



June 9, 2022

TO: Business Administrators
Los Angeles County School Districts
Regional Occupational Centers/Programs (ROC/Ps)
Joint Powers Authorities (JPAs)
Charter Schools

FROM: Patricia Smith, Chief Financial Officer
Business Services

Octavio Castelo, Director
Business Advisory Services

SUBJECT: 2022-23 Governor's May Revision Budget Updates

This Informational Bulletin includes the best information we have based on the 2022-23 May Revision Budget and subsequent trailer bill language. The Budget Subcommittees continue to meet daily as part of the negotiation and finalization phase of the Adopted Budget, which is currently scheduled to be signed on June 15, 2022. We anticipate updates and changes throughout this process. We will provide updated and timely information as it becomes available. Meanwhile, please refer to the Budget Assumptions and Guidelines in Attachment 1.

On May 13, 2022, Governor Newsom released his 2022-23 May Revision Budget. The budget proposes a Proposition 98 minimum funding guarantee of \$93.7 billion for 2022-23, an increase of \$7.9 billion relative to the funding level from the 2021-22 January Proposed Budget, and an almost \$22.8 billion increase from the 2021-22 Adopted Budget. The guarantee is still projected to be based on Test 1, which is estimated at 38 percent of the General Fund revenues plus local property tax revenue.

Local Control Funding Formula (LCFF)

The LCFF establishes a base with supplemental and concentration add-ons for English Learners (EL), free and reduced-price meal eligible students and foster youth students and provides additional funding for kindergarten through grade three (K-3) Class Size Reduction (CSR), Grades 9-12, Home-to-School Transportation and the Targeted Instructional Improvement Grant (TIIG).

The Base Grant rates per ADA for 2022-23, 2023-24 and 2024-25 based on the Governor's May Revised Budget are:

Grade Level	2021-22 Base Grant/ADA	2022-23 COLA 6.56%	Add'l LCFF Invest of \$2.1B	2022-23 Base Grant/ADA	2023-24 COLA 5.38%	2023-24 Base Grant/ADA	2024-25 COLA 4.02%	2024-25 Base Grant/ADA
K-3	\$8,093	\$531	\$266	\$8,890	\$478	\$9,368	\$377	\$9,7451
4-6	\$8,215	\$539	\$270	\$9,024	\$485	\$9,509	\$382	\$9,891
7-8	\$8,458	\$555	\$278	\$9,291	\$500	\$9,791	\$394	\$10,195
9-12	\$9,802	\$643	\$322	\$10,767	\$579	\$11,346	\$456	\$11,802

Augmentation Grant

The Augmentation Grant provides additional funding for grades TK-3 and 9-12 Career Technical Education (CTE). The CSR augmentation is 10.4 percent of the K-3 Base Grant, estimated at \$925 per average daily attendance (ADA) for 2022-23. Districts must maintain average class sizes of 24:1 as a condition of receipt unless a local alternative ratio is bargained. This class size requirement is not subject to waiver by the State Board of Education. The CTE augmentation is 2.6 percent of the 9-12 Base Grant, estimated at \$280 per ADA for 2022-23.

Grade Span	Effective 2022-23 Base Grant per ADA	GSA Augmentation	2022-23 Adjusted Base Grant per ADA
K-3	\$8,890	\$925	\$9,815
4-6	\$9,024	-0-	\$9,024
7-8	\$9,291	-0-	\$9,291
9-12	\$10,767	\$280	\$11,047

Supplemental and Concentration Grants

School districts and charter schools are entitled to supplemental grant increases equal to 20 percent of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 65 percent per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55 percent of total enrollment, with 15 percent of the concentration grant to be used to increase the number of adults providing direct services (nurses, teachers, counselors, paraprofessionals, and others) to students.

Grade Span	2022-23 Adjusted Base Grant per ADA	20% Supplemental Grant per ADA	65% Concentration Grant per ADA
K-3	\$9,815	\$1,963	\$6,380
4-6	\$9,024	\$1,805	\$5,866
7-8	\$9,291	\$1,858	\$6,039
9-12	\$11,047	\$2,209	\$7,181

CalSTRS and CalPERS

Beginning in 2021-22, the CalSTRS Board has limited authority to increase or decrease rates by a maximum of 1 percent annually not to exceed 20.25 percent of creditable compensation. The CalPERS Board recently set rate for 2022-23 at 25.37 percent.

The projected CalSTRS and CalPERS rates are included in the table below.

