

OFFICE OF THE BOARD OF EDUCATION

1000 Broadway, Suite 680
Oakland, CA 94607-4099
510.879.8199 w • 510.879.2299 f • 510.879.2300 TTY / TDD
www.ousd.k12.ca.us
e-mail: boe@ousd.k12.ca.us



**OAKLAND UNIFIED
SCHOOL DISTRICT**

Community Schools, Thriving Students

BOARD OF EDUCATION 2013

David Kakishiba, President, District 2
David.Kakishiba@ousd.k12.ca.us

James Harris, Vice President, District 7
James.Harris@ousd.k12.ca.us

Jody London, District 1
Jody.London@ousd.k12.ca.us

Jumoke Hinton Hodge, District 3
Jumoke.Hodge@ousd.k12.ca.us

Anne Campbell Washington, District 4
Anne.Washington@ousd.k12.ca.us

Roseann Torres, District 5
Roseann.Torres@ousd.k12.ca.us

Christopher Dobbins, District 6
Christopher.Dobbins@ousd.k12.ca.us

August 13, 2013

To: Board of Education

From: Jody London

Sub: Resolution No. 1415-0036 – Urging Repeal or Modification of New State Mandated Cap on District’s Reserve

ACTION REQUESTED

Adoption by the Board of Education of Resolution No. 1415-0036 - Urging Repeal or Modification of New State Mandated Cap on District’s Reserves.

BACKGROUND

On June 20, 2014, Governor Brown signed the 2014-15 state budget and a handful of budget trailer bills. One of those trailer bills was SB 858 (Chapter 32, Statutes of 2014), which contained numerous provisions relating to public education.

Section 27 of that bill added Education Code Section 42127.01, stating that in the fiscal year following a year in which the state transfers money into the Public School Stabilization Account, known as the Prop. 98 reserve, school districts will be required to spend their assigned and unassigned ending balances down to no more than twice the level of their minimum recommended reserve for economic uncertainties (NOTE: LA Unified would be required to spend down to three times their minimum reserve level). This new requirement is contingent on voter approval in November 2014 of Proposition 44 concerning the state’s budget reserve policy, known as the “rainy day fund.”

One provision of Proposition 44 creates the Public School Stabilization Account, or Prop. 98 reserve, which is intended to soften the impact to K-12 schools and community colleges during economic downturns and to lessen the spikes in revenues in those years when income tax revenues increase more than usual. In those years when state fund general revenues from the

capital gains tax exceeds eight percent of the total general fund, and there is no Prop. 98 maintenance factor owed to schools or being created, and when cost-of-living adjustments (COLA) and growth payments being paid in full, then the state would transfer the Prop. 98 share of that excess into the Prop. 98 reserve account. It is in those years that Section 27 of SB 858 would kick in, and when school districts would be required to spend down their reserves and ending balances.

REASON FOR ACTION

Our District has learned painfully, from the time we spent from 2003-2009 in State receivership and the challenges we continue to face as a result of faulty financial management in the late 1990s and early 2000s, that it is important to retain local decision making authority wherever possible. SB 858, the education trailer bill for 2014-15, requires school districts to spend down their reserves and ending balances when the state makes even the smallest contribution to the Prop. 98 reserve which is part of Proposition 44 on the November ballot.

- A \$1 transfer from the state to this account could result in billions of dollars of expenditures being made locally.
- SB 858 allows for districts to seek waivers of this requirement from their county superintendent, but those waivers, if granted would be for only two out of the next three years. Eventually, all districts would be required to spend their reserves.
- Reserves and ending balances help districts in bad economic times and to plan ahead for large expenses such as maintenance projects, heating & air conditioning, roof replacement, school bus replacement, technology and textbook purchases. With 1000 school districts in the state, there are just as many reasons for carrying reserves.
- School districts receive varying percentages of their funding from local property taxes which are received only twice each year. Some districts, called Basic Aid Districts, or Community Funded Schools, receive all of their funding from local property taxes. School districts need to have money set aside to help make it through the other 10 months out of the year when property tax revenues stop flowing.
- The average level of reserves being held by districts currently is between 20-35 percent, depending on who you ask. This represents only two to four months of cash flow. Spending reserves to the level required by SB 858 would leave districts with only a few days of cash flow on hand, which is about 10 days of payroll.
- Section 27 of SB 858 needs to be repealed. As the state's funding of schools has been overhauled and more authority has been granted to local school boards as part of the subsidiarity component of the Local Control Funding Formula, this section runs in the opposite direction and weakens the financial position of school districts across the state, including Oakland

RECOMMENDATION

Adoption by the Board of Education of Resolution No. 1415-0036 - Urging Repeal or Modification of New State Mandated Cap on District's Reserves.

