

## Reserves / Reserve Cap

Existing law imposes a 10% cap on the amount local school districts can maintain in their reserves in fiscal years immediately succeeding those in which the education rainy day fund (Public School System Stabilization Account) balance is at least 3% of TK-12 Prop. 98 funding. This condition was met with the 2021-22 deposit amount, triggering the local reserve cap for the 2022-23 fiscal year.

Basic aid districts and small school districts with fewer than 2,501 ADA are exempt from the requirement.

Affected local school districts will need to comply with the law (Education Code Section 42127.01(a)) by taking action by June 30, 2022, with the adoption of their budgets, as well as anticipate that the cap on their reserves will be in place for the foreseeable future.

Districts should estimate whether their budgeted 2022-23 ending assigned and unassigned reserves, in the General Fund 01 and Special Reserve Fund 17 combined, are no more than 10% of the total general fund expenditures, transfers out and other uses. With the proposed new Discretionary Block Grant and other one-time resources to support the implementation of ongoing priorities, districts will need to take a critical look at projected ending balances to ensure they have committed funds for the purposes intended.

If a district is not exempt from the reserve cap, a district has several options available to ensure compliance:

- Commit reserves rather than leaving them in assigned or unassigned – a commitment requires board action through a resolution adopted before the end of the fiscal year
- Transfer reserves to funds other than Fund 17
- Contribute to restricted resources within the general fund
- If a formal salary offer has been negotiated, but negotiations remain unsettled, consider budgeting the cost of the formal salary offer

Districts that project reserves in excess of 10% are encouraged to work with their county offices to explore the available options to meet the reserve cap as part of the budget adoption process.

This FCMAT [Fiscal Alert](#) provides additional information regarding managing local reserves under the cap.