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The FISCAL REPORT an informational update

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Ask SSC . . . Do Basic Aid Districts Need More Reserves?

Q. Our Board would like to increase its current approved 5% reserve level as a result of our small district (840 ADA) recently becoming basic aid. Do you know what the average reserve level is for school districts?

A. You are absolutely correct in your conclusion that being basic aid makes a difference in the reserve levels needed. In answer to your first question, the average reserve level reported by all California districts each year is roughly 10%. But basic aid districts need and report more.

Adequate reserves give you time to plan for and deal with unpleasant surprises and emergencies. Often it takes a year or more to implement budget reductions, especially if staffing cuts are needed.

For a revenue limit district, the most likely cause of an unpleasant surprise is an unexpected decline in enrollment. But a revenue limit district has a safety net in that it will receive revenue based on the prior-year ADA and that gives it time to make any reductions that become necessary.

But a basic aid district is different. The two most likely surprises are an unexpected increase in enrollment or overprojection of property taxes. A basic aid district does not receive any help from the state until it gains enough students or loses enough property tax to again become a revenue limit district.

The deeper a district goes into basic aid, the further the fall before there is a safety net. So basic aid districts need a much larger reserve than revenue limit districts. We would recommend that you determine the difference between the revenues you are receiving as a basic aid district and what you would get as a revenue limit district and plan to add to your reserves until you are comfortable that you could cover that gap over a period of two or three years if you had to.

You should also have a conversation with your county office of education (COE) about what other basic aid districts in your county are doing and what your COE is comfortable with you doing. Additionally, a primary support agency for basic aid districts is Schools for Sound Finance [(SF)²], and you should consider joining. There is no magic number that fits all districts, but you should consider the factors above in determining the appropriate level of reserves for your district.

-Ron Bennett

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