

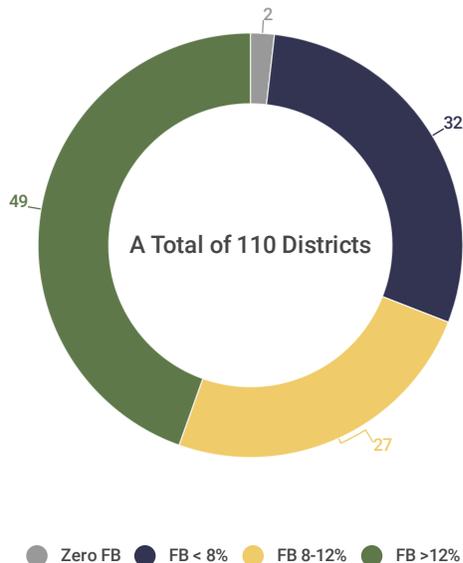


## Explaining School Fund Balances - 2018 Are Schools Holding Too Much in Reserve?

A policy brief published by the Center on Regional Politics in July 2018 provides data on the status of fund balances for Pennsylvania's 500 school districts at the end of fiscal year 2016-17. Although the data show that total reserve funds have increased by about \$591 million since 2012-13, from \$4.3 billion to \$4.9 billion, they also show that the flexible reserves of most districts are within or even below the mini-

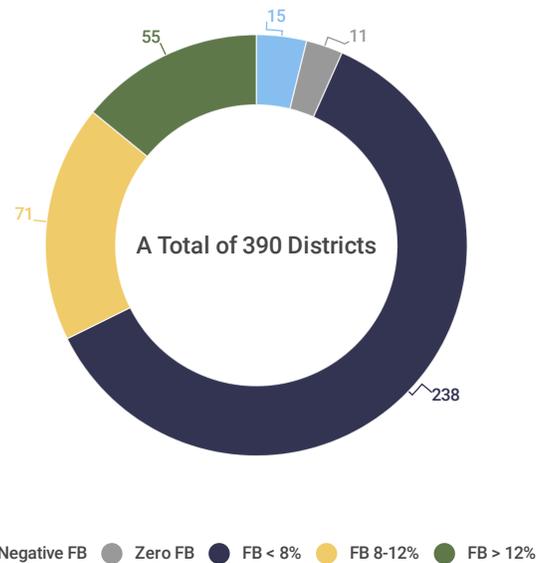
### School Districts with Expenditures under \$19 Million Unassigned Fund Balances, 2016-17

The unassigned fund balance taxing limit is 8% according to the PA Code for districts with expenditures over \$19 million. Districts below this limit are allowed higher unassigned fund balances based on 0.5% increments for each \$1 million less in expenditures while still allowing new taxes.



Source: PA Department of Education

### School Districts with Expenditures above \$19 Million Unassigned Fund Balances, 2016-17



Source: PA Department of Education

imum standards recommended by bond raters and government finance professionals and allowed by state law.

The brief summarizes trends for districts, charters, and technical schools, and data on specific school districts have been made available on the CORP website. The brief explains the four types of fund balances: restricted, committed, assigned, and unassigned. It also explains the government

accounting standards and the restrictions on unassigned fund balances. Committed funds can be used to save for capital projects, while unassigned fund balances are available for use without restriction and can be used as a hedge against future budgetary uncertainty due to emergencies, recessions, delays, or even cuts in state funding. School districts may also accumulate unassigned balances to mitigate the impact of predictable increases in pension, health care, or labor contract costs.

The financial industry suggests an unassigned fund balance between 5% and 10% of total operating expenditures, while the Pennsylvania School Code limits the amount of unassigned fund balance to 8% for a district whose expenditures exceed \$19 million if that district is going to raise taxes. The Government Finance Officers Association recommends unassigned balances be between 5% and 15% of total expenditures. Twenty-eight districts have unassigned balances at or below zero. A total of 298 districts have fund balances below 8%.

The question may arise as to whether the relative size of fund balances is related to the relative wealth or poverty of a district. In other words, are more affluent districts likely to have larger fund balances than poor districts? In short, no. Statistical tests show no meaningful correlation. Some districts with high fund balances are poor, perhaps reflecting a desire to fund capital projects or avoid borrowing costs. It should also be noted that fund balance is a point-in-time measure; they change from year to year. The amount of fund balance is neither necessarily an indication that school districts collectively are, in the words of one columnist, irresponsibly “hoarding barrels of money” that should be sent back to taxpayers. Nor is it sufficient to avoid tough decisions on how to meet the financial challenges facing our public schools.

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