

AMENDED IN ASSEMBLY MAY 6, 2015
AMENDED IN ASSEMBLY MARCH 26, 2015
CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 1318

Introduced by Assembly Members Gray and Olsen

February 27, 2015

An act to amend ~~Section~~ *Sections 42127 and 42127.01* of the Education Code, relating to school finance.

LEGISLATIVE COUNSEL'S DIGEST

AB 1318, as amended, Gray. School finance: school districts: annual budgets: reserve balance.

(1) Existing law requires a school district, on or before July 1 of each year, to hold a hearing on, and adopt a budget for, the subsequent fiscal year. Existing law requires the governing board of a school district that proposes to adopt a budget that includes a combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for economic uncertainties adopted by the State Board of Education to provide specified information for public review and discussion at the public hearing, including, among other things, the combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.

This bill would instead require the governing board of a school district to provide the information for public review and discussion at the public hearing if the school district proposes to adopt a budget that includes a combined assigned and unassigned ending fund balance in the school district's general fund and special reserve fund for other than capital

outlay projects in excess of the minimum recommended reserve for economic uncertainties adopted by the state board. This bill would require the information about the combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for economic uncertainties to include a description of the purposes for the amounts in each fund. The bill would require the governing board of a school district to adopt a policy setting the amounts of assigned and unassigned balances the governing board of the school district expects to be necessary to address economic uncertainties, funding volatility, cash flow, and savings for expenditures. By imposing additional duties on school districts, this bill would impose a state-mandated local program.

Existing law requires the county superintendent of schools to determine whether the adopted budget of a school district includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties and if so, to verify that the school district complied with the public review and disclosure requirements.

This bill would instead require the county superintendent of schools to determine whether the adopted budget includes a combined assigned and unassigned ending fund balance in the school district's general fund and special reserve fund for other than capital outlay projects that exceeds the minimum recommended reserve for economic uncertainties. To the extent this requirement would impose additional duties on the county superintendent of schools, this bill would impose a state-mandated local program.

~~Existing~~

(2) Existing law, unless the school district is granted an exemption, limits the amount of the combined assigned or unassigned ending fund balance contained in a school district's annual budget in any fiscal year immediately after a fiscal year in which a transfer is made into the Public School System Stabilization Account. Existing law establishes a formula for calculating the maximum amount allowable for school districts with less than 400,000 units of average daily attendance and establishes a formula for school districts with more than 400,000 units of average daily attendance, as specified.

This bill would revise the formula for school districts with less than 400,000 units of average daily attendance and the formula for school districts with more than 400,000 units of average daily attendance, as

specified. The bill also would make a technical change by deleting an obsolete provision.

(3) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~-yes.
State-mandated local program: ~~no~~-yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 42127 of the Education Code is amended
2 to read:

3 42127. (a) On or before July 1 of each year, the governing
4 board of each school district shall accomplish the following:

5 (1) Hold a public hearing conducted in accordance with Section
6 42103 on the budget to be adopted for the subsequent fiscal year.
7 The budget to be adopted shall be prepared in accordance with
8 Section 42126. The agenda for that hearing shall be posted at least
9 72 hours before the public hearing and shall include the location
10 where the budget will be available for public inspection.

11 (2) (A) Adopt a budget. Not later than five days after that
12 adoption or by July 1, whichever occurs first, the governing board
13 of the school district shall file that budget with the county
14 superintendent of schools. The budget and supporting data shall
15 be maintained and made available for public review. If the
16 governing board of the school district does not want all or a portion
17 of the property tax requirement levied for the purpose of making
18 payments for the interest and redemption charges on indebtedness
19 as described in paragraph (1) or (2) of subdivision (b) of Section
20 1 of Article XIII A of the California Constitution, the budget shall
21 include a statement of the amount or portion for which a levy shall
22 not be made. For the 2014–15 fiscal year and each fiscal year
23 thereafter, the governing board of the school district shall not adopt
24 a budget before the governing board of the school district adopts
25 a local control and accountability plan, if an existing local control

1 and accountability plan or annual update to a local control and
 2 accountability plan is not effective for the budget year. The
 3 governing board of a school district shall not adopt a budget that
 4 does not include the expenditures necessary to implement the local
 5 control and accountability plan or the annual update to a local
 6 control and accountability plan that is effective for the budget year.

