

# Board Policy Discussion **RESERVES**

Presented to Board of Trustees

February 11, 2020





# Agenda

- ▶ Review Current Board Policy BP 3100
- ▶ What Are Reserves?
- ▶ Why Do We Have Reserves?
- ▶ Importance of Reserves
- ▶ Statewide Average Reserves
- ▶ MJUSD Reserve Level
- ▶ Common Standards For Reserves
- ▶ Conclusion
- ▶ Next Steps



# Current Board Policy

## ▶ BP 3100 Budget

- ▶ The Board shall establish and maintain a general fund reserve for economic uncertainty that meets or exceeds the requirements of Education Code 33128, Title 5 CCR 15443.
  - ▶ *Title 5 CCR, Section 15443 Available reserves cannot be less than the following percentages or amounts as applied to total expenditures, transfers out and other uses...:*
  - ▶ **3% for districts with 1,001 - 30,000 ADA**



# What Are Reserves?

- ▶ District Reserves Have Up To 5 Components:
  1. Nonspendable - i.e. revolving cash and inventory
  2. Restricted - i.e. categoricals
  3. Committed, requires Board resolution
  4. Assigned - for future specific use
  5. Unassigned - no specific purpose yet

# Why Do We Have Reserves?



**Figure 3**

## **Districts Keep Reserves For Five Main Reasons**



Based on  
information  
from the  
Legislative  
Analysts Office



# Importance Of Reserves?

- ▶ Reserves are needed to protect against:
  - ▶ Economic downturns and state-level budget cuts
  - ▶ Volatility in the Local Control Funding Formula (LCFF) including COLA only funding
  - ▶ Unplanned expenses; for example, when the CalSTRS and CalPERS contribution increases began a few years ago with no warning
  - ▶ Carryover balances for schools and departments
  - ▶ Cash shortages
  - ▶ Layoffs and program reductions by providing lead time to make budget adjustments for Special Ed cost increases and upcoming COPS payments
- ▶ Spend today's dollars on today's children,  
but not at the expense of tomorrow's children



# Statewide Average Reserve Levels

- ▶ School Services of California reported on January 15, 2020:
  - ▶ **2017-18** statewide average reserve levels:
    - ▶ Unified School Districts = 16.98%
    - ▶ Elementary Districts = 20.20%
    - ▶ High School Districts = 15.63%
  - ▶ **Marysville JUSD = 28.0%**

Actual  
2017-18  
Reserve %

*Average unrestricted net ending balance is based on ending fund balance for General Fund, plus ending fund balance for Fund 17 as a percentage of General Fund (including restricted programs), expenditures, transfers, and other uses.*



# Marysville JUSD Reserve Level

**Q.** Why is Marysville JUSD's Reserve Level higher than the statewide average?

- ▶ Statewide average reserve level for Unified School Districts is 16.98%.
- ▶ **Marysville JUSD projected reserve level is 20% (current year based on 1<sup>st</sup> Interim Budget Report).**

