



## **Fund Balances Help School Districts Manage Resources Responsibly**

*April 2021*

*Fund balance is the difference between assets and liabilities in a governmental fund at the close of the fiscal year. School districts use their fund balances to responsibly manage cash flow — especially in districts that pay recapture and cannot lean on regular state funding. Legislation or amendments seeking to limit fund balances could make it difficult for districts to pay operating expenses and maintain a high credit rating.*

### **A healthy fund balance is part of fiscal responsibility for school districts**

- Local property tax payments often lag behind the start of the school year.
- School districts begin their fiscal year in July or September but many property owners do not pay tax bills until the end of January.
- Districts use their fund balance to pay expenses, such as teacher salaries, until tax payments arrive.
- Fund balances provide fiscal security in cases of unforeseen emergencies, such as a hurricane, severe freeze or a pandemic.
- A healthy fund balance contributes to a better credit rating, lowering borrowing costs for taxpayers.

### **Fund balances especially matter to districts receiving little or no state funding**

- Some districts rely almost exclusively on funding from local property taxes, and that certainly applies to any district that pays recapture.
- While some districts receive monthly payments from the state for operations, locally funded districts rely on fund balance between the start of the fiscal year and the arrival of property tax payments.
- Without a healthy fund balance, districts that rely so heavily on local revenue may not be able to meet payroll and cover other daily operating expenses.

### **The amount of money in a school district's fund balance is fluid**

- The amount of money in a school district's fund balance at any given moment depends on where the district is in its fiscal calendar.
- A district's fund balance could change in a matter of weeks, depending on when tax payments come in or when the district must make a major expenditure.
- The total amount of a fund balance includes revenues earned within a year but not yet received. Fund balances also include longer-term investments.
- Some revenue, such as FEMA payments for Hurricane Harvey, can take years to arrive.



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**A statewide mandate on fund balances fails to recognize districts' unique needs**

- Recapture districts cannot rely on state funding to help until property taxes come in.
- Statewide, 267 districts begin the fiscal year July 1, creating a longer delay until tax payments arrive.
- Districts relying heavily on grant programs need strong fund balances because reimbursements tend to come after the fact.
- Districts saving for specific projects or construction may have a temporary fund balance increase.
- Districts that know revenue will decline over time due to funding-formula changes may carry larger fund balances to ease the transition to a lower revenue level without disrupting instruction.