7 (B) (i) Commencing with budgets adopted for the 2015–16
 8 fiscal year, the governing board of a school district that proposes
 9 to adopt a budget, or revise a budget pursuant to ~~subdivision (e);~~
 10 *paragraph (3) of subdivision (d)*, that includes a combined assigned
 11 and unassigned ending fund balance *in the school district’s general*
 12 *fund and special reserve fund for other than capital outlay projects*
 13 in excess of the minimum recommended reserve for economic
 14 uncertainties adopted by the state board pursuant to subdivision
 15 (a) of Section ~~33128; 33128~~ shall, at the public hearing held
 16 pursuant to paragraph (1), provide all of the following for public
 17 review and discussion:

18 (i)
 19 (I) The minimum recommended reserve for economic
 20 uncertainties for each fiscal year identified in the budget.

21 (ii)
 22 (II) The combined assigned and unassigned ending fund ~~balances~~
 23 ~~that are~~ *balance* in excess of the minimum recommended reserve
 24 for economic uncertainties for each fiscal year identified in the
 25 budget *and a description of the purposes for the amounts in each*
 26 *fund.*

27 (iii)
 28 (III) A statement of reasons that substantiates the need for an
 29 assigned and unassigned ending fund balance that is in excess of
 30 the minimum recommended reserve for economic uncertainties
 31 for each fiscal year ~~that the school district identifies an assigned~~
 32 ~~and unassigned ending fund balance that is in excess of the~~
 33 ~~minimum recommended reserve for economic uncertainties, as~~
 34 ~~identified pursuant to clause (ii):~~ *identified in the budget.*

35 (ii) *The governing board of a school district shall adopt a policy*
 36 *setting the amounts of assigned and unassigned balances the*
 37 *governing board of the school district expects to be necessary to*
 38 *address economic uncertainties, funding volatility, cash flow, and*
 39 *savings for expenditures.*

1 (C) The governing board of a school district shall include the
2 information required pursuant to subparagraph (B) in its budgetary
3 submission each time it files an adopted ~~or revised~~ budget with
4 the county superintendent of schools. The information required
5 pursuant to subparagraph (B) shall be maintained and made
6 available for public review.

7 (b) The county superintendent of schools may accept changes
8 in any statement included in the budget, pursuant to subdivision
9 (a), of the amount or portion for which a property tax levy shall
10 not be made. The county superintendent of schools or the county
11 auditor shall compute the actual amounts to be levied on the
12 property tax rolls of the school district for purposes that exceed
13 apportionments to the school district pursuant to Chapter 6
14 (commencing with Section 95) of Part 0.5 of Division 1 of the
15 Revenue and Taxation Code. Each school district shall provide all
16 data needed by the county superintendent of schools or the county
17 auditor to compute the amounts. On or before August 15, the
18 county superintendent of schools shall transmit the amounts
19 computed to the county auditor who shall compute the tax rates
20 necessary to produce the amounts. On or before September 1, the
21 county auditor shall submit the rate computed to the board of
22 supervisors for adoption.

23 (c) The county superintendent of schools shall do all of the
24 following:

25 (1) Examine the adopted budget to determine whether it
26 complies with the standards and criteria adopted by the state board
27 pursuant to Section 33127 for application to final local educational
28 agency budgets. The county superintendent of schools shall
29 identify, if necessary, technical corrections that are required to be
30 made to bring the budget into compliance with those standards
31 and criteria.

32 (2) Determine whether the adopted budget will allow the school
33 district to meet its financial obligations during the fiscal year and
34 is consistent with a financial plan that will enable the school district
35 to satisfy its multiyear financial commitments. In addition to his
36 or her own analysis of the budget of each school district, the county
37 superintendent of schools shall review and consider studies, reports,
38 evaluations, or audits of the school district that were commissioned
39 by the school district, the county superintendent of schools, the
40 Superintendent, and state control agencies and that contain

1 evidence that the school district is showing fiscal distress under
2 the standards and criteria adopted in Section 33127 or that contain
3 a finding by an external reviewer that more than 3 of the 15 most
4 common predictors of a school district needing intervention, as
5 determined by the County Office Fiscal Crisis and Management
6 Assistance Team, are present. The county superintendent of schools
7 shall either conditionally approve or disapprove a budget that does
8 not provide adequate assurance that the school district will meet
9 its current and future obligations and resolve any problems
10 identified in studies, reports, evaluations, or audits described in
11 this paragraph.