CalSTRS Rates

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employer	16.28%	17.10%	16.15%	16.92%	19.10%	19.10%	19.10%	19.10%

CalPERS Rates

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employer	18.062%	19.721%	20.70%	22.91%	25.37%	25.20%	24.60%	23.70%

Reserves / Reserve Cap

We continue to reinforce the need for adequate reserve levels. The Government Finance Officers Association (GFOA), a national organization representing federal, state, and local finance officials, recommends school districts and other local governments maintain reserves of at least two months of operating expenditures (approximately a 17 percent reserve) to mitigate revenue shortfalls and unanticipated expenditures. The association further recommends all governments develop a formal policy regarding their minimum reserves and consider maintaining reserves larger than 17 percent if revenues or expenditures are especially volatile.

Given the current health and economic volatility, it is critical that decisions about reserve levels are made thoughtfully and deliberatively. Inadequate reserves force districts to react quickly, which can cause significant disruptions to student programs and employees.

Although general fund reserves are an indicator of the cash balance, they are not the same as cash – cash is but a portion of reserves. Districts' attention should remain on maximizing the use of any one-time funds due to the restrictive nature of those funds for the 2021-22 and 2022-23 fiscal years, thereby reserving local and unrestricted funds to address the potential impact of possible deterioration of revenues in 2022-23. This deterioration could come from economic impacts as well as the anticipated "ADA cliff" when the protections of the hold harmless provisions end or if

California's K-12 public school enrollment, which precipitously declined during the pandemic, does not recover to pre-pandemic levels.

The Governor's May Revised Budget proposed deposits to the Public School System Stabilization Account (PSSSA) will be required in 2021-22 and 2022-23, bringing the projected balance to \$9.7 billion at the end of 2022-23. Under current law, a 10 percent cap on school district reserves is triggered in fiscal years immediately succeeding those in which the PSSSA balance is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 guarantee.

SB 751 provided additional provisions to the reserve cap requirements:

- Basic aid districts and districts with ADA less than 2,501 are exempt from the reserve cap requirements.
- A county superintendent of schools may grant a school district under its jurisdiction an exemption from the requirements of subdivision (a) for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances, including but not limited to multiyear infrastructure or technology projects, substantiate the need for a combined assigned or unassigned ending general fund balance that exceeds the cap limits.

The portions of fund balance subject to the cap are the assigned and unassigned reserves in the General Fund (Fund 01) and the special reserve fund for other than Capital Outlay (Fund 17). Any funds that are in the committed portion of the fund balance, meaning that the governing board took action to set aside the funds, are not included in the reserve cap calculation. GASB 54 defines the unrestricted components of fund balance as follows:

- Committed Fund Balance (Objects 9750-9769) – Amounts subject to internal constraints self-imposed by formal action of the governing board, which may be redirected in the same manner in which the original constraints were imposed.
- Assigned Fund Balance (Objects 9770-9788) – Amounts intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed.
- Unassigned Fund Balance (Objects 9789-9790) – Amounts not classified as restricted, committed, or assigned, which includes the reserve for economic uncertainties and any unappropriated amounts.

Districts are strongly encouraged to designate commitments during the budget development process to adjust funds at fiscal year-end.

Additional guidance and recommendations provided in a FCMAT Alert issued in March 2022 are included in Attachment 2.

Mandated Block Grant (MBG)

The 2022-23 May Revised Budget provided COLA increases for the MBG for a total \$262.8 million. The rates continue to be separated into grade span-specific rates, with grades 9-12 receiving higher amounts based on the inclusion of the Graduation Requirement mandate. See the table below for the per ADA rates.

Grade Span	2022-23 School District Rates	2023-24 School District Rates	2024-25 School District Rates
K-8	\$34.94	\$36.82	\$38.30
9-12	\$67.31	\$70.93	\$73.78

Grade Span	2022-23 Charter School Rates	2023-24 Charter School Rates	2024-25 Charter School Rates
K-8	\$18.34	\$19.33	\$20.11
9-12	\$50.98	\$53.72	\$55.88

We recommend that school districts continue to adhere to all mandate requirements. LEAs that opted in to the MBG can budget this revenue. Funds are generally received in mid-November, with the amount paid equal to 100 percent of each LEA's entitlement.

Special Education

The May Revision continues the Governor's January Budget proposal and maintains the increased special education base rate at \$820/ADA. As in the January Budget, the proposal would apportion this base funding on a three-year rolling average of LEA ADA allocated through SELPAs.

