



## This response was prepared for Emilie Kornheiser, House of Representatives, Vermont State Legislature

### Your Question:

You asked for information on state policies governing reserve balances of local education agencies and best practices for reserve balances.

### Our Response:

School districts have reserve fund balances to provide a cushion for unforeseen expenditures or revenue shortfalls in the future and ensure an adequate cash flow. However, if school districts maintain large reserve funds year-after-year, that may be an indication that districts have inaccurate budget forecasts, which overestimate expenses, underestimate revenues, or both. States may place restrictions on fund balances of school districts to ensure that state appropriations are being spent on services and to reduce the local property tax burden of residents in districts with large reserves. This information request provides information on states with limits on school district fund balances.

### **State Restrictions on Fund Balances**

Our review of recent legislation and state policy identified some states with policies limiting school district fund balances. The lowest identified fund balance limit is 4% (**New York**) and the largest is 48% (**Oklahoma**). States may have a range of allowable fund balance limits, based on the school district's per pupil expenditures (**Pennsylvania**) or the size of the school district budget (**Oklahoma**). To enforce these limits, states may reduce state aid payments by the amount the district exceeds the state fund balance limit. The trend in states has been to increase or eliminate the fund balance limit to provide school districts with increased flexibility.

A review of recent legislation in [State Education Policy Tracking](#) identified two states that have recently reduced the state restrictions placed on fund balance limits.

- **North Dakota** enacted [HB 1238](#) which extends the moratorium on unobligated fund balance deductions from state aid from July 2023 to July 2027. Without this extension, school districts with an unobligated fund balance in excess of 35% of district expenditures at the end of the school year

would have that amount deducted from state aid payments calculated by the superintendent of public instruction.

- **Wyoming** enacted [HB 30](#) increasing the limit of operating balances and cash reserves that a district can maintain from 15% to 30% of the prior year's foundation program amount for the fiscal year 2022 through fiscal year 2026. The bill also requires the department of education to compute the amount by which each district's operating balance and cash reserves at the end of the preceding fiscal year exceed 30% of the total foundation program.

In addition, two states have introduced legislation that is currently being considered during the 2026 session to amend or eliminate their fund balance limits.

- **New York** requires ([N.Y. Real Prop. Tax Law § 1318](#)) unexpended surplus fund balances up to 4% of the current school year budget. Any surplus fund balance in excess of this amount must be used to reduce real property taxes for the next fiscal year. Legislation has been introduced ([S. 2052](#)) to increase the surplus fund balance to 6% starting in the 2027-28 school year.
- **Oklahoma** reduces ([Okl. Stat. Ann. tit. 70, § 18-200.1](#)) state aid to school districts if their carryover in the general fund exceeds set limits for two consecutive years. The carryover limits vary based on the district's total general fund collections and range from 17% allowable fund balance for districts with general fund collections of \$10 million or more up to 48% allowable fund balance for districts with total collections less than \$1 million. Legislation has been introduced ([S.B. 1193](#)) in the 2026 legislative session that eliminates the penalty for exceeding these limits.

A broader review of state statute also identified states with restrictions on school district fund balances that have not made changes in recent years.

- **Alaska** limits ([Alaska Stat. Ann. § 14.17.505](#)) the unreserved portion of a school district's fund balances to 10% of its expenditures for that fiscal year. The state deducts the amount a district exceeds this limit from state aid.
- **Arkansas** requires ([Ark. Code Ann. § 6-20-2210](#)) school districts with a fund balance that exceeds 20% of current revenues to reduce the balance below 20% within five years. The department of education is directed to monitor the fund balance for the district and withhold state funding equal to the amount the district exceeded the fund balance requirement.
- **California** limits ([Cal. Educ. Code § 42127.01](#)) the unassigned ending general fund balance of school districts to 10% of general fund revenues, if the prior year the state's [Public School System Stabilization Account](#) is equal to or exceeds 3% of general fund revenue appropriated to school districts. A county superintendent may grant an exemption for up to two years and the requirement does not apply to small school districts.
- **Pennsylvania** restricts ([24 Pa. Stat. Ann. § 6-688](#)) school districts from increasing real property taxes if the district has a fund balance over a given threshold. The threshold is based upon the school district per pupil expenditures and ranges from an unreserved fund balance of 8% for school

districts spending \$19,000 or more per student to 12% for school districts spending \$12,000 or less per student.

In terms of minimum fund balance limits, our review identified one state with requiring school districts to have reserves above a specified level from the state.

- **California** requires school districts in state regulations ([Cal. Code Regs. tit. 5, § 15455](#)) to have total reserves that exceed a threshold level depending on the size of the school district. For smaller school districts, the threshold level is the greater of a set percentage or dollar amount. The limits are as follows:
  - Greater of 5% or \$80,000 for districts with 300 or fewer students in average daily attendance.
  - Greater of 4% or \$80,000 for districts with 301 to 1,000 students in average daily attendance.
  - 3% for districts for districts with 1,001 to 30,000 students in average daily attendance.
  - 2% for districts with 30,001 to 250,000 students in average daily attendance.
  - 1% for districts with 250,001 or more in average daily attendance.

## Best Practices on Fund Balances

Local governments and school districts maintain fund balances for multiple reasons. Some of these reasons include offsetting revenue shortfalls or unexpected expenditures; stabilizing taxes while maintaining services; improving long-term planning; and to enhance the credit rating. The desired level of the fund balance can be impacted by the volatility of local revenue and likelihood of changes in state or federal aid. The Government Finance Officers Association provides [an overview](#) of guidelines for fund balance policies for local governments. They recommend a policy of maintaining a fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

Some states or associations in states have put out explainers on fund balance policies specific to school districts:

- **Alaska:** The Alaska state legislature published a [Local Government and School District Fund Balance Explainer](#) that provides an overview of reporting requirements and state policies such as the 10% fund balance limit for school districts.
- **Texas:** The Texas Association of School Administrators provides a school district fund balance [Q&A document](#), where they recommend a level of three months of operating expenditures, but notes there is no uniform amount that works for all districts.