The Big News – 2015-16 Provides the Highest Increase in Education Funding Ever!

- The May Revision provides an additional $3.1 billion for education funding in 2014-15
  - This funding is for 2014-15, but treated as one-time dollars
- That is on top of $4.75 billion already provided in the enacted Budget for the Local Control Funding Formula (LCFF)
- The combination of a rapidly recovering California economy and Proposition 30 temporary taxes drive the increased state revenues and growth in Proposition 98 for 2014-15
- The Governor proposes adding $2.1 billion to the $4 billion proposed in January for 2015-16 LCFF growth, for a total of $6.1 billion
  - Gap closure rate goes from 32.19% to 53.08%
  - Average increase is 14.13%, or $1,088 per average daily attendance (ADA)
- The state is making rapid progress toward full implementation of the LCFF
General Fund Revenues 2015-16

Revenues and transfers increase 3.2%, while expenditures increase by less than 1%

The May Revision proposes over $3.4 billion in the Budget Stabilization Account

The May Revision maintains over $1.1 billion in the Reserve for Economic Uncertainties

General Fund Budget Summary 2015-16

<table>
<thead>
<tr>
<th></th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior-Year Balance</td>
<td>$5,589</td>
<td>$2,359</td>
</tr>
<tr>
<td>Revenues and Transfers</td>
<td>$111,307</td>
<td>$115,033</td>
</tr>
<tr>
<td>Total Resources Available</td>
<td>$116,896</td>
<td>$117,392</td>
</tr>
<tr>
<td>Non-Proposition 98 Expenditures</td>
<td>$64,929</td>
<td>$65,892</td>
</tr>
<tr>
<td>Proposition 98 Expenditures</td>
<td>$49,608</td>
<td>$49,416</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$114,537</td>
<td>$115,308</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$2,359</td>
<td>$2,084</td>
</tr>
<tr>
<td>Reserve for Liquidation of Encumbrances</td>
<td>$971</td>
<td>$971</td>
</tr>
<tr>
<td>Special Fund for Economic Uncertainties</td>
<td>$1,388</td>
<td>$1,113</td>
</tr>
<tr>
<td>Budget Stabilization Account/Rainy Day Fund</td>
<td>$1,606</td>
<td>$3,460</td>
</tr>
</tbody>
</table>

Source: 2015-16 May Revision, page 10
Political Issues

- The Constitution requires that schools get big funding increases this year and next – can the state afford it?
  - Yes!
  - Schools get the lion’s share of unanticipated state revenue growth, but nothing is taken away from noneducation programs to pay for it
  - 2015-16 growth in Proposition 98 funding is wholly supported by increased local property tax revenues, not state aid
    - State General Fund spending for Proposition 98 actually drops by nearly $200 million in 2015-16 from 2014-15
  - Proposition 98 is a complicated formula, in part because of protections built in for the state
    - Test 3, and “spike” protection, tempers Proposition 98 growth in 2015-16, freeing money for other state priorities

State Revenues and Proposition 98

- The May Revision acknowledges a current-year surge in state revenues and transfers of $3.3 billion, and a revised forecast for 2015-16 of $1.7 billion
- This state revenue increase in turn drives a revision to the Proposition 98 minimum funding guarantee
  - An increase of $3.1 billion in 2014-15 to $66.3 billion under Test 1
    - Test 1 funding is determined by a fixed share of General Fund revenues
  - An increase of $2.7 billion in 2015-16 to $68.4 billion under Test 3
    - Test 3 funding is based on the growth in per-capita General Fund revenues plus 0.5%
Proposition 98 Funding Will Slow

- Proposition 98 has provided major increases in funding for K-14 education as the state economy recovers and funding cuts imposed during the recession are restored
  - Compared to the 2011-12 Proposition 98 guarantee, funding in 2015-16 will have increased $21.1 billion to $68.4 billion under the May Revision, an average annual gain of 9.7%
- These gains are largely attributed to the repayment of the Proposition 98 maintenance factor, an amount equivalent to the loss of funds imposed on K-14 education during the recession (a restoration, not a repayment)
- According to the May Revision, $772 million in maintenance factor payments will remain at the end of 2015-16
- **Conclusion:** Proposition 98 funding will slow considerably once the maintenance factor has been fully paid
  - Growth will likely be in the range of 2% to 4% annually

