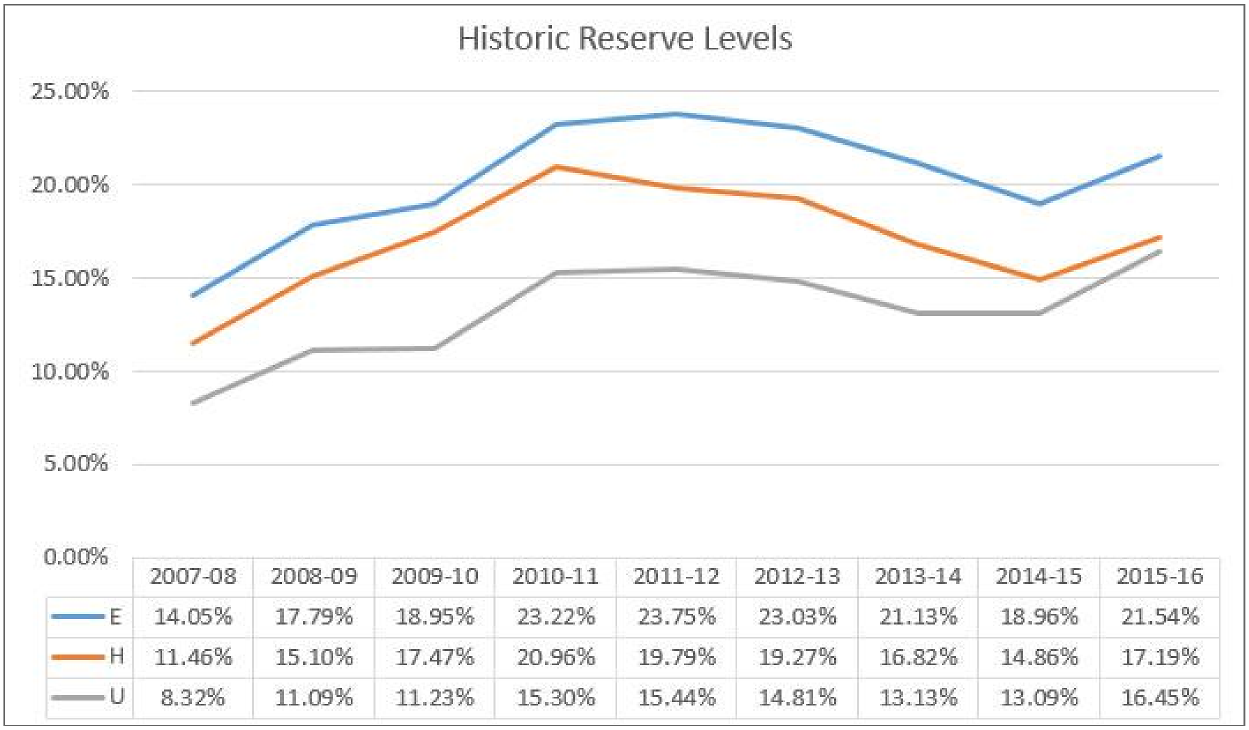
Just a month before the January proposal, school agencies filed their First Interim reports using revenue estimates derived from the state's 2016-17 Enacted Budget. As expected, the vast majority were able to self-certify that they were "positive." But this month, as districts prepare their Second Interim reports, most districts are showing that the reduction in revenues proposed by the Governor are leading to budget cuts, layoff notices, and program reductions.

Further, districts are following the Governor's lead and building reserves, just as the state is building the Rainy Day Fund. We think that districts are clearly doing the right thing in order to weather the storm the Governor says lies ahead. But at the same time, two areas of state law inhibit local educational agencies (LEAs) from asserting the local control necessary to weather a storm.

The Reserve Cap

The reserve cap enacted in the 2014 State Budget has not yet taken effect because the four preconditions to implementation have not been met. However, given that the ticking time bomb of state-forced lower reserve levels remains in state law, we have seen evidence that some districts are indeed reducing reserves. We have urged districts to maintain a reasonable reserve in spite of any potential reserve cap. Most districts are doing that as evidenced in the table and graph below:

2015-16 Average Unrestricted General Fund, Plus Fund 17; Net Ending Balances as a Percentage of Total General Fund Expenditures, Transfers, and Other Uses		**Difference from 2014-15**
Elementary (E)	21.54%	2.58%
High (H)	17.19%	2.33%
Unified (U)	16.45%	3.36%



We believe the upward trend in reserves is positive and reflects the more negative forecasts promulgated by the Administration. School agencies proved during the Great Recession that they were the best money managers in the state—better than private companies, cities and counties, and the state itself—all of which had many more financial failures than school agencies.

It is time for the Legislature to recognize that the cap imposed by Senate Bill (SB) 858 was wrong from the beginning and needs to be repealed. We think school agencies, in spite of claims to the contrary, have earned the right to the subsidiarity and local control trumpeted so loudly by the Administration. We urge the Legislature to recognize that SB 858 is a ticking time bomb and repeal it completely. Compromises leave undisturbed the basic premise that there is a problem with school boards managing reserves. There is absolutely no evidence that was ever true and it is certainly not true now.

Classroom Expenditure Allocations

Many decades ago, the state specified minimum expenditure levels for classroom expenses. Classroom expenses are defined very narrowly to include only salaries and benefits of certificated and classified personnel who are assigned to classrooms. These percentages have not been changed over many decades, though the school finance system, the Local Control and Accountability Plan, and the use of one-time money by the state to meet its Proposition 98 obligations have made it all but impossible for districts to meet the percentages. Elementary districts are particularly hard hit by these archaic formulae. If there is a problem in one district, it is likely the district that is at fault, but if the problem is in more than 40% of districts, it is appropriate to question the rule.

Percent of LEAs that did not meet the minimum Classroom Expenditure Allocation (CEA)		
	2014-15	**2015-16**
Elementary	41.19%	43.38%

High	5.56%	11.11%
Unified	12.93%	14.66%

Like the reserve cap, the CEA limits presume that a "one-size fits all" formula is better than the judgment of school board members who have proven over and again the quality of their decisions. It is time to eliminate the CEA and trust school boards to continue to do the right thing as they always have.

Now Is the Time for Action

This is the year for action by the Legislature. If the Administration's economic projections are even close to being correct, we will soon be turning to local school agencies to reduce expenditures and take action to maintain solvency. Both the reserve cap and the CEA limits serve no useful purpose and should be discarded immediately. School agencies will soon need all the tools they can get to maintain programs for students while also remaining financially solvent.

In our opinion, good government starts and ends with effective elected officials at all levels. The responsible action we urge the Legislature to take is to trust other locally elected officials to continue the track record that has earned them the reputation of being the most responsible money managers in the state. In this case, we think the highest level of support by the Legislature is to relieve the districts of unnecessary legislation and let proven leaders lead. We therefore urge repeal of these two archaic, unnecessary provisions of law.

—SSC Staff

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