Hold Harmless ADA

The May Revision proposes to mitigate the drop in enrollment, and subsequent ADA that is being experienced in 2021-22 by local educational agencies (LEAs) due to the pandemic. To do this, the May Revision proposes allowing all classroom-based LEAs the ability to be funded in 2021-22 on the greater of their current-year ADA or their current-year enrollment adjusted for pre-COVID-19 absence rates. The proposal to allow school districts the use of the average of the three prior years' ADA for LCFF funding purposes will be adjusted to allow for this change in 2021-22. These two proposals represent an estimated \$3.3 billion in ongoing General Fund plus an additional \$463 million in one-time Proposition 98 General Fund dollars.

LEAs that experienced a decline in their current year Unduplicated Pupil Count (UPC) percentage are somewhat insulated from the impact as the UPP, which as the basis for supplemental and concentration grant funding, is calculated using a rolling three-year average. The three-year average is intended to shield LEAs from the impact of a single year's change in unduplicated pupils. However, even a rapid change in a single year can impact an LEA's LCFF entitlement, especially those LEAs that receive concentration grant funds. We strongly advise that districts continue the conversations about right-sizing their budgets and staffing, especially if the student population does not recover with the return to in-person instruction.

Expanded Learning (ELO-P)

The May Revised Budget proposes an additional \$3.4 billion ongoing Proposition 98 General Fund for the Expanded Learning Opportunities Program, increasing per pupil funding for the program and expanding the number of local educational agencies offering no-cost services. This brings total ongoing program funding to an historic before/after school investment of \$4.4 billion, with additional funds anticipated in future years. The May Revised Budget also proposes \$937 million one-time Proposition 98 General Fund to support Expanded Learning Opportunities Program infrastructure, with a focus on integrating arts and music programming into the enrichment options for students. Finally, the May Revised Budget continues one-time reimbursement rate increases (at a cost of \$148.7 million ongoing Proposition 98 General Fund) from the 2021 Budget Act for the After School Education and Safety and 21st Century Community Learning Centers programs.

While acknowledging that implementing a program of the size and scope of the Expanded Learning Opportunities Program can be challenging for local school districts, the Administration encourages schools to consider partnering with community-based providers to quickly scale up capacity. California has a sizable number of non-profit and other local providers of before/after school care and enrichment that have a history of providing high-quality expanded learning programs, and partnerships between these entities and local educational agencies can expedite services to the maximum number of students.

For 2022-23, funding is provided for districts with an 85 percent or higher unduplicated count, gradually expanding each year to cover all districts with a 55 percent or higher unduplicated count.

K-12 School Facilities

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51), approved by voters in November 2016, authorized \$7 billion in state General Obligation bonds to support K-12 school facilities construction. These funds support new construction, modernization, retrofitting, career technical education, and charter school facility projects. The budget allocates the remaining Proposition 51 bond funds, approximately \$1.4 billion, to support school construction projects.

Because Proposition 51 bond authority is expected to be exhausted in 2022-23, the budget proposes approximately \$1.3 billion one-time General Fund in 2022-23 and \$925 million one-time General Fund in 2023-24 to support new construction and modernization projects through the School Facility Program.

COVID Relief Funds

California County Superintendents Educational Services Association (CCSESA) provided a matrix summarizing accounting for one-time funds. School Services of California (SSC) also provided an excellent matrix that describes the source and usage of all COVID pandemic related funds as well as expenditure deadlines. Please refer to Attachment 3 for this document.

Other One-time Funds Included:

- \$8.0 billion for a discretionary block grant (currently estimated at \$1,500 per ADA with mostly unrestricted use; distributed on a per pupil basis)
- \$4.0 billion in total for the school facility program projects
- \$1.85 billion for deferred maintenance
- \$1.5 billion for green school bus grants
- \$1.5 billion for career pathways development
- \$1.4 billion selling the last of the 2016 Proposition 51 bond funds
- \$1.0 billion for ELO-P infrastructure
- \$612 million to raise the school meal state reimbursement rate from \$0.262 to \$0.895

What's Not Included in the May Revised

- No General Fund Allocation to help school employers with escalating CalSTRS/CalPERS pension costs
- No dedicated funding for TK Facilities
- No on-going transportation funding

2022-23 Annual Budget and LCAP Submission Deadline

The Annual Budget and LCAP for FY 2022-23 must be approved by the Governing Board and submitted on or before July 1, 2022. This report should be sent via JET mail to:

**Los Angeles County Office of Education
Business Advisory Services
Attention: Ms. Lily Madrigal**

COUNTY OFFICE ASSISTANCE

Updated LCFF calculations reflecting your district's projected revenues for 2022-23, 2023-24 and 2024-25, based on the districts' uploaded enrollment and ADA assumptions, are available for download from LACOE's RAD web-based system. ***We strongly recommend districts update their enrollment and average daily attendance projections and utilize these County Office LCFF revenue calculations for budget and multi-year revenue projections.***

Please contact Ms. Diya Miao at (562) 922-6790, or Miao_Diya@laoe.edu if you need additional assistance with the system.

