PSBA a**closer**LOOK

A Balanced Look at School District Fund Balances

Every year, public education critics are quick to point out the amount of money districts have in their fund balances.

They paint a picture of districts just stockpiling money for no reason while still increasing taxes and complaining that schools are underfunded. But that paints an incomplete, inaccurate and unfair picture of public school financial management. A review of Pennsylvania school district fund balances shows that the majority of balances are designated for specific purposes, and even though overall fund balance levels have increased, a closer study of the details reveals more interesting information. It's time to take a more balanced look at this issue.

Types of fund balances

Fund balances can sometimes be confusing, but generally, a fund balance is the difference between a school district's current assets and liabilities. A fund balance is not just cash in the bank and investments. It also includes money owed to or by the district and the value of items in inventory (such as custodial supplies) that will be collected, paid and/or used in the current fiscal year.

There are three types of fund balances reported in state financial data that are differentiated based on the restrictions placed on their use:

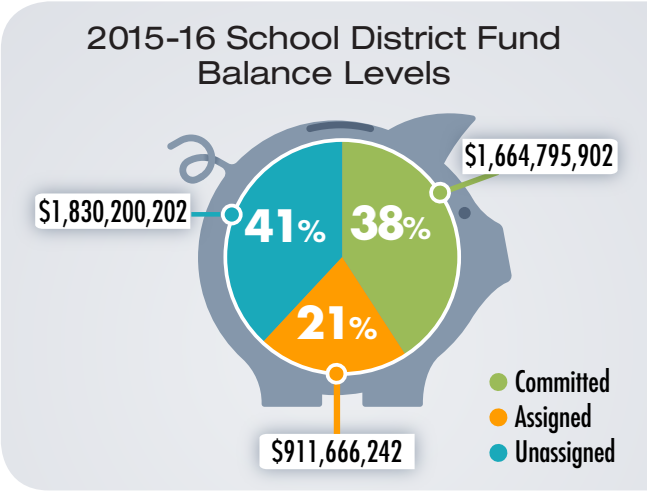
- **Committed** fund balances are funds that have been formally designated by a school board for a specific purpose.

- **Assigned** fund balances are intended for a specific purpose by a committee of the school board or an individual authorized by the board.
- **Unassigned** fund balances are available for any purpose.

Of the $4.4 billion in school district fund balances reported in 2015-16, $2.6 billion (or 58.5%) was designated by districts for a specific purpose in either a committed or assigned fund balance. The money in these types of accounts can *only* be used for the purpose for which they are committed or assigned. School districts will commit or assign funds for a variety of reasons. In many instances, they are used for the major expenses they anticipate in their future.

For example, funds are often designate for construction/renovation/repair projects (especially in light of the state's moratorium on PlanCon reimbursements). This money can ease the burden on local taxpayers by either paying for or lowering the amount needed to bond or borrow for the project and allow the district to avoid borrowing and interest costs.

Another prime example of the need to commit or assign money to a fund balance is skyrocketing pension costs. In 2015-16, school districts paid more than $2.8 billion in pension costs. In 2017-18 they will pay more than 32.5 cents on every dollar spent on salaries to the pension fund. Since 2010-11, school district pension payments have increased $2.2 billion, or 337%. These pension costs are projected to continue rising and stay at historically high levels for more than the next decade. With the limits on tax increases imposed on districts by Act 1 of 2006 and the fact that pension increases have surpassed state revenue increases in at least the last five fiscal years, districts are applying for Act 1 referendum exceptions. Only 130 districts have approved Act 1 exceptions for 2017-18, lower than it has been in the last seven years. The overwhelming majority of the requests approved – 122 districts, or 95% – are for pension obligations.



The remaining $1.8 billion of fund balance reported in 2015-16 was unassigned fund balance. This is the measure that deserves to be the focus of the conversation on fund balances because: 1) these are the funds being held by districts for any purpose; 2) there are financial industry recommendations dealing with unassigned fund balance levels; and 3) Pennsylvania law imposes limits on school district tax increases if their unassigned fund balance is above a certain level.

Why do districts maintain an unassigned fund balance? Like a savings or balance in a checking account for a family, an unassigned fund balance is essential to:

Respond to an emergency or other unforeseen event such as an unexpected building repair, equipment replacement, or uninsured loss.

Cover unexpected revenue shortfalls – for example, the loss of a major employer in the district would negatively impact earned income tax revenues.

Maintain good credit ratings which will reduce the cost of borrowing or issuing debt. Keep the district running in the event of late or lower than expected state subsidies. Generate investment revenue which can be used to offset tax increases.

What the numbers really show

The financial industry recommends that a local government like school districts maintain a minimum unassigned fund balance of between 5% and 10% of all expenditures. **The $1.8 billion in unassigned fund balance in 2015-16 represents only 6.5% of all school district expenses, which is on the low side of that range, and would be enough to keep schools running for less than one month.**

The Pennsylvania Auditor General has cautioned that schools with a 20% fund balance should be questioned.[1] Critics have used this number to suggest that districts are hoarding money at the expense of taxpayers. However, the Auditor General was referring only to the percentage of the unassigned fund balance, not the total fund balance. When that is considered, only 8% of districts meet that threshold. The Auditor General also emphasized that there are appropriate reasons to hold back money, and that unassigned fund balances under 10% and falling were cause for concern.

The Pennsylvania School Code (24 P.S. §6-688) restricts school districts from increasing property taxes in an upcoming year unless their adopted budget contains an ending unassigned fund balance below a specified percentage of budgeted expenditures. For example, if a school district's budgeted expenditures were $20 million, it could not raise property taxes if the unassigned fund balance at the end of the year is projected to be more than 8% of those expenditures which, in this case, would be $1.6 million or more.

Further, even though the overall fund balance dollars have increased, a closer look at the details reveal more interesting information. The most recent fund balance numbers show that:

- 34 districts have a zero or negative fund balance.
- 227 districts or 45% saw a reduction or no change in their total fund balances, and 74 or 15% decreased by more than $1 million.

Conclusion

How much fund balance a district will maintain and what restrictions will be placed on those funds are difficult decisions. Local circumstances as well as economic and other factors will come into play when school boards try to answer that question. Districts should try to balance being prepared for a rainy day and being responsible to their taxpayers. School boards are currently presented with unprecedented financial challenges and maintaining an appropriate fund balance is yet another one.

[1] http://www.pennlive.com/politics/index.ssf/2016/06/school_districts_reserve_funds.html and http://www.ydr.com/story/news/education/2016/09/12/have-districts-saved-too-little-enough-too-much/86953864/

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