

AMENDED IN ASSEMBLY AUGUST 30, 2016

AMENDED IN ASSEMBLY AUGUST 20, 2015

AMENDED IN ASSEMBLY JUNE 25, 2015

AMENDED IN SENATE APRIL 20, 2015

SENATE BILL

No. 799

Introduced by Senators Hill and Glazer

(Coauthors: Senators Allen, Block, Galgiani, Pavley, Roth, and Wolk)

(Coauthors: Assembly Members Bonilla, Brown, Calderon, Cooper, Gray, Irwin, Olsen, Salas, and Ting)

March 18, 2015

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

LEGISLATIVE COUNSEL'S DIGEST

SB 799, as amended, Hill. School finance: school districts: annual budgets: reserve balance.

Existing law requires the governing board of 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.

This bill would instead require the governing board of a school district that proposes to adopt a budget that includes unassigned ending balances 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 to provide specified information for public review and discussion. The bill would also require the governing board of a school district to adopt a policy establishing procedures for reporting the fund balances as reflected in the school district's governmental fund financial statements, as specified. By imposing additional duties on school districts, the bill would impose a state-mandated local program.

Existing law 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 formulas for calculating the maximum amount allowable for school districts with less than 400,000 units of average daily attendance and for school districts with more than 400,000 units of average daily attendance, as specified. Existing law authorizes the county superintendent of schools to grant an exemption from those requirements if the school district provides documentation indicating extraordinary fiscal circumstances substantiate the need for a combined assigned or unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties, as specified.

This bill would instead provide that the school district's budget shall not contain unassigned ending balances in the school district's general fund and special reserve fund for other than capital outlay projects in excess of ~~17%~~ 15% of those funds, and would require a county superintendent of schools to grant a school district an exemption if the school district provides documentation indicating extraordinary fiscal circumstances substantiate the need for those fund balances, as specified. ~~The bill would also require each county superintendent of schools to adopt a policy establishing the procedures for submitting exemption requests and the criteria to be used to determine whether extraordinary fiscal circumstances exist.~~ *the governing board of a school district to report in a public meeting its assigned and unassigned fund balances in the school district's general fund and special reserve fund for other than capital outlay projects, as specified.*

Because the bill would impose additional duties on school districts and county superintendents of schools, the bill would impose a state-mandated local program.

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: yes.
State-mandated local program: 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
26 and accountability plan or annual update to a local control and
27 accountability plan is not effective for the budget year. The
28 governing board of a school district shall not adopt a budget that

1 does not include the expenditures necessary to implement the local
2 control and accountability plan or the annual update to a local
3 control and accountability plan that is effective for the budget year.

4 (B) (i) Commencing with budgets adopted for the 2016–17
5 fiscal year, the governing board of a school district that proposes
6 to adopt a budget that includes unassigned ending balances in the
7 school district’s general fund and special reserve fund for other
8 than capital outlay projects that are in excess of the minimum
9 recommended reserve for economic uncertainties adopted by the
10 state board pursuant to subdivision (a) of Section 33128 shall, at
11 the public hearing held pursuant to paragraph (1), provide all of
12 the following for public review and discussion:

13 (I) The minimum recommended reserve for economic
14 uncertainties for each fiscal year identified in the budget.

15 (II) The unassigned ending balances in the school district’s
16 general fund and special reserve fund for other than capital outlay
17 projects that are in excess of the minimum recommended reserve
18 for economic uncertainties for each fiscal year identified in the
19 budget.

20 (III) A statement of reasons explaining the unassigned ending
21 balances in the school district’s general fund and special reserve
22 fund for other than capital outlay projects that are in excess of the
23 minimum recommended reserve for economic uncertainties for
24 each fiscal year that the school district identifies any unassigned
25 ending fund balances that are in excess of the minimum
26 recommended reserve for economic uncertainties, as identified
27 pursuant to subclause (II).

