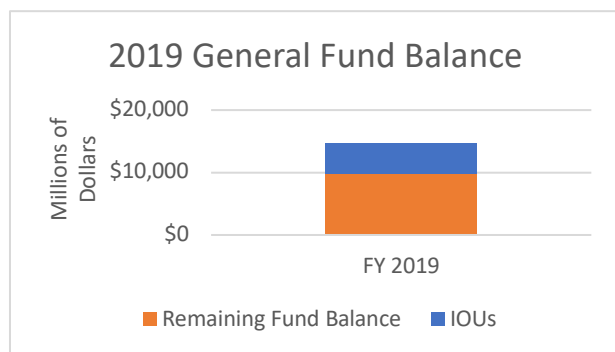


School District Fund Balance

What is fund balance? In simple terms, fund balance is just the difference between assets and liabilities in a governmental fund as of the close of the fiscal year.

How much fund balance do school districts have? Texas school districts had a total of \$14.7 billion in unrestricted general fund balance as of the close of fiscal year 2019, though about 1/3 of that amount is owed to the district but not yet received.

How does fund balance differ from a savings account or a rainy-day fund? Unlike a savings account, a



fund balance includes revenues and liabilities anticipated, but not yet realized by a governmental entity. In 2019, for example, roughly \$5 billion of school district fund balance was on school district books as an IOU, either from the state or another entity. Also included are longer-term investments and other assets like inventory. Netting against these amounts are accrued but not yet paid liabilities.

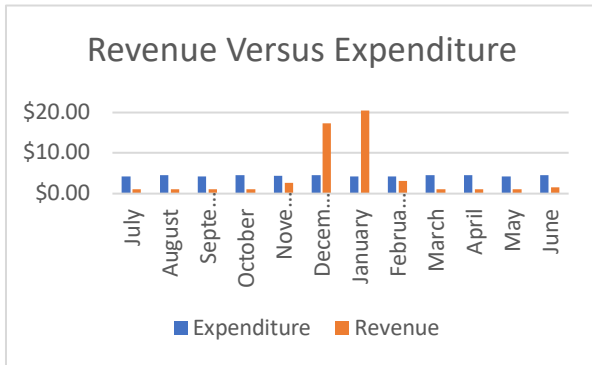
How much fund balance should school districts have? There is no uniform amount of fund balance that will work for all districts. A sometimes-referenced rule of thumb is that three months of operating expenditures should be maintained. TEA maintains some guidance related to district savings in the Financial Integrity Ratings System of Texas (FIRST). For example, indicator 6 requires districts to have less than a 25% decline in fund balance over 3 years or 75 days operating expenditures maintained in fund balance. And to receive full points on indicator 7, school districts need 90 days of cash on hand or current investments in the general fund. However, this could be insufficient for many districts, particularly those with a June 30 fiscal year end.

District need for fund balance can vary depending on anticipated costs, cash flow needs, and risk tolerance. The Governmental Finance Officers Association (GFOA) recommends relatively larger fund balance for:

- areas that are more at risk for natural disasters, like hurricanes, fires or floods
- governmental entities whose revenue is more likely impacted by a potential economic recession, and
- governmental entities that are self-funded for certain types of insurance.

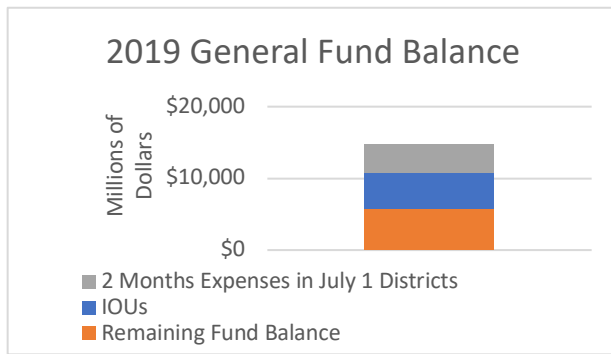
Two factors that can impact cash flow needs are fiscal year start dates and relative reliance on local property taxes.

How does reliance on local property taxes impact cash flow? In most districts, monthly expenditures are relatively even as staff are paid throughout the year. But the bulk of property tax collections are received between December and February. This means that districts that do not receive much state aid need to make sure they end the fiscal year with enough cash on hand to cover costs through the first few months of the year, until taxes are paid.



Why does the fiscal year matter? In Texas, school districts have the option of starting the fiscal year on July 1 or September 1. A total of 221 school districts have moved their fiscal year start date to July 1. Many districts prefer this timeline because it

allows them to align the start of school purchases with the budget being adopted. In these districts, fund balance needs to last for 5 months (July through November). Many of these districts may need two additional months of fund balance as compared to districts with a September 1 fiscal year.



Fortunately, when a district moves to a July 1 fiscal year, the fund balance often increases. This is because accounting rules require the district to

record 10 months of expenditures in the first year where the change takes place, but a full 12 months of revenues. Two months of expenditures for the districts that have moved their fiscal year accounts for roughly \$3.9 billion of the fund balance in Texas school districts.

What are the benefits of having sufficient fund balance? Having sufficient fund balance can prevent districts from facing borrowing costs when they need to cover cash flow deficits. It results in higher bond ratings which reduce interest costs. It also allows the district to respond to unforeseen costs without interruptions in service. For example, when Hurricane Harvey hit the Texas coast, school districts used fund balance to cover short term costs while they waited for help from insurance and FEMA. This fund balance allowed for rapid repair of buildings and minimal service interruption. Many districts are also using fund balance this year to help respond to unanticipated cost increases or revenue declines associated with the COVID pandemic.

The truth is that the amount of local fund balance needed can vary from district to district depending on local circumstances. Because of that, many districts have adopted board policies related to reserves. Reach out to your local school district if you want to know more about how much your school district has in reserves and why.