The Business Advisory Services staff member assigned to your district (Attachment No. 4) is available to assist you with questions regarding these assumptions.

This bulletin and its attachments are posted on the County Office website at this address:

<http://www.laoe.edu/Bulletins.aspx>

Use the "Search" function to locate a specific bulletin by number or keyword.

If you have questions regarding this bulletin, please contact Jeff Young at (562) 922-6419, Jennifer Kirk at (562) 922-6508, or your Business Services Consultant.

PS/OC/JY:lm

Attachments

**2022-23 BUDGET AND LCAP ASSUMPTION GUIDELINES
(AS OF MAY 2022)
PROJECTIONS FOR
FISCAL YEARS 2021-22 THROUGH 2024-25**

The guidelines below are provided to assist you with projections for Fiscal Years 2021-22, 2022-23, 2023-24 and 2024-25

LCFF REVENUE		2021-22	2022-23	2023-24	2024-25
Statutory COLA (based on DOF estimates)		1.70%	6.56%	5.38%	4.02%
Recommended Funded COLA		5.07% (1)	6.56%	5.38%	4.02%
School Services (SSC) Estimated Statutory COLA		5.07% (1)	6.56%	5.38%	4.02%
LOTTERY REVENUE		2021-22	2022-23	2023-24	2024-25
Unrestricted per ADA		\$163	\$163	\$163	\$163
Restricted for Instructional Materials per ADA		\$65	\$65	\$65	\$65
Total Lottery Revenue per ADA		\$228	\$228	\$228	\$228
MANDATED BLOCK GRANT		2021-22	2022-23	2023-24	2024-25
Districts per ADA	Grades K-8	\$32.79	\$34.94	\$36.82	\$38.30
	Grades 9-12	\$63.17	\$67.31	\$70.93	\$73.78
Charters per ADA	Grades K-8	\$17.21	\$18.34	\$19.33	\$20.11
	Grades 9-12	\$47.84	\$50.98	\$53.72	\$55.88
OTHER FACTORS		2021-22	2022-23	2023-24	2024-25
Unemployment Insurance (UI)		0.50%	0.50%	0.20%	0.20%
CalSTRS Employer Rates		16.92%	19.10%	19.10%	19.10%
CalPERS Employer Rates		22.91%	25.37%	25.20%	24.60%
Interest Rate for 10-year Treasuries		2.17%	3.71%	3.25%	3.08%
CA Consumer Price Index (CPI)		6.55%	6.11%	3.14%	1.97%
Minimum Wage		\$15.00	\$15.50	\$16.00	\$16.40

(1) Amount represents the 2021–22 statutory COLA of 1.70% plus an augmentation of 1.00%, compounded with the 2020–21 unfunded statutory COLA of 2.31%.

Managing Local Reserves Under the Cap

This fiscal alert serves as a reminder to school districts that the conditions required to activate the local reserve cap were met in 2021-22, which means the cap will go into effect beginning with the 2022-23 fiscal year. This alert also makes recommendations about how to manage local reserves under the cap. The local reserve cap is a function of Proposition 2 (2014) and the statute related to state Proposition 98 reserves. Currently, local reserves are strong. Unified districts ended the 2020-21 fiscal year with an average unrestricted reserve of 22.36% of total general fund expenditures and other uses, which was an increase of 3.54% over 2019-20.

The local reserve cap may entail a discussion of where Education Code and Governmental Accounting Standards Board (GASB) Statement No. 54 on fund balance intersect with one another. Small districts (with an average daily attendance of less than 2501), community-funded districts, county offices of education and charter schools are exempt from the local reserve cap specified in Education Code; however, most districts are subject to the GASB pronouncements on fund balance. The related Education Code provisions are directed at budgets, while GASB 54 addresses actual accounting records and financial statements. Keeping this distinction in mind is important to understanding how the two intersect.