28 (ii) Commencing with the 2016–17 fiscal year, the governing
29 board of a school district shall adopt a policy establishing
30 procedures for reporting the fund balances as reflected in the school
31 district’s governmental fund financial statements. The policy shall
32 outline how the school district’s fund balances are intended to
33 ensure that adequate financial resources are available to address
34 revenue shortfalls, unanticipated expenditures, planned future
35 one-time expenses, and any other financial or educational needs
36 of the district. The policy shall include a requirement for an annual
37 report to the governing board of the school district in a public
38 meeting at the same meeting as budget adoption.

39 (C) The governing board of a school district shall include the
40 information required pursuant to subparagraph (B) in its budgetary

1 submission at the time it files an adopted *or revised* budget with
2 the county superintendent of schools. The information required
3 pursuant to subparagraph (B) shall be maintained and made
4 available for public review.

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

21 (c) The county superintendent of schools shall do all of the
22 following:

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

30 (2) Determine whether the adopted budget will allow the school
31 district to meet its financial obligations during the fiscal year and
32 is consistent with a financial plan that will enable the school district
33 to satisfy its multiyear financial commitments. In addition to his
34 or her own analysis of the budget of each school district, the county
35 superintendent of schools shall review and consider studies, reports,
36 evaluations, or audits of the school district that were commissioned
37 by the school district, the county superintendent of schools, the
38 Superintendent, and state control agencies and that contain
39 evidence that the school district is showing fiscal distress under
40 the standards and criteria adopted in Section 33127 or that contain

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

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

15 (4) Verify that the school district complied with the requirements
16 of subparagraphs (B) and (C) of paragraph (2) of subdivision (a).

17 (d) (1) On or before September 15, the county superintendent
18 of schools shall approve, conditionally approve, or disapprove the
19 adopted budget for each school district. For the 2014–15 fiscal
20 year and each fiscal year thereafter, the county superintendent of
21 schools shall disapprove a budget if the county superintendent of
22 schools determines that the budget does not include the
23 expenditures necessary to implement a local control and
24 accountability plan or an annual update to the local control and
25 accountability plan approved by the county superintendent of
26 schools. If the governing board of a school district does not submit
27 a budget to the county superintendent of schools, the county
28 superintendent of schools shall develop, at school district expense,
29 a budget for that school district by September 15 and transmit that
30 budget to the governing board of the school district. The budget
31 prepared by the county superintendent of schools shall be deemed
32 adopted, unless the county superintendent of schools approves any
33 modifications made by the governing board of the school district.
34 The budget prepared by the county superintendent of schools shall
35 also comply with the requirements of subparagraph (B) of
36 paragraph (2) of subdivision (a). The approved budget shall be
37 used as a guide for the school district's priorities. The
38 Superintendent shall review and certify the budget approved by
39 the county superintendent of schools. If, pursuant to the review
40 conducted pursuant to subdivision (c), the county superintendent

1 of schools determines that the adopted budget for a school district
2 does not satisfy paragraph (1), (2), (3), or (4) of that subdivision,
3 he or she shall conditionally approve or disapprove the budget
4 and, not later than September 15, transmit to the governing board
5 of the school district, in writing, his or her recommendations
6 regarding revision of the budget and the reasons for those
7 recommendations, including, but not limited to, the amounts of
8 any budget adjustments needed before he or she can approve that
9 budget. The county superintendent of schools may assign a fiscal
10 adviser to assist the school district to develop a budget in
11 compliance with those revisions. In addition, the county
12 superintendent of schools may appoint a committee to examine
13 and comment on the county superintendent of schools' review and
14 recommendations, subject to the requirement that the committee
15 report its findings to the county superintendent of schools no later
16 than September 20.

17 (2) Notwithstanding any other provision of this article, for the
18 2014–15 fiscal year and each fiscal year thereafter, the budget
19 shall not be adopted or approved by the county superintendent of
20 schools before a local control and accountability plan or update to
21 an existing local control and accountability plan for the budget
22 year is approved.

