

CLIENT NEWS BRIEF

How Will Proposition 2 Affect School District Budgets and Reserves?

Based on unofficial results from yesterday's election, Proposition 2 is expected to pass with nearly 70% of the vote. Among other things, this proposition will establish a new statewide budget reserve for K-12 schools and community colleges. Due to legislation signed by the Governor last summer, the passage of Proposition 2 will also result in the imposition of a cap on local K-12 school district budget reserves.

As we reported previously ([See Client News Brief No. 31, June 2014](#)), one of the budget trailer bills signed by Governor Brown in June was Senate Bill (SB) 858, the Education Budget Trailer Bill. Two separate provisions in SB 858 were directed at school district reserve funds, the second of which is dependent on the passage of Proposition 2:

(1) First, SB 858 amended Education Code section 42127 to require a school district governing board to provide certain information for review at the district's annual public hearing on its proposed budget, including the amount of the proposed fund balance in excess of the recommended reserve, if any, and a statement substantiating the need for the excess reserve level. This provision goes into effect beginning in 2015-16, and is not contingent on the approval of Proposition 2.

(2) Second, provided Proposition 2 is approved, SB 858 will add section 42127.01 to the Education Code and require that in any fiscal year immediately after a fiscal year in which a transfer is made to the State reserve for schools, 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 new statute becomes operative on December 15, 2014 if Proposition 2 passes. Provided Proposition 2 passes and a transfer is made to the state reserves for schools during the 2014-15 fiscal year, this cap on local budget reserves will be effective for the 2015-16 fiscal year.

A County Superintendent may grant a school district an exemption 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.

The cap on local budget reserves does not appear to apply to county offices of education or to community colleges.

If you have any questions regarding the impact of Proposition 2 or SB 858, 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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