Local Reserve Cap Takes Effect in 2022-23

The current year's enacted state budget provided deposits into the Proposition 98 rainy day fund that bring the balance in the fund to \$6.4 billion, triggering the local reserve cap in the following year (2022-23). The governor's proposed budget for 2022-23 makes an additional deposit to the rainy day fund, which ensures that the local reserve cap will remain in place for the foreseeable future. On March 17, 2022, the State Superintendent of Public Instruction issued a "Notification of School District Reserve Cap Requirements 2022-23 Fiscal Year," which affirms that the cap on local reserves is effective with the 2022-23 fiscal year.

The threshold percentages and how they are applied can be confusing. Proposition 2 and its enabling statutes established a 3% threshold in the Proposition 98 Public School System Stabilization Account (PSSSA), or rainy day fund. This metric is measured as 3% of the total Proposition 98 expenditures for TK-12. As noted above, the current year balance is estimated at \$6.6 billion, which exceeds the 3% threshold. When this threshold is met, it triggers a 10% cap on local districts' combined assigned and unassigned reserves (Education Code Section 42127.01(a)).

FCMAT

Michael H. Fine
Chief Executive Officer

1300 17th Street - CITY CENTRE
Bakersfield, CA 93301-4533
Telephone 661-636-4611
Fax 661-636-4647

Administrative Agent
Mary C. Barlow
Office of Kern County
Superintendent of Schools

The local reserve 10% figure is measured as a percentage of total general fund expenditures, transfers out and other uses. This is the same as the computation used to determine a local district's minimum reserve level, or reserve for economic uncertainties (sometimes also known as designated for economic uncertainties). Assigned and unassigned fund balances in the Special Reserve Fund for Other than Capital Outlay Projects (Fund 17) are added to the general fund to determine total reserves subject to the cap. Excluded from the reserve computation are the nonspendable, restricted and committed components of the fund balance.

Options to Manage the Local Reserve Cap

There are three options for eligible districts with reserves estimated to be higher than the 10% limit.

The first option is to spend down the reserves. This is sensible when it is related to an overall plan that supports students' needs and is not driven by the cap itself. Spending down reserves on one-time high-priority needs such as technology infrastructure, deferred maintenance, etc. may make sense in the context of a district's local control and accountability plan (LCAP).

The second option provided in statute is to seek a temporary waiver from the county superintendent. Each county superintendent will have to evaluate the circumstances of such a request. Education Code Section 42127.01(b) provides that a district may be exempt from the cap for up to two consecutive fiscal years within a three-year period based on documents indicating that extraordinary fiscal circumstances substantiate the need for the excess reserves. The statute requires a district to do all of the following:

1. Provide a statement that substantiates the need for a combined assigned and unassigned ending general fund balance that is more than 10%.
2. Identify the funding amounts in the budget adopted by the district that are associated with extraordinary fiscal circumstances.
3. Provide documentation that no other fiscal resources are available to fund the extraordinary fiscal circumstances.

Keep in mind if extraordinary fiscal circumstances exist, then so does the justification to commit funds. Not every county superintendent will issue a waiver, and not every district within a county will be treated the same, because each district has unique circumstances and risk factors.

FCMAT recommends against seeking a county superintendent waiver unless the county superintendent has expressed a willingness to consider such waivers. Also, a waiver is valid only for up to two consecutive years.

The third, and most viable, option available under statute is to reclassify any unassigned or assigned components of the fund balance to the committed or restricted category of the fund balance. While straightforward, this option shall be governed consistent with GASB 54. Every district should have a board policy on fund balance that references GASB 54 requirements. The model policy published by the California School Boards Association (CSBA) includes this reference in Policy 3100 – Budget and provides the following key provisions:

1. Committed fund balance includes amounts constrained to specific purposes by the Board.
2. For this purpose, all commitments of funds shall be approved by a majority vote of the Board. The constraints shall be imposed no later than the end of the reporting period

(June 30), although the actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

The specifics and recommendations about how to reclassify funds to committed fund balance are explored in more detail below.

Excluded from each of the three options to manage the local reserve cap explored here is the reserve for economic uncertainties maintained by school districts pursuant to the criteria and standards for fiscal solvency (minimum reserve requirements) established by the State Board of Education (Education Code 33128). The reserve for economic uncertainties is a stabilization-like arrangement or minimum fund balance policy and does not meet the criteria under GASB 54 to be reported as either restricted or committed, because the circumstances in which the reserve might be spent are by their nature nonspecific and routine. As such, the reserve shall be reported as a component of the unassigned fund balance using the unique object code 9789 established under the Standardized Account Code Structure (SACS). Therefore, the reserve component of the unassigned fund balance is subject to the reserve cap.

