

CLIENT NEWS BRIEF

What the Education Budget Trailer Bill Requires of School District Budgets and Reserves

Governor Brown has now signed the State Budget, including the Education Budget Trailer Bill (SB 858). While the impact on school district budgets and reserve funds has been the subject of much discussion and controversy, the following is a summary of the two separate provisions of SB 858 directed at district reserve funds and a brief outline of the requirements of each.

First, the bill amends Education Code section 42127 to provide that, beginning in 2015-16, if the district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the following information for review at the annual public hearing on its proposed budget:

- The minimum recommended reserve adopted by the State Board of Education;
- The district's fund balance in excess of the recommended reserve; and
- A statement substantiating the need for the excess reserve level.

This information is to be included in a district's budgetary submission to its county superintendent, and the county superintendent must verify that each district has complied with these requirements. Budgets prepared by county superintendents must also comply with the above requirements. This provision is effective for the 2015-16 school year and is not contingent on the voters approving the "rainy day fund" in November.

The second provision of SB 858 is not yet effective, but is contingent on voters approving the "rainy day fund" in November. This second provision adds section 42127.01 to the Education Code, to provide that in any fiscal year immediately after a fiscal year in which a transfer is made by the State to the "rainy day fund," a school district may not adopt a budget that contains a reserve in excess of twice the applicable minimum reserve amount, or three times the applicable reserve amount in the case of Los Angeles Unified School District. This cap on reserves does not appear to apply to county offices of education.

A county superintendent may grant a school district an exemption from the limitation on reserves for up to two consecutive fiscal years if the school district provides documentation indicating that "extraordinary fiscal circumstances" substantiate the need for a higher ending balance.

Section 42127.01 shall become operative on December 15, 2014, but only if the voters approve the "rainy day fund" initiative in November.

If you have any questions regarding the impact or implementation of SB 858 or any other issues, please contact one of our [eight offices](#) located statewide. You can also visit our [website](#), follow us on [Facebook](#) or [Twitter](#), or download our [Client News Brief App](#).

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