Reserve Policy Revisited
February 4, 2016
Local Control Funding Formula
2014-15 to 2015-16

Total 2014-15 LCFF
$235,681,569

- Base Grant: $207,090,845
- Supp/Con: $28,590,724

Total 2015-16 LCFF
$265,025,313

- Base Grant: $211,385,881
- Supp/Con: $53,777,516

Total Increase of $29 Million.
How is it Allocated?
### 2015-16 LCFF Funding, By LCAP Goal

<table>
<thead>
<tr>
<th>Goal</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provide innovative learning environments for implementation of Common Core State Standards (CCSS) and Special Programs.</td>
<td>$12,183,336</td>
</tr>
<tr>
<td>2</td>
<td>Maintain 100% compliance per Williams Case for appropriately assigned and fully credentialed teachers, sufficient access to standards-aligned instructional materials, and facilities.</td>
<td>$67,500</td>
</tr>
<tr>
<td>3</td>
<td>To promote a unifying vision that motivates, inspires and empowers stakeholders to provide optimal student educational opportunities and outcomes as identified in Montebello Unified School District’s Comprehensive Learning Framework (CLF).</td>
<td>$875,000</td>
</tr>
<tr>
<td>4</td>
<td>Students, with a focus on English Learners and Foster Youth, will demonstrate proficiency at developmentally appropriate levels in English Language Arts (ELA) and Math.</td>
<td>$9,425,765</td>
</tr>
<tr>
<td>5</td>
<td>Close the achievement gap for English Learners with a focus on at-risk Long Term English Learners, Long Term English Learners (LTTELs), and Newcomers.</td>
<td>$11,827,500</td>
</tr>
<tr>
<td>6</td>
<td>Technology for Teaching and Learning. Students and staff will have access to and skill in the application of a wide range of technologies in order to leverage and deepen learning.</td>
<td>$10,973,015</td>
</tr>
<tr>
<td>7</td>
<td>Provide an engaging learning environment that supports nutritional, reproductive, mental (social/emotional/personal), and physical health facilities</td>
<td>$2,885,000</td>
</tr>
<tr>
<td>8</td>
<td>District and all school sites will increase efforts at communicating with families, creating welcoming environments and engaging parents and students in the educational process.</td>
<td>$5,540,400</td>
</tr>
</tbody>
</table>

Approved by MUSD Board and submitted to LACOE in July 2015
## Defining the Concept of a “Reserve”

<table>
<thead>
<tr>
<th>Amount</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$10</td>
</tr>
<tr>
<td>Total Expense</td>
<td>$6</td>
</tr>
<tr>
<td>Difference</td>
<td>$4</td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>$5</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$9</td>
</tr>
<tr>
<td>Reserve</td>
<td>$0</td>
</tr>
<tr>
<td>Undesignated/Unappropriated</td>
<td>$6</td>
</tr>
</tbody>
</table>

**Prior Year Carryover**

If a district had no reserve, it’s ending fund balance and undesignated-unappropriated would be the same.

A reserve shifts funds from our ending fund balance to a reserve making those funds unavailable to spend.
The District's reserve is a set-aside in the budget. It is not cash in a bank account. It is an annual commitment to reserve a portion of District's revenue rather than budget it to expense.
District Ending Fund Balance
Year-to-Year Comparison

“If a reserve is stable or growing slowly over time it usually indicates financial viability.

On the other hand, declining reserves indicate difficulty aligning expenditures with revenues.” — Legislative Analyst’s Office

2010-11

$44 million

2014-15

$11 million
District Ending Fund Balance
Paralleled Comparison

California Mid-Size Districts
Median Reserve
2013-14
2014-15

MUSD Reserve
2013-14
2014-15

21%
3%
District Reserves Compared to Payroll

$9,841,076
First Interim Annual Reserve Base Year 2015-16

$9,745,644
Annual Projected Reserve 2016-17

$9,850,709
Annual Projected Reserve 2017-18

Monthly payroll is approximately $22 million

3% of total expense
The Government Finance Officers Association recommends:

The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to **no less than two months** of general fund operating expenditures, or **17 percent** of General Fund expenditures and other financing issues.

**MUSD Recommendation:**

A minimum reserve of 15 percent of the General Fund beginning adopted appropriations (expenditure budget) should be incrementally established.

**MUSD Monthly Cash**

<table>
<thead>
<tr>
<th>Month</th>
<th>Total General Fund Disbursements (Rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2015</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>August 2015</td>
<td>$14,000,000</td>
</tr>
<tr>
<td>Sept 2015</td>
<td>$26,000,000</td>
</tr>
<tr>
<td>Oct 2015</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>Nov 2015</td>
<td>$26,000,000</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>Jan 2016</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>Feb 2016</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>Mar 2016</td>
<td>$27,000,000</td>
</tr>
<tr>
<td>Apr 2016</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>May 2016</td>
<td>$29,000,000</td>
</tr>
<tr>
<td>June 2016</td>
<td>$33,000,000</td>
</tr>
</tbody>
</table>

**Average per month** $25,000,000

A 15% reserve at 2015-16 First Interim would equal $49 million.
District Reserves
Building to a 15% Reserve

A 1% annual, cumulative increase may be difficult to sustain:

- 4%: $3.2 million in 2015-16
- 5%: $6.4 million in 2016-17
- 6%: $9.6 million in 2017-18

Instead, a less aggressive and steady increase of .25% each year is recommended:

- 3.25%: $800,000 in 2015-16
- 3.50%: $1.6 million in 2016-17
- 3.75%: $2.4 million in 2017-18

Important Point:
The District maintains the ability to increase the annual contribution in a favorable budget year through board action and approval.
Under the currently proposed policy, reserves are increased by .25% annually.

It will take four years to increase the reserve by 1%.

It will take 12 years to increase the reserve to 6%, the limit for reserves if the State cap is ever implemented.

It will take 48 years to increase the reserve to 15%, a dollar amount that is equivalent to two months of MUSD’s operating expense.
School District Reserve Cap (SB 858)

Certain conditions must be met before the State could make a deposit into the Proposition 98 reserve:

- Extinguishing the existing Maintenance Factor
- Requiring that the Proposition 98 Minimum Guarantee be determined using Test 1
- Fully paying increases in student enrollment and funding the statutory cost-of-living adjustment (COLA)
- Capital gains tax revenues account for more than 8% of General Fund revenues

If all conditions are met:

- The Proposition 98 reserve would trigger a 6% cap on local school district reserves in any fiscal year following a deposit into the reserve.

SSC, LAO, ACSA, CSBA, CASBO Recommendation:

- Do not recommend that any district lower its reserves below what the local board considers to be reasonable.
- The limitations that would be imposed by SB 858 are not likely to take effect for many years, and districts should not lower the protection that an adequate reserve affords students and employees until the state forces districts to do so.
The District’s Board of Education has the authority to establish a Financial Stabilization Account that will be a Committed Fund Balance.

Any funds set aside as Committed Fund Balance requires the passage of a resolution by a majority vote.

The District recommends approval of a resolution establishing a fund balance policy.

A minimum reserve of 15 percent of the General Fund beginning adopted appropriations (expenditure budget) should be incrementally established and maintained for use in meeting unanticipated needs and/or emergencies.

The District will increase its contribution to its committed fund balance reserve by .25% annually until the minimum reserve of 15% is reached.
Questions, Discussion, Feedback

TIME FOR QUESTIONS

Thank you!