The discussion above is not intended to limit more formal stabilization arrangements that may be eligible under GASB 54 to be classified as committed fund balance. In these cases, the circumstances under which the resources may be spent shall be both specific and nonroutine. You are encouraged to consult with your external auditors on the role and requirements for formal stabilization agreements.

Reclassifying a Portion of Local Reserves to Committed Fund Balance

GASB 54 defines *committed fund balance* as:

... amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint ...

The California School Accounting Manual defines *committed fund balance* as:

Committed fund balance (objects 9750-9769) is the portion in which the use is constrained by limitations imposed by the LEA through formal action of its highest level of decision-making authority. It would include amounts set aside pursuant to an economic stabilization arrangement only if the arrangement were more formal than the reserve for economic uncertainties recommend by the Criteria and Standards for Fiscal Solvency.

FCMAT believes the best practice for making the initial commitment or modifying the commitment later is that it be done by governing board resolution and documented in the minutes of the board meeting. This ensures the highest level of transparency of the board's action. As an alternative to a separate resolution, districts can consider including the approval of the commitment in their budget adoption resolution, but districts should ensure each commitment is specifically identified. Districts should not simply include the commitment in the SACS forms without specific board action based on thoughtful justification. Each district has slightly different local preferences for and history of how items of this nature are handled. However, for school districts, formal action is typically limited to actions taken at a public meeting by the governing board, such as a vote, a resolution, or some similar action such as adoption of a budget.

A sample board resolution can be [downloaded here](#).

The list of legitimate short- and long-term needs that justify committing funds to support them is almost endless. But keep in mind that each purpose should be supported by a specific set of facts and justification. The expectations of both GASB 54 and your external auditors are that there will be specific supporting documentation for the purpose and the dollar amount committed. Examples of supporting documents may include existing or new plans (e.g., LCAP, technology plan, deferred maintenance plan, multiyear financial projections). Examples of purposes to support commitments include:

1. Unspent supplemental and concentration grant funding to support LCAP goals
2. Technology refresh and investments
3. Deferred maintenance
4. Declining enrollment mitigation
5. Specific equipment or furnishing replacement
6. Textbook adoption(s)
7. Pension obligations
8. Other post-employment benefit obligations (if the district does not maintain a Fund 20)
9. Specific deficit spending mitigation measures
10. Formal stabilization arrangements (object 9750)

Consult with your external auditors on these and other purposes for commitments, including the justifying documentation that the auditor will be expecting.

If the district has made assignments within the fund balance for specific purposes, those assignments are the first place to go when considering making a commitment. The purpose may be for the same reason, but the authority approving either the assignment or commitment is different: assignments are typically made by administrative staff; commitments are typically made by the board through formal action (as mentioned above).

The purpose of the commitment does not have to be permanent and may be changed. Committed fund balance may be redirected by the district to other purposes if the redirection is done by the same means by which the funds were committed. The original purpose supporting the commitment must be modified using the same method by which it was originally imposed, that is, by the same formal action of the highest level of decision-making authority (i.e., formal action by the board of education via resolution or other means).

Reclassifying a Portion of Local Reserves to Restricted Fund Balance and Other Funds

Making contributions to restricted programs and for purposes typically accounted for in other funds are two other strategies within the reclassifying option. Although best practices would normally avoid contributing from the unrestricted general fund to a restricted program (e.g., Title I or Career Technical Education grant), except in limited circumstances such as for routine restricted maintenance, such an action may be an appropriate strategy to use excess unrestricted reserves. In this case, the contribution, if unspent, will be categorized as restricted fund balance.

Caution is warranted here because school districts do not have the authority to simply reclassify unrestricted funds as restricted funds. Restrictions are stipulated by constitution, external resource providers, or through enabling legislation. As an example, additional contributions to programs such as routine restricted maintenance are sufficient to reclassify funds as restricted. Consult with your external auditors to ensure compliance with GASB and generally accepted accounting principles.