**RESOLUTION
OF THE
BOARD OF EDUCATION
OF THE
OAKLAND UNIFIED SCHOOL DISTRICT**

Resolution No. 1415-0036

Urging Repeal or Modification of New State Mandated Cap on District's Reserves

WHEREAS, School district governing boards have the obligation to provide a quality education that is essential for an informed citizenry, a competitive economy, a fulfilling life for all students, and the foundation of our democratic society; and

WHEREAS, School district governing boards are responsible for maintaining fiscal solvency of the school systems they govern; and

WHEREAS, The Local Control Funding Formula (LCFF), based on the principle of subsidiarity, provides governing boards, working with interested stakeholders, with the authority to prioritize funds in order to provide quality education for all students, especially those who are English learners, from low income households and who are Foster Youth; and

WHEREAS, Funds for crucial services for school operations, such as payroll, classroom materials, school construction projects, technology, home-to-school transportation, deferred maintenance, etc. often require successful ongoing cash-flow management and disciplined planning, including the creation and maintenance of prudent financial reserves; and

WHEREAS, School district reserve levels, as well as their fund balances, are determined by governing boards to meet local priorities and allow districts to save for potential future expected and unexpected expenditures and for eventual economic downturns; and

WHEREAS, community funded schools (Basic Aid Districts) receive funds only twice a year and must rely on adequate reserves to manage cash flow for normal daily operations and for future purchases and unforeseen events; and

WHEREAS, the statutory minimum for school district reserves for economic uncertainties ranges from 1 to 5 percent, depending on district enrollment, and covers between one to five weeks of payroll, or less than 20 days of total cash flow; and

WHEREAS, Prudent budgeting raises expectations for school districts to establish and maintain reserves above the statutory minimum; and

WHEREAS, the Governing Board of the Oakland Unified School District currently maintains a reserve of approximately 3% for purposes of planned expenses to support educational goals, planned projects such as deferred maintenance for an aging facility stock, buffer for economic uncertainty, and general fiscal prudence; and

WHEREAS, the Oakland Unified School District from 2003 – 2009 was in State receivership because prior District leadership had not adequately anticipated financial commitments, which experience has left the current District leadership very mindful of the importance of planning for uneconomic uncertainty; and

WHEREAS, On June 20, 2014, the Governor signed into law SB 858 (Committee on Budget and Fiscal Review, Chapter 32, Statutes of 2014), the so-called education budget trailer bill; and

WHEREAS, SB 858, Sec. 27, requires school districts to spend their assigned and unassigned account balances down to no more than two to-three times the minimum level of the statutory reserve for economic uncertainties (depending on district size) in the fiscal year following the fiscal year in which the State of California makes a payment of any amount to the Public School System Stabilization Account; and

WHEREAS, Under SB 858 a deposit by the State of California of even \$1 to the Public School System Stabilization Account would result in school districts throughout California having to spend down billions of dollars in their reserves and ending balances; and

WHEREAS, It could take many years for the State of California to build up an adequate Public School System Stabilization Account; yet, in one year, school districts would be forced to spend down their reserves and ending balances to levels that could jeopardize fiscal solvency; and

WHEREAS, The LCFF is not fully implemented, many school districts are still funded below their 2007-08 levels, and districts cannot survive another downturn without fiscally responsible reserves;

NOW, THEREFORE, BE IT RESOLVED, That the Governing Board of the Oakland Unified School District calls upon the Legislature and the Governor to repeal or substantially change the language contained in Sec. 27 of SB 858 (Chapter 32, Statutes of 2014) immediately.

Passed by the following vote:

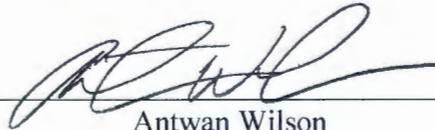
AYES: Jody London, Jumoke Hinton Hodge, Anne Washington, Roseann Torres,
Christopher Dobbins, Vice President James Harris and President David Kakishiba

NOES: None

ABSTAINED: None

ABSENT: None

I hereby certify that the foregoing is a full, true and correct copy of a Resolution passed at a Regular Meeting of the Board of Education of the Oakland Unified School District held on August 13, 2014.



Antwan Wilson
Secretary
Governing Board
OAKLAND UNIFIED SCHOOL DISTRICT

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File ID Number: A-1676
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