Source: 2015-16 May Revision, page 5
The January Budget proposed $4 billion for continued implementation of the LCFF

The May Revision provides another $2.1 billion, for a total of $6.1 billion of additional Proposition 98 revenues flowing to schools

New funding is estimated to close the gap between 2014-15 funding levels and LCFF full implementation targets by 53.08% in 2015-16

- The May Revision slightly revises the current-year gap closure estimate, up from 29.15% to 29.97% for 2014-15

- When combined with 2013-14 and 2014-15 LCFF funding, implementation progress would close almost 70% of the gap in just 3 years

The 2014 State Budget Act and the passage of Proposition 2 last November established a hard cap on district reserves if certain conditions are met

- The Governor’s May Revision proposes no change to the hard cap

- The conditions that would trigger the hard cap include:
  - The Proposition 98 maintenance factor must be fully repaid
  - Proposition 98 must be funded based on Test 1
  - Proposition 98 provides sufficient funds to support enrollment growth and the statutory cost-of-living adjustment (COLA)
  - A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues

- In January, we concluded that three of the four conditions would be met in 2014-15
  - Only the condition requiring full repayment of the maintenance factor would not be met in 2014-15
When Will the Cap Be Triggered?

- The hard cap on district reserves would take effect in the year following the year in which all of the conditions are met, commencing in 2015-16.

- Based on the May Revision, all four conditions will not be met in 2015-16.
  - However, there is a good chance that the maintenance factor will be fully repaid in 2015-16 or 2016-17 if there is an unexpected surge in state revenues as there has been for the last two years.

- The only other condition that will remain outstanding is Proposition 98 funding based on Test 1, the fixed share of General Fund revenues.
  - Extraordinary growth in property taxes, which occurred in the current year, or historically weak per capita personal income growth, which occurred in 2011-12 and 2012-13, could trigger Test 1 funding.

- It is only a matter of time until the hard cap will become operative, unless it is repealed – We will talk about legislative efforts on this topic later on.

Proposition 30 Taxes Will Expire

- In November 2012, with the passage of Proposition 30, the Governor persuaded state voters to increase taxes on a temporary basis to mitigate cuts to education.

- These taxes will generate more than $8 billion annually at their peak; however, they begin to expire commencing in 2016.
  - The 0.25% sales tax increase expires in 2016 (i.e., the 2016-17 fiscal year).
  - The high-bracket personal income tax increase expires in 2018 (i.e., the 2018-19 fiscal year).

- While there is talk around the Capitol of efforts to extend Proposition 30 or enact other taxes to replace the revenue loss from the expiration of Proposition 30 taxes, the success of such efforts is far from certain.
  - The Governor has repeatedly stated that he considers Proposition 30 a temporary tax and has given no signals that he would support efforts to raise other taxes.
General Fund Income and Sales Tax Revenues
(In Billions)

Dollars in Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Tax</th>
<th>Sales Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>$77.7</td>
<td>$25.2</td>
</tr>
<tr>
<td>2016-17</td>
<td>$81.7</td>
<td>$25.8</td>
</tr>
<tr>
<td>2017-18</td>
<td>$84.7</td>
<td>$25.9</td>
</tr>
<tr>
<td>2018-19</td>
<td>$84.2</td>
<td>$27.1</td>
</tr>
</tbody>
</table>

Source: 2015-16 May Revision, page 101

Income and Sales Tax Revenue
(Percent Change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>3.8%</td>
</tr>
<tr>
<td>2016-17</td>
<td>4.5%</td>
</tr>
<tr>
<td>2017-18</td>
<td>2.9%</td>
</tr>
<tr>
<td>2018-19</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Source: 2015-16 May Revision, page 101
Implications for Education Funding

- The Administration’s economic forecast assumes “steady growth over the next four years” with no recession

  - However, the May Revision warns that the current economic expansion has already exceeded the average postwar expansion by over a year
  - The Governor stated that “a recession is coming, we just don’t know when”

- Slow to no growth in the income tax and the sales tax, which together account for 90% of General Fund revenues, will slow LCFF funding significantly as Proposition 30 revenues fade

