



## How School District Fund Balances Differ from State's Rainy Day Fund

### What is a school district's fund balance?

A fund balance is revenue that a school district keeps in reserves to responsibly manage cash flow. Those dollars come from local property-tax collections and/or state revenue, depending on the school district. If a district receives payments from the state, those payments arrive on a monthly basis. If the district depends only (or predominantly) on local property taxes for funding, there is a gap between when expenses (such as teacher salaries) must be paid and when the tax payments arrive. Fund balances help temporarily fill that gap. Fund balances also help districts prepare for the unexpected: They allow districts to maintain services during crises like a hurricane, flood or pandemic. A healthy fund balance also allows districts to get a higher credit rating, which can save taxpayers millions of dollars in borrowing costs.

### Why are fund balances important to districts that pay recapture?

Districts that must pay Robin Hood recapture to the state rely heavily on fund balances because they use local property taxes, and not state funding, to pay their expenses. District fiscal years begin July 1 or September 1, but local property taxes are not due until October, and most property owners wait until the end of January to pay their taxes. Districts paying recapture, in other words, must pay for months' worth of students' education before much of their revenue comes in, and the fund balance ensures that they can. Districts also defray borrowing costs by showing they have sufficient reserves.

### How do school district fund balances differ from the state's Rainy Day Fund?

The state's Economic Stabilization Fund (ESF), often referred to as the Rainy Day Fund, consists largely of revenue from natural gas and oil production taxes. Legislators can take money out of this fund with a two-thirds vote to pay for one-time and ongoing expenses. The State can also borrow against the ESF to manage cash flow if necessary.

The critical difference between the state ESF and school district fund balances is that while the state may use the ESF to manage cash flow, there is no question that school districts — especially those that pay recapture — must regularly take money out of their fund balances to cover payroll and other operating expenses. Districts replenish the fund balance as revenue comes in.

### How can you tell how much a school district has in its fund balance?

That's the thing about a fund balance—the picture is never complete. Looking at the balance at one snapshot in time doesn't tell you whether the district just received state aid to help reimburse districts following a disaster, like the amounts districts received mere weeks before the close of the 2019 fiscal year to help with expenses associated with Hurricane Harvey. Or a district may have a higher balance because that balance was measured right before the district had to use the fund balance to buy equipment and devices for remote instruction during the pandemic.

### Can the state force a district to use its fund balance?

While the Legislature cannot spend a local school district's fund balance, it could theoretically reduce a school district's state entitlement based on how much is in the fund balance. This would effectively penalize school districts for managing taxpayer dollars responsibly.