12 (3) Determine whether the adopted budget includes the
13 expenditures necessary to implement the local control and
14 accountability plan or annual update to the local control and
15 accountability plan approved by the county superintendent of
16 schools.

17 (4) Determine whether the adopted budget includes a combined
18 assigned and unassigned ending fund balance *in the school*
19 *district's general fund and special reserve fund for other than*
20 *capital outlay projects* that exceeds the minimum recommended
21 reserve for economic uncertainties. If the adopted budget includes
22 a combined assigned and unassigned ending fund balance *in the*
23 *two funds* that exceeds the minimum recommended reserve for
24 economic uncertainties, the county superintendent of schools shall
25 verify that the school district complied with the requirements of
26 subparagraphs (B) and (C) of paragraph (2) of subdivision (a).

27 (d) (1) On or before August 15, the county superintendent of
28 schools shall approve, conditionally approve, or disapprove the
29 adopted budget for each school district. For the 2014–15 fiscal
30 year and each fiscal year thereafter, the county superintendent of
31 schools shall disapprove a budget if the county superintendent of
32 schools determines that the budget does not include the
33 expenditures necessary to implement a local control and
34 accountability plan or an annual update to the local control and
35 accountability plan approved by the county superintendent of
36 schools. If the governing board of a school district does not submit
37 a budget to the county superintendent of schools, the county
38 superintendent of schools shall develop, at school district expense,
39 a budget for that school district by September 15 and transmit that
40 budget to the governing board of the school district. The budget

1 prepared by the county superintendent of schools shall be deemed
2 adopted, unless the county superintendent of schools approves any
3 modifications made by the governing board of the school district.
4 The budget prepared by the county superintendent of schools shall
5 also comply with the requirements of subparagraph (B) of
6 paragraph (2) of subdivision (a). The approved budget shall be
7 used as a guide for the school district's priorities. The
8 Superintendent shall review and certify the budget approved by
9 the county. If, pursuant to the review conducted pursuant to
10 subdivision (c), the county superintendent of schools determines
11 that the adopted budget for a school district does not satisfy
12 paragraph (1), (2), (3), or (4) of that subdivision, he or she shall
13 conditionally approve or disapprove the budget and, not later than
14 August 15, transmit to the governing board of the school district,
15 in writing, his or her recommendations regarding revision of the
16 budget and the reasons for those recommendations, including, but
17 not limited to, the amounts of any budget adjustments needed
18 before he or she can approve that budget. The county
19 superintendent of schools may assign a fiscal adviser to assist the
20 school district to develop a budget in compliance with those
21 revisions. In addition, the county superintendent of schools may
22 appoint a committee to examine and comment on the
23 superintendent's review and recommendations, subject to the
24 requirement that the committee report its findings to the county
25 superintendent of schools no later than August 20.

26 (2) Notwithstanding any other provision of this article, for the
27 2014–15 fiscal year and each fiscal year thereafter, the budget
28 shall not be adopted or approved by the county superintendent of
29 schools before a local control and accountability plan or update to
30 an existing local control and accountability plan for the budget
31 year is approved.

32 (3) If the adopted budget of a school district is conditionally
33 approved or disapproved pursuant to paragraph (1), on or before
34 September 8, the governing board of the school district, in
35 conjunction with the county superintendent of schools, shall review
36 and respond to the recommendations of the county superintendent
37 of schools at a regular meeting of the governing board of the school
38 district. The response shall include any revisions to the adopted
39 budget and other proposed actions to be taken, if any, as a result
40 of those recommendations.

1 (e) On or before September 22, the county superintendent of
2 schools shall provide a list to the Superintendent identifying all
3 school districts for which budgets may be disapproved.