- If a recession occurs during the same period that Proposition 30 taxes expire, state revenues could drop below prior-year levels, and cuts to education could be on the table again

Discretionary Funds

- The May Revision provides an increase of $2.4 billion in discretionary one-time Proposition 98 funding
  - From $1.1 billion to $3.5 billion, equal to about $601 per ADA
  - Of these funds, $40 million is for County Offices of Education (COEs) to assist in meeting new responsibilities associated with the Local Control and Accountability Plan (LCAP)

- The May Revision suggests that local educational agencies (LEAs) prioritize these funds for professional development, teacher induction, and instructional materials and technology
  - This is not a mandate and the funds can be used for “any one-time purpose, as determined by the governing board”
  - However, any funds received will offset state obligations for any LEA with outstanding mandate reimbursements, consistent with the approach used in the 2014 Budget Act
## Funding CalPERS and CalSTRS

- The employer contribution costs for both California Public Employees’ Retirement System (CalPERS) and California State Teachers’ Retirement System (CalSTRS) are significantly increasing over the next several years.
  - The 2015-16 CalPERS employer contribution rate increase is less than expected – increasing to 11.847% instead of 12.6%.
  - The 2015-16 CalSTRS employer contribution rate statutorily increases to 10.73%.
    - The increase in 2014-15 was made purposefully small – an 8% increase in the employer cost.
    - The increase in 2015-16 is more significant – a 30% increase above the 2013-14 employer contribution rate.
- The 2015-16 State Budget proposal does not address these cost increases for LEAs.

## Categorical Programs Outside of the LCFF

- For 2015-16, the May Revision proposes categorical programs outside of the LCFF will receive the statutory 1.02% COLA, down from 1.58% proposed in January.
- These programs include:
  - Special Education
  - Foster Youth
  - American Indian Education Centers
  - American Indian Early Childhood Education Programs
  - Child Nutrition
  - Adults in Correctional Facilities
- The May Revision proposes a decrease of $18.4 million for select categorical programs based upon updated estimates of projected ADA growth.
Career Technical Education

- The Governor’s January Budget proposed $250 million in one-time funding in each of the next three years for a transitional Career Technical Education (CTE) Incentive Grant Program and required a one-to-one local/state match.
- The May Revision proposes additional funding and increasing match requirements as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Difference from January</th>
<th>Total Funding Proposed</th>
<th>Local/State Match Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>+$150 million</td>
<td>$400 million</td>
<td>1:1</td>
</tr>
<tr>
<td>2016-17</td>
<td>+$50 million</td>
<td>$300 million</td>
<td>1.5:1</td>
</tr>
<tr>
<td>2017-18</td>
<td>&lt;-$50 million&gt;</td>
<td>$200 million</td>
<td>2:1</td>
</tr>
</tbody>
</table>

- Governor notes, “It will better allow schools to transition to entirely using their own discretionary funds by 2018-19”
- The proposal adds to the existing list of funding priorities and disallows Career Pathways Trust funds from counting toward the match.

Adult Education

- The May Revision maintains $500 million for the Adult Education Block Grant and makes several changes to the program based on feedback from practitioners:
  - Eliminates the requirement for the establishment of local allocation boards and instead requires each consortium to establish decision-making rules and procedures.
  - Lessens the frequency of plan development to at least once every three years with annual updates.
The May Revision proposes workload adjustments to California Work Opportunity and Responsibility to Kids (CalWORKs) Stages 2 and 3 funding:
- Stage 2 – $46.8 million increase to reflect an increase in eligible beneficiaries and the cost of providing care
- Stage 3 – $2 million increase to reflect minor adjustments in caseloads and costs of providing care

Non-CalWORKs programs:
- Capped child care programs are proposed to decrease by a total of $9.7 million, reflecting:
  - $7.2 million due to decrease of COLA to 1.02%
  - $2.5 million to reflect decrease in the population of 0 to 4-year-old children
- $17.7 million increase in federal funds for child care and development programs

The cause of most school district insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the district during lean financial times, so caution is key:
- Resist using future revenue projection dollars to justify paying for ongoing expenditures in the current year
- A likely future recession is not forecast in any of the state’s revenue projections
- Proposition 30 temporary taxes will expire in the next few years
- CalSTRS and CalPERS contributions will be increasing
- Declining enrollment will continue to make it difficult to balance the budget
- Education will be receiving 40% vs. 90% of new state revenue once the maintenance factor is paid off
- Expectations are for COLA-only years after the LCFF target reached
- The reserve cap, if implemented, demands a balanced budget
The first and last sections of the SSC Dartboard continue to contain the planning factors users have seen in the past.