23 (3) If the adopted budget of a school district is conditionally
24 approved or disapproved pursuant to paragraph (1), on or before
25 October 8, the governing board of the school district, in conjunction
26 with the county superintendent of schools, shall review and respond
27 to the recommendations of the county superintendent of schools
28 at a regular meeting of the governing board of the school district.
29 The response shall include any revisions to the adopted budget
30 and other proposed actions to be taken, if any, as a result of those
31 recommendations.

32 (e) On or before October 22, the county superintendent of
33 schools shall provide a list to the Superintendent identifying all
34 school districts for which budgets may be disapproved.

35 (f) (1) The county superintendent of schools shall examine the
36 revised budget as provided in paragraph (3) of subdivision (d) to
37 determine whether it (A) complies with the standards and criteria
38 adopted by the state board pursuant to Section 33127 for
39 application to final local educational agency budgets, (B) allows
40 the school district to meet its financial obligations during the fiscal

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

30 (2) Notwithstanding any other law, for the 2014–15 fiscal year
31 and each fiscal year thereafter, if the county superintendent of
32 schools disapproves the budget for the sole reason that the county
33 superintendent of schools has not approved a local control and
34 accountability plan or an annual update to the local control and
35 accountability plan filed by the governing board of the school
36 district pursuant to Section 52070, the county superintendent of
37 schools shall not call for the formation of a budget review
38 committee pursuant to Section 42127.1.

39 (g) Not later than November 8, the county superintendent of
40 schools shall submit a report to the Superintendent identifying all

1 school districts for which budgets have been disapproved or budget
2 review committees waived. The report shall include a copy of the
3 written response transmitted to each of those school districts
4 pursuant to paragraph (1) of subdivision (d).

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

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

14 SEC. 2. Section 42127.01 of the Education Code is amended
15 to read:

16 42127.01. (a) In a fiscal year immediately after a fiscal year
17 in which a transfer is made into the Public School System
18 Stabilization Account, a school district budget that is adopted *or*
19 *revised* pursuant to Section 42127 shall not contain unassigned
20 ending balances in the school district's general fund and special
21 reserve fund for other than capital outlay projects in excess of ~~17~~
22 *15* percent of those funds.

23 (b) A county superintendent of schools shall grant a school
24 district under its jurisdiction an exemption from the requirements
25 of subdivision (a) for up to two consecutive fiscal years within a
26 three-year period if the school district provides documentation
27 indicating that extraordinary fiscal circumstances, including, but
28 not limited to, multiyear infrastructure or technology projects,
29 substantiate the need for unassigned ending balances in the school
30 district's general fund and special reserve fund for other than
31 capital outlay projects in excess of the amount described in
32 subdivision (a).

33 ~~(c) Each county superintendent of schools shall adopt a policy~~
34 ~~establishing the procedures for submitting exemption requests and~~
35 ~~the criteria by which the county superintendent of schools shall~~
36 ~~determine whether extraordinary fiscal circumstances exist.~~

37 (c) *The governing board of a school district, at budget adoption*
38 *and as part of the reports required in Article 3 (commencing with*
39 *Section 42130), shall report in a public meeting its assigned and*
40 *unassigned fund balances in the school district's general fund and*

1 *special reserve fund for other than capital outlay projects. The*
2 *report shall include a description of the amounts and intended*
3 *purpose for each assignment of funds, the date or time period when*
4 *those funds are expected to be expended, and any changes from*
5 *the previous report.*

6 (d) This section shall not apply to school districts with fewer
7 than 2,501 units of average daily attendance or to basic aid school
8 districts, ~~defined as those school districts that do not receive~~
9 ~~funding from the state pursuant to Section 42238.02 or 42238.03.~~
10 *attendance.*

11 SEC. 3. If the Commission on State Mandates determines that
12 this act contains costs mandated by the state, reimbursement to
13 local agencies and school districts for those costs shall be made
14 pursuant to Part 7 (commencing with Section 17500) of Division
15 4 of Title 2 of the Government Code.