4 (f) (1) The county superintendent of schools shall examine the
5 revised budget as provided in paragraph (3) of subdivision (d) to
6 determine whether it (A) complies with the standards and criteria
7 adopted by the state board pursuant to Section 33127 for
8 application to final local educational agency budgets, (B) allows
9 the school district to meet its financial obligations during the fiscal
10 year, (C) satisfies all conditions established by the county
11 superintendent of schools in the case of a conditionally approved
12 budget, (D) is consistent with a financial plan that will enable the
13 school district to satisfy its multiyear financial commitments, and,
14 not later than October 8, shall approve or disapprove the revised
15 budget, and (E) whether the revised budget complies with the
16 requirements of subparagraph (B) of paragraph (2) of subdivision
17 (a). If the county superintendent of schools disapproves the budget,
18 he or she shall call for the formation of a budget review committee
19 pursuant to Section 42127.1, unless the governing board of the
20 school district and the county superintendent of schools agree to
21 waive the requirement that a budget review committee be formed
22 and the department approves the waiver after determining that a
23 budget review committee is not necessary. Upon the grant of a
24 waiver, the county superintendent of schools immediately has the
25 authority and responsibility provided in Section 42127.3. Upon
26 approving a waiver of the budget review committee, the department
27 shall ensure that a balanced budget is adopted for the school district
28 by November 30. If no budget is adopted by November 30, the
29 Superintendent may adopt a budget for the school district. The
30 Superintendent shall report to the Legislature and the Director of
31 Finance by December 10 if any school district, including a school
32 district that has received a waiver of the budget review committee
33 process, does not have an adopted budget by November 30. This
34 report shall include the reasons why a budget has not been adopted
35 by the deadline, the steps being taken to finalize budget adoption,
36 the date the adopted budget is anticipated, and whether the
37 Superintendent has or will exercise his or her authority to adopt a
38 budget for the school district.

39 (2) Notwithstanding any other law, for the 2014–15 fiscal year
40 and each fiscal year thereafter, if the county superintendent of

1 schools disapproves the budget for the sole reason that the county
2 superintendent of schools has not approved a local control and
3 accountability plan or an annual update to the local control and
4 accountability plan filed by the governing board of the school
5 district pursuant to Section 52070, the county superintendent of
6 schools shall not call for the formation of a budget review
7 committee pursuant to Section 42127.1.

8 (g) Not later than October 8, the county superintendent of
9 schools shall submit a report to the Superintendent identifying all
10 school districts for which budgets have been disapproved or budget
11 review committees waived. The report shall include a copy of the
12 written response transmitted to each of those school districts
13 pursuant to paragraph (1) of subdivision (d).

14 (h) Not later than 45 days after the Governor signs the annual
15 Budget Act, the school district shall make available for public
16 review any revisions in revenues and expenditures that it has made
17 to its budget to reflect the funding made available by that Budget
18 Act.

19 (i) Any school district for which the county board of education
20 serves as the governing board of the school district is not subject
21 to subdivisions (c) to (h), inclusive, but is governed instead by the
22 budget procedures set forth in Section 1622.

23 **SECTION 1.**

24 *SEC. 2.* Section 42127.01 of the Education Code is amended
25 to read:

26 42127.01. (a) In a fiscal year immediately after a fiscal year
27 in which a transfer is made into the Public School System
28 Stabilization Account, a school district budget that is adopted or
29 revised pursuant to Section 42127 shall not contain a combined
30 assigned or unassigned ending fund balance that is in excess of
31 the following:

32 (1) For school districts with fewer than 400,000 units of average
33 daily attendance, the sum of the school district's applicable
34 minimum recommended reserve for economic uncertainties adopted
35 by the state board pursuant to subdivision (a) of Section 33128,
36 multiplied by ____.

37 (2) For school districts with more than 400,000 units of average
38 daily attendance, the sum of the school district's applicable
39 minimum recommended reserve for economic uncertainties adopted

1 by the state board pursuant to subdivision (a) of Section 33128,
2 multiplied by ____.

3 (b) A county superintendent of schools may grant a school
4 district under its jurisdiction an exemption from the requirements
5 of subdivision (a) for up to two consecutive fiscal years within a
6 three-year period if the school district provides documentation
7 indicating that extraordinary fiscal circumstances, including, but
8 not limited to, multiyear infrastructure or technology projects,
9 substantiate the need for a combined assigned or unassigned ending
10 fund balance that is in excess of the minimum recommended
11 reserve for economic uncertainties. As a condition of receiving an
12 exception, a school district shall do all of the following:

13 (1) Provide a statement that substantiates the need for an
14 assigned and unassigned ending fund balance that is in excess of
15 the minimum recommended reserve for economic uncertainties.

16 (2) Identify the funding amounts in the budget adopted by the
17 school district that are associated with the extraordinary fiscal
18 circumstances.

19 (3) Provide documentation that no other fiscal resources are
20 available to fund the extraordinary fiscal circumstances.

21 *SEC. 3. If the Commission on State Mandates determines that*
22 *this act contains costs mandated by the state, reimbursement to*
23 *local agencies and school districts for those costs shall be made*
24 *pursuant to Part 7 (commencing with Section 17500) of Division*
25 *4 of Title 2 of the Government Code.*