However, the actual planning section is no longer applicable to each district in the same way.

Therefore, we link our SSC Dartboard to the SSC LCFF Simulator for the district-specific calculations.

Districts that use the SSC Dartboard and the SSC LCFF Simulator in the manner intended will find that they can easily obtain an updated projection whenever there is a change in:

- The amount of money the state provides in the current year
- The revenue or COLA forecasts for the outyears
- The LCFF distribution formula

---

**SSC Financial Dartboard**

<table>
<thead>
<tr>
<th>Factor</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory COLA</td>
<td>0.85%</td>
<td>1.02%</td>
<td>1.60%</td>
<td>2.48%</td>
</tr>
<tr>
<td>LCFF Factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSC LCFF Gap Funding Percentage</td>
<td>29.97%</td>
<td>53.08%</td>
<td>12.62%</td>
<td>18.24%</td>
</tr>
<tr>
<td>Department of Finance (DOF) LCFF Gap Funding Percentage</td>
<td>29.97%</td>
<td>53.08%</td>
<td>37.40%</td>
<td>36.74%</td>
</tr>
<tr>
<td>California Consumer Price Index</td>
<td>1.40%</td>
<td>2.20%</td>
<td>2.40%</td>
<td>2.60%</td>
</tr>
<tr>
<td>Ten-year Treasuries</td>
<td>2.20%</td>
<td>2.40%</td>
<td>2.80%</td>
<td>3.00%</td>
</tr>
<tr>
<td>CalPERS</td>
<td>11.771%</td>
<td>11.847%</td>
<td>13.05%</td>
<td>16.60%</td>
</tr>
<tr>
<td>CalSTRS</td>
<td>8.88%</td>
<td>10.73%</td>
<td>12.58%</td>
<td>14.43%</td>
</tr>
</tbody>
</table>
Multiyear Projections for the 2015-16 Budget

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LCFF Target</td>
<td>$9,575</td>
<td>$9,751</td>
<td>$9,903</td>
<td>$10,144</td>
</tr>
<tr>
<td>Estimated DOF Projection</td>
<td>$7,702</td>
<td>$8,789</td>
<td>$8,926</td>
<td>$9,151</td>
</tr>
<tr>
<td>SSC Recommendations</td>
<td>$7,702</td>
<td>$8,789</td>
<td>$8,926</td>
<td>$9,151</td>
</tr>
<tr>
<td>Net Change per ADA</td>
<td>$802</td>
<td>$1,088</td>
<td>$140</td>
<td>$222</td>
</tr>
<tr>
<td>Net Percent Change</td>
<td>11.62%</td>
<td>14.13%</td>
<td>1.6%</td>
<td>2.48%</td>
</tr>
<tr>
<td>SSC Gap Closure Percentage</td>
<td>29.97%</td>
<td>53.08%</td>
<td>12.62%</td>
<td>18.24%</td>
</tr>
</tbody>
</table>

K-3 Grade Span Adjustment Funding

- Regulations specify that school districts may use the gap closure percentages estimated by the DOF at the time of the May Revision to the Governor’s Budget*
  - For 2013-14 – 11.78%
  - For 2014-15 – 28.06%
  - For 2015-16 – 53.08%
- These percentages are specific to the K-3 class-size reduction requirement and may differ from the percentages estimated at the time of final State Budget adoption
  - In 2013-14 and 2014-15, the change in gap closure percentage from the May Revision to the enacted Budget was immaterial for districts
    - What happens if the gap closure is reduced at State Budget adoption?

*5 CCR 15498.3
The increase in the gap funding proposal to 53.08% is great news!