Making contributions of unrestricted general fund resources to another fund for a specific, assigned, committed or restricted purpose is more typical. For example, a transfer to the Special Reserve Fund for Postemployment Benefits (Fund 20), for postemployment benefit liabilities, is routine. Transfers to child development, postemployment benefit reserves, other insurance reserves, capital projects and even food services may all fit in this strategy. Details matter. In some instances, funds that have been contributed to another fund may be lawfully restricted to the purpose of the receiving fund, and reversing this contribution may be prohibited. Further caution should be exercised when a district is subject to local contributions to facility projects funded under hardship conditions. When transfers from the general fund to other governmental funds are made, the district is indicating that it intends to use those resources for the purpose of the fund that receives the monies. At a minimum, this intent meets the requirements for classification as assigned fund balance in the receiving fund. However, the classification of reserves in the other funds (except Fund 17) is immaterial to the local reserve cap calculation because only the general fund and the Special Reserve Fund for Other than Capital Outlay Projects are included in the reserve cap calculation.

Timing can be Confusing

Education Code Section 42127.01(a) requires that:

... a school district *budget* that is adopted or revised pursuant to Section 42127 shall not contain a combined assigned or unassigned *ending* general fund balance that is in excess of 10 percent of those funds [Emphasis added].

First, Section 42127 applies only to the adopted budget (July 1) or the 45-day budget revision. It does not include interim reporting periods; however, the expectation is that what is established at budget adoption is carried forward through the interim reports, unless the board changes the commitment, or the committed funds are appropriated in budgeted expenditures. Second, the prohibition is applicable to the *ending* balance, not the beginning fund balance. The implementation of the reserve cap in 2022-23 means that the adopted budget for 2022-23 (both the July 1 adopted budget and the 45-day revision) must adhere to the Education Code restriction and not contain a combined assigned and unassigned ending general fund (and Fund 17) balance of more than 10%.

As mentioned at the beginning of this alert, GASB 54 is applicable to, and a function of, the accounting process, not the budget process. As such, GASB 54's June 30 deadline pertains to estimated actuals, unaudited actuals and audited financial statements. Whether committing funds for a specific purpose or reclassifying funds to restricted programs or other funds, the timing of the board's action is important. GASB 54 requires that a district's governing board establish the constraints giving rise to a committed fund balance no later than the end of the fiscal year (June 30). The actual amounts attributable to each purpose may be determined after that date, but must occur before a district issues its financial statements. For districts, this means that the list of

purposes for committed funds shall be adopted by the board before June 30, but the amounts designated for each purpose may be determined as part of the year-end closing process typically completed in August and early September. The amounts should be included in unaudited actuals submitted to the county superintendent and the California Department of Education. It is possible that these amounts may be corrected or revised during the audit, in which case final amounts will be reported in the audited financial statements.

Districts that reclassify reserves to committed fund balance would need to show those committed purposes and estimated amounts in the adopted budget as of July 1, 2022. However, they could change the purposes and amounts during the year up to June 30, 2023, which is the applicable deadline under GASB.

Now is the Time to Explore Options and Develop a Plan

The 2022-23 fiscal year is right around the corner. Districts need to finalize their approach to local reserve caps now. If you anticipate having 2022-23 assigned or unassigned reserves that are subject to the limitation, identify your course of action as part of your current budget development process. If you intend to spend down your reserves, those expenditures must be part of your 2022-23 expenditure plan and be included in your draft and final budget documents. If you intend to seek a county superintendent waiver for 2022-23, formally start that process now with an inquiry and follow up with your county office of education. Keep in mind that this option may not be available in every county or for every district; consider it a last resort. If you intend to reclassify reserves to committed or restricted fund balance through formal board action, FCMAT recommends you have that discussion with your board of education ahead of finalizing your budget. You don't want to be surprised at budget adoption if your board does not support reclassification.

Education Code Section 42127.01(a) clearly states, “. . . a school district budget that is adopted or revised pursuant to Section 42127 *shall not contain* a combined assigned or unassigned ending general fund balance that is in excess of 10 percent of those funds” [Emphasis added]. Districts shall not prepare or adopt a budget with a combined assigned and unassigned general fund balance that is more than 10% (including the Special Reserve Fund for Other Than Capital Outlay Projects, Fund 17).

County superintendents have broad authority in reviewing a district's adopted budget and making a final determination about whether it meets the standards. County superintendents have several options to address a noncompliant condition in a district's adopted budget, including:

1. Disapprove the budget pursuant to Education Code Section 42127(d).
2. Conditionally approve the budget pursuant to Education Code Section 42127(d) and require that the district address the excess fund balance in order to receive approval of its budget.
3. Approve the budget but comment about the excess fund balance in the approval letter, directing the district's governing board to remedy the condition.