**A.** MJUSD has been setting aside funds to repay an outstanding COPS obligation beginning in 2023.





# Marysville JUSD Reserve Level (continued)

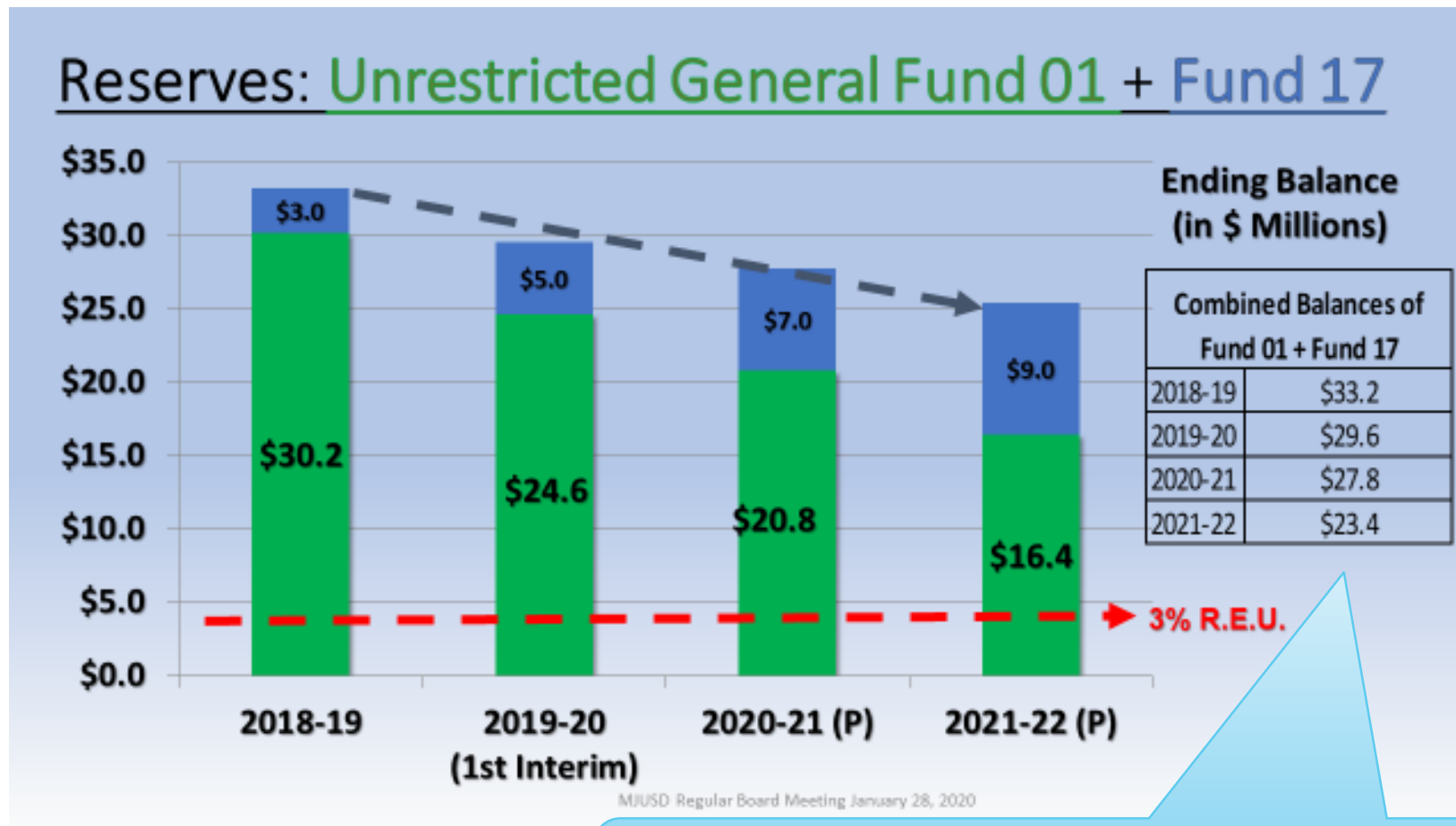
## *Outstanding Debt*

### Certificates of Participation (COPs)

- ▶ Repayment of 2012 COPs begins June 1, 2023.
- ▶ Amount of repayment is just over \$2.8 million annually for 20 years.
- ▶ 5 Year Multi-Year Projection (MYP) will show impact of COPs repayment beginning in 2022-23.
  - ▶ In March 2020, a 5 Year MYP will be included with 2<sup>nd</sup> Interim Budget Report presentation.



# Marysville JUSD Reserve Level (continued)



Multi-Year Projection (MYP) indicates MJUSD Reserves are declining.

In 2022-23 the first annual COPS payment becomes due. Now is the time to determine a prudent Reserve level to maintain.

A five year MYP will be presented in March 2020 with the 2<sup>nd</sup> Interim Budget Report.

Reserve amounts include all 5 components of ending fund balance, less restricted balances.

# Marysville JUSD Reserve Level (continued)



<b>GENERAL FUND 01 Expenditures and Other Financing Sources</b>	<b>\$ 134,677,000</b>
<b>Fund Balance, Reserves</b>	
Beginning Fund Balance	\$ 34,583,000
Ending Fund Balance	\$ 28,415,000
Components of Ending Fund Balance:	
a) Nonspendable	\$ 268,000
b) Restricted	\$ 3,788,000
c) Committed:	
Other Post Employment Benefits (OPEB)	\$ 1,786,000
d) Assigned:	
One-time Discretionary (Facilities)	\$ 3,775,000
LCAP - Textbooks	\$ 890,000
Special Ed - Early Intervention Pre-School	\$ 829,000
e) Reserve for Economic Uncertainty	\$ 4,041,000
Unassigned/Unappropriated	\$ 13,038,000
Total General Fund 01 - Fund Balance	\$ 28,415,000
Total Reserve Fund 17 - Fund Balance	\$ 4,968,000
Total Reserves	\$ 33,383,000
Less amounts not available	\$ (5,842,000)
<b>District's Available Reserve Amount</b>	<b>\$ 27,541,000</b>
<b>Reserves as % of Combined General Fund &amp; Fund 17 Fund Balances</b>	<b>20%</b>

Detailed Calculation of District's Reserves based on the 2019-20 1<sup>st</sup> Interim Budget Report, as presented to the Board of Trustees in December 2019.

MJUSD's projected Reserve % for current year



# Common Standards For Reserves

## Legislative Analysts Office (LAO) **17%**

- ▶ A 17% reserve equals about 2 months of expenditures and is a common standard for public agencies.

(<http://www.lao.ca.gov/reports/2015/edu/district-reserves/district-reserves-012115.aspx>)

## Government Finance Officers Association (GFOA) **17%**

- ▶ Recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

(<http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund-0>)



# Conclusion

- ▶ Current Board Policy 3100 is vague in regards to defining an appropriate reserve level for the District.
- ▶ There is need for reserves greater than the required state minimum 3% reserve for economic uncertainty.
- ▶ The Board of Trustees is committed to maintaining a prudent level of financial resources to protect against the need to reduce services because of temporary revenue shortfalls or unpredicted expenditures.



# Next Steps

Administration recommends an amendment to Board Policy 3100, as follows:

- ▶ Increase minimum reserve level from 3% to 17% as a prudent level of financial resources to protect both programs, and the financial solvency of the District in the event of revenue shortfalls and/or unpredicted expenditures.

Other option: Continue reserve level discussion at future board meeting(s).



# Questions ?