- It does come with some challenges for districts when reducing K-3 class size

- Most districts have already finalized staffing plans and facilities needs by this point in the year

- Based upon the Governor’s January proposal of 32.19% in gap funding

- Districts will now need to further reduce K-3 class sizes in 2015-16 by an additional 20%

  - To 53.08% of the difference between the current-year class-size average and the target average of 24 students per class

  - Unless the collective bargaining exception applies

Following the Governor’s 2015-16 May Revision, both houses independently finish their work

- Subcommittees report to the respective Assembly or Senate Budget Committee, which approves their version of a State Budget

- In “normal” years, a Budget Conference Committee is established to hash out the differences between the two houses
The Latest State Budget News

- Last week, the Legislative Analyst's Office (LAO) released its “Analysis of the Proposition 98 May Revision Budget Package”
  - As in years’ past, the LAO thinks the Administration is underestimating revenue projections
    - Anticipates $3 billion more in state revenues than the Governor
    - 2015-16 Proposition 98 minimum guarantee estimated to be $69.1 billion, $723 million higher than the Administration
- The Democratically controlled Legislature is keen on spending more, especially on the non-Proposition 98 side of the State Budget
  - These estimates give them that opportunity
  - And the corresponding requirement to spend more within Proposition 98

Comparing the Proposition 98 Packages

- Both houses approved the Adult Education Block Grant and CTE spending levels proposed in May, $500 million and $400 million respectively
  - The Legislature proposes per-ADA funding for the CTE funds
- Other significant details differ:

<table>
<thead>
<tr>
<th></th>
<th>Governor</th>
<th>Assembly</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16 Spending Level</td>
<td>$68.4 billion</td>
<td>$69.1 billion</td>
<td>$70.1 billion</td>
</tr>
<tr>
<td>LCFF Gap Closure</td>
<td>$6.1 billion</td>
<td>$6.3 billion</td>
<td>$6.45 billion</td>
</tr>
<tr>
<td>Discretionary Funding/Mandate Backlog</td>
<td>$3.5 billion</td>
<td>$3.37 billion</td>
<td>$2.9 billion</td>
</tr>
<tr>
<td>Transportation</td>
<td>N/A</td>
<td>N/A</td>
<td>$50 million</td>
</tr>
<tr>
<td>Fund Preschool “wrap” within Proposition 98</td>
<td>N/A</td>
<td>N/A</td>
<td>$280 million</td>
</tr>
<tr>
<td>Fund Child Care within Proposition 98</td>
<td>N/A</td>
<td>N/A</td>
<td>$994 million</td>
</tr>
<tr>
<td>“Educator Effectiveness” Proposal</td>
<td>N/A</td>
<td>N/A</td>
<td>$800 million</td>
</tr>
<tr>
<td>Teacher Support/Professional Development</td>
<td>N/A</td>
<td>$190 million</td>
<td>N/A</td>
</tr>
</tbody>
</table>
We’ve Heard This Story Before . . .

- If this sequence of events sounds familiar, it is!
- During the economic recovery, the Legislature and Administration have followed this narrative:
  - Governor provides a conservative revenue estimate and spending plan
  - LAO counters with a more optimistic revenue estimate
  - Legislature builds its version of the State Budget using the LAO’s revenue projections, adding its priorities into the State Budget
  - The “Big 3” negotiate
  - The Governor’s revenue projections prevail, but the Legislature gets some of its priorities
    - Last year, deferral repayments were put off – this year, discretionary funding could be the “balancer”
- In less than three weeks, the Legislature must approve the 2015-16 State Budget or face a loss in pay

Questions?

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Thank you
Teacher Evaluations

Assembly Bill (AB) 575 (O’Donnell, D-Long Beach)—Teachers: Best Practices Teacher Evaluation System: School Administrator Evaluation (and Senate Bill [SB] 499 [Liu, D-La Cañada Flintridge]) would repeal the Stull Act on July 1, 2018. The bill would replace the existing Stull Act with a best practices teacher evaluation system and as written would align performance criteria with the California Standards for the Teaching Profession (CSTPs). AB 575 would also allow for permanent teachers to be evaluated every three years as opposed to every two years, as is currently required.

AB 575 would require that a best practices teacher evaluation system be negotiated. Specifically, the bill would require that the governing board of each school district adopt and implement a locally negotiated best practices teacher evaluation system, described as one in which each teacher is evaluated on a continuing basis on the degree to which he or she accomplishes specific objectives and multiple observations of instructional and other professional practices that are conducted by trained evaluators. Additionally, it would require that at a regularly scheduled public hearing, the board seek comment on the development and implementation of the best practices teacher evaluation system. It would also require that annually, on or before May 1, and before bargaining commences with the local bargaining unit, the board seek comment on the best practices teacher evaluation system.