County superintendents will follow the basic principles of fiscal oversight in making the appropriate determination about whether a district's budget meets the standards. The county superintendent's approach and message to a district will depend on the unique circumstances and risk factors present.

Most county superintendents have reported that they are proactively communicating and working with their local districts on the requirements related to the local reserve cap and are working to help districts reclassify excess fund balance as part of the budget adoption process.

As noted in this alert, FCMAT recommends districts that project having a combined assigned or unassigned ending general fund balances of more than 10% reclassify portions of their fund balance to committed funds pursuant to the established accounting standards.

Resources

CDE letter to the field, [“Notification of School District Reserve Cap Requirements 2022-23 Fiscal Year,”](#) March 17, 2022

CDE letter to the field, [“New Requirements for Reporting Fund Balance in Governmental Funds,”](#) January 7, 2011

GASB, [“Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions”](#)
[California School Accounting Manual, 2019 edition](#)

Available COVID-19 Funds

Fund	Fund Source and/or Distribution Methodology	Resource Code	Deadline
ESSER I	Federal funds distributed in proportion to Title I allocation	3210	September 30, 2022
Governor's Emergency Education Relief (GEER) I	Federal funds included in LLM Fund	3215	September 30, 2022
ESSER II	Federal funds distributed in proportion to Title I allocation	3212	September 30, 2023
ESSER II—state reserve	Federal funds included in ELO Grant	3216	September 30, 2023
GEER II	Federal funds included in ELO Grant	3217	September 30, 2023
ELO Grant—10% set aside for paraprofessionals	State funds included in ELO Grant	7426	September 30, 2024
ELO Grant	State funds included in ELO Grant	7425	September 30, 2024
ESSER III—state reserve	Federal funds included in ELO Grant	3218	September 30, 2024
ESSER III—state reserve for learning loss	Federal funds included in ELO Grant	3219	September 30, 2024
ESSER III	Federal funds distributed in proportion to Title I allocation	3213	September 30, 2024
ESSER III—LEA 20% reserve for learning loss	Federal funds distributed in proportion to Title I allocation	3214	September 30, 2024
In-Person Instruction Grant	State funds	7422	September 30, 2024

LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services - Fiscal Monitoring District Assignments
2022-23 Adopted Budget & LCAP Review Cycle

Abrar Alam (562) 922-6133	Dio Brache (562) 922-6802	Steven Choi (562) 940-1768
Arcadia USD Antelope Valley Sch. Trans Agcy. Antelope Valley Joint Union HSD El Rancho USD Keppel Union SD Las Virgenes USD Little Lake City SD Montebello USD Walnut Valley USD William S. Hart Union HSD	Azusa USD Beverly Hills USD Centinela Valley UHSD Inglewood USD Lynwood USD PINCO San Gabriel USD Saugus Union SD Sulphur Springs Union SD	El Monte Union HSD Glendale USD Glendora USD Lawndale Elementary SD Pasadena USD Rosemead SD Rowland USD San Antonio ROP San Marino USD Temple City USD
Kathy Connell (562) 922-6184	Belinda Martinez (562) 922-8739	Sean Lewis (562) 922-6779
Castaic Union SD East San Gabriel Valley ROP Eastside Union SD Hacienda La Puente USD Hawthorne SD La Cañada USD Mountain View SD South Pasadena USD Westside Union SD Wilsona SD	Baldwin Park USD Claremont USD Culver City USD El Monte City SD El Segundo USD Long Beach USD Los Nietos SD Monrovia USD Pupil Transportation Co-op Torrance USD	ABC USD Bellflower USD East Whittier City SD Palmdale SD Palos Verdes Peninsula USD Santa Monica-Malibu USD South Whittier SD Tri-Cities ROP Whittier City SD Whittier Union HSD
Demetra Moore (562) 401-5497	Andrew Surendranath (562) 922-6743	Hoyt Yee (562) 940-1705
Alhambra USD Bassett USD Burbank USD Compton USD Downey USD Los Angeles USD Redondo Beach USD Santa Clarita Valley Food Services Wiseburn USD	CALAPS JPA Hermosa SD Gorman Joint SD Hughes-Elizabeth Lakes SD Lancaster SD Manhattan Beach SD Newhall SD Norwalk-La Mirada USD Paramount USD Valle Lindo SD	Acton-Agua Dulce USD Bonita USD Charter Oak USD Covina-Valley USD Duarte USD Garvey SD Lennox SD Pomona USD SCROC West Covina USD