



**Sonoma County**

Office of Education

# 10% Reserve Cap / Fund Balance Reserves

August 26, 2021





# Background

All four criteria to require a deposit into the Public School System Stabilization Account were met in 2020-21 and projected to be met in 2021-22. Pursuant to Ed Code 42127.01, in a fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised pursuant to Section 42127 shall not contain a combined assigned or unassigned ending general fund balance that is in excess of 10 percent of those funds.

## What does this mean?

- ★ School District's assigned and unassigned reserves will be capped at no more than 10% of annual General Fund and Special Reserve Fund (Fund 17) expenditures.



# Background Continued...

## When Does the Reserve Cap Take Effect?

- ★ The reserve cap will be triggered for the first time beginning with the 2022-23 Adopted Budget
  - Districts should begin planning now to ensure compliance with this new requirement

## Who is Exempt from the Reserve Cap Requirement?

- ★ Small districts whose ADA is less than 2,501
- ★ Basic Aid districts
- ★ Charter Schools



# Exemption

Ed Code 42127.01 provides for an exemption from the 10% Reserve Cap requirement:

(b) A county superintendent of schools may grant a school district under its jurisdiction an exemption from the requirements of subdivision (a) for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances, including, but not limited to, multiyear infrastructure or technology projects, substantiate the need for a combined assigned or unassigned ending general fund balance that is in excess of the amount described in subdivision (a). As a condition of receiving an exemption, a school district shall do all of the following:

- (1) Provide a statement that substantiates the need for a combined assigned and unassigned ending general fund balance that is in excess of the amount described in subdivision (a).
- (2) Identify the funding amounts in the budget adopted by the school district that are associated with the extraordinary fiscal circumstances.
- (3) Provide documentation that no other fiscal resources are available to fund the extraordinary fiscal circumstances.



# The 5 Main Reasons Districts have Reserves

- ★ Manage Cash Flow
- ★ Mitigate Volatility in Funding or Expenditures
- ★ Address Unexpected Costs
- ★ Save for Large One-time Purchases
- ★ Reduce Costs of Borrowing Money



# Components of Ending Fund Balance

## **Nonspendable**

Revolving Cash  
Stores  
Prepaid Item

## **Restricted**

Amounts that can be spent only for the specific purpose stipulated by the provider of the funds.

## **Committed**

Amounts that can be spent only for the specific purpose approved by a formal action of the highest decision-making authority (school board).

## **Assigned**

Amounts intended to be used for a specific purpose but does not meet the higher level classification of committed or restricted funds.

## **Unassigned**

Residual amount not contained in the other classifications.

## **Reserve for Economic Uncertainty (REU)**

State required 3% of combined expenditures and other funding sources. This amount is identified separately but resides in the Unassigned classification.

# Example



## 2021-22 Adopted Budget

	Unrestricted	Restricted	Combined
A. REVENUE	76,105,541	25,298,681	101,404,222
B. EXPENDITURES	58,973,090	41,846,277	100,819,367
C. EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	17,132,451	(16,547,596)	584,855
D. OTHER FINANCING SOURCES/USES			
1. Interfund Transfers			
a. Transfers In			
b. Transfers Out	300,000	-	300,000
2. Other Sources/Uses			
a. Sources			
b. Uses			
3. Contributions	(16,297,596)	16,297,596	-
4. TOTAL, OTHER FINANCING SOURCES/USES	(16,597,596)	16,297,596	(300,000)
E. NET INCREASE (DECREASE) IN FUND BALANCE	534,855	(250,000)	284,855
F. FUND BALANCE			
1. Net Beginning Fund Balance	9,995,398	250,000	10,245,398
2. Ending Fund Balance	10,530,253	-	10,530,253
3. Components of Ending Fund Balance			
a. Nonspendable			
Revolving Cash	27,200		27,200
Stores			
Prepaid Items	19,742		19,742
b. Restricted			
c. Committed			
1. Stabilization Arrangements			
2. Other Commitments			
★ d. Assigned	3,139,206		3,139,206
★ e. Unassigned/Unappropriated			
1. Reserve for Economic Uncertainty	3,033,581		3,033,581
2. Unassigned/Unappropriated	4,310,524		4,310,524

★ These amounts count toward the 10% cap

### Determine the 10% Cap:

\$100,819,367 total expenditures  
300,000 transfers out  
 101,119,367  
 X 10%  
 \$ 10,111,937 = 10% Cap



# Example (cont)



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**10% Cap = \$10,111,937**

\$	3,139,206	Assigned
	3,033,581	REU
	<u>4,310,524</u>	Unassigned
	10,483,311	Total toward Cap
	<u>(10,111,937)</u>	Less 10% Cap
\$	371,374	



**Amount Over Cap**



# Example (cont)



## Summary including a Fund 17

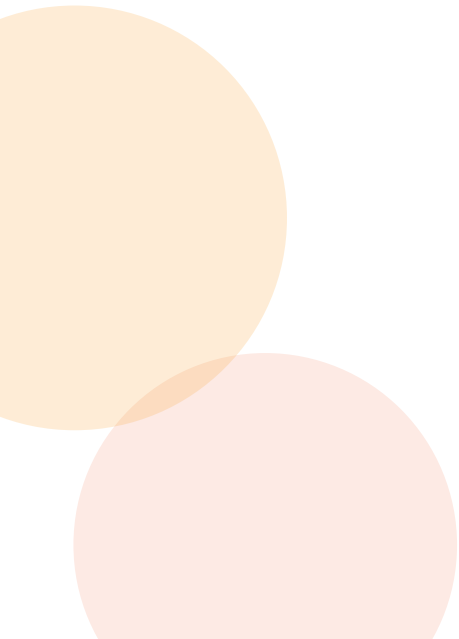
<b>Calculation of 10% Reserve Cap</b>		<b>2021-22</b>
Expenditures & Other Financing Uses		\$ 101,119,367
Reserve Cap		
(10% of Expenditure & Other Financing Uses)		10,111,937
<b>Assigned and Unassigned Ending Fund Balance</b>		
General Fund		
Assigned Ending Balances		3,139,206
Unassigned Ending Balances		
-Reserve for Economic Uncertainty		3,033,581
-Unassigned/Unappropriated		4,310,524
Fund 17		
Assigned Ending Balances		
Unassigned Ending Balances		
-Reserve for Economic Uncertainty		200,000
-Unassigned/Unappropriated		
Total Assigned and Unassigned Ending Fund Balance		10,683,311
<b>Excess over Reserve Cap Requirement</b>		<b>\$ 571,374</b>





# Solutions

**There are a variety of solutions available**





# Solution Examples

## Commit Funds

- ★ Future COPs payments
- ★ Additional Reserve % to protect District from unforeseen circumstances of revenue shortfalls and unexpected expenditures
- ★ Other large expenditures

## Restrict Funds

- ★ Move funds from **Assigned** reserve for 5 year Technology Replacement and 5 year Curriculum Textbook Adoptions to locally defined restricted side of budget
- ★ Review budget to ensure donations and other locally restricted funds are held in restricted side of budget

## Transfer Funds

- ★ Transfer funds to Fund 14 Deferred Maintenance for facilities needs



# Reminders

- ★ Committed Fund Balance:
  - Through formal board action
  - Action must be made by the end of the reporting period (June 30)
  - Actual amounts may be determined at a later date, prior to the issuance of the financial statements
  - Constraints can only be modified/removed through same process by which they were imposed (formal board action)
  
- ★ 10% Reserve Cap is effective for the 2022-23 Adopted Budget





# Questions?