The bill would repeal the provisions governing principal evaluations and would instead require the governing board of each school district to establish a system of evaluation for school administrators to guide their growth and performance with the purpose of supporting them as instructional leaders in order to raise pupil achievement.

As amended on May 13, 2015, recent amendments make the bill applicable to county offices of education and charter schools.

Other Introduced Legislation

Members of both parties introduced teacher reform bills earlier this year addressing the tenure, dismissal, and “last in, first out” (LIFO) statutes found unconstitutional in Vergara v. State of California (Vergara) and a number of measures that would reform teacher evaluation statutes. Teacher reform bills authored by Republican members were part of a comprehensive package to overhaul the public education system. The bills included AB 1044 (Baker, R-Dublin) on layoffs and LIFO policies, AB 1078 (Olsen, R-Modesto) on teacher evaluations, and AB 1248 (Chávez, R-Oceanside) on permanent status. On April 29, the republican caucus bills were sent for “interim study,” a virtual graveyard for bills.

AB 1495 (Weber, D-San Diego) also seemed destined for “interim study,” but Assembly Member Shirley Weber insisted on an up or down vote and the bill failed passage. These actions clear the field for AB 575 and SB 499 to lead the legislative debate around teacher evaluation reforms.
Vaccinations

SB 277 (Pan, D-Sacramento)—Public Health: Vaccinations. This bill would eliminate the ability of parents or guardians to exempt their children from receiving immunizations based on “personal belief.” Under current law, students may be admitted to school without immunizations due to medical reasons; this exemption would remain in law. SB 277 provides an exemption for students of home-based private schools or a pupil who is enrolled in an independent study program.

Recent amendments remove the requirements on school districts to provide notification at the beginning of the school year to parents or guardians about the immunization rates for the student’s school. This amendment removed the state-identified cost of the bill, which means it does not have to go through the Appropriations Committee process. After several proposed hostile amendments were defeated, SB 277 was approved by the Senate and will now repeat the policy committee process in the Assembly.

SSC Comment: Because the bill affects three committee issue areas—health, education, and judiciary—SB 277 received a rare triple referral, which means three policy committees heard and discussed the merits of the bill. In its first policy hearing (Senate Health Committee), testimony on both sides of the issue lasted more than two hours, a warm up compared to the Senate Education Committee hearing (four hours of testimony and debate), and the Senate Judiciary Committee (three hours). Each committee ultimately approved the bill, and Senate Appropriations Committee Members are likely relieved they no longer have jurisdiction over the bill since its most recent amendments removed the fiscal implications.

School District Reserve Cap

AB 1048 (Baker, R-Dublin)—School Finance: School Districts: Annual Budgets: Reserve Balance (and SB 774 [Fuller, R-Bakersfield]). This bill would have repealed the reserve cap in its entirety and is sponsored by the California School Boards Association. AB 1048 was heard in the Assembly Education Committee on Wednesday, May 13, and the majority of committee members voted against the bill. As we reported previously, SB 774, which also would have repealed the cap, was previously pulled by the author from the Senate hearing schedule. This action on AB 1048 effectively kills the last bit of legislation that would have actually repealed the reserve cap.

AB 1318 (Gray, D-Merced)—School Finance: School Districts: Annual Budgets: Reserve Balance. Rather than repealing the cap, AB 1318 would instead substitute a yet to be specified, but presumably higher, factor for the current cap of two times the minimum reserve level for school districts under 400,000 units of average daily attendance (ADA) and three times the minimum reserve level for a school district of more than 400,000 ADA. This bill was pulled from the agenda of the May 13 Assembly Education Committee hearing.

The last bill standing that has any real legislative viability related to the reserve cap is AB 531 (O’Donnell), which would clarify that the school district reserve cap does not apply to funds in a committed reserve, and does not affect the cap itself. Common accounting practice already excludes committed reserves from assigned and unassigned ending balances, so this bill makes no substantive change to existing practice. The bill was approved by the Assembly on May 22 and is now in the Senate.