

FAQs: Budget Reserve Caps Specified in EC §42127.01

Are charter schools subject to the budget reserve caps specified in Education Code section 42127.01?

No, charter schools are not subject to the reserve caps specified in Education Code section 42127.01.

This controversial code section was inserted in the education trailer bill for the 2014-15 state budget. It generally caps school district budget reserves at no more than twice the state-mandated minimum reserve level for school districts. The section was inserted at the behest of the California Teachers Association, reportedly due to their concern that districts were maintaining excessive reserves instead of offering better salaries and benefits for teachers and other staff.

By its own terms, Education Code section 42127.01 governs a “school district” budget adoption and the section does not mention charter schools. As such, it does not govern charter schools and charter schools generally remain free to establish budget reserves at any level they deem fit. (Pursuant to a separate and unrelated law, nonclassroom-based charter schools are generally expected to maintain reserves of less than 5 percent of estimated expenditures, though exceptions to this regulation are frequently granted.)

Charter schools often face financial volatility and risks that are greater than those encountered by school districts and frequently encounter more challenges when attempting to borrow funds to meet cash flow needs or other contingencies. As such, CSDC strongly suggests that charter schools do their best to establish and maintain strong reserves and these reserves often exceed the levels specified in Education Code section 42127.01. Some overzealous charter-granting agencies may seek to impose reserve caps on charter schools. Given the challenges outlined above, CSDC strongly advises charter schools to avoid agreeing to comply with 42127.01 or similar restrictions.