
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1262 (Archuleta) - Education finance: community colleges: general fund balance

Version: February 19, 2026
Urgency: No
Hearing Date: April 20, 2026

Policy Vote: ED. 5 - 0
Mandate: Yes
Consultant: Lenin Del Castillo

Bill Summary: This bill establishes an annual 50 percent reserve cap for a community college district unless it participates in specified employee benefit programs and has at least 75 percent of instruction taught by full-time faculty.

Fiscal Impact:

- By imposing an annual reserve cap for community college districts, this bill could hamper a district's ability to maintain adequate reserve levels and meet both current and future financial obligations. The Chancellor's Office indicates that districts would need to spend down potentially hundreds of millions of dollars statewide to ensure compliance with this measure. Additionally, once the reserve cap is met and to the extent there is insufficient general apportionment funding to cover actual enrollment growth or there are deferrals in state apportionment, districts may need to spend down their remaining reserves. This could jeopardize a district's institutional accreditation, necessitating state intervention and compromising federal eligibility to award student financial aid. The Chancellor's Office estimates additional expenses if it must appoint a special trustee to manage a district's finances as a result of fiscal mismanagement.
- Assuming community college districts elect to comply with the bill by participating in the specified faculty programs, the Chancellor's Office estimates that the state would need to increase the amount of funding for the Part-Time Faculty Office Hours Program and Part-Time Faculty Health Insurance Program in the hundreds of millions of dollars each year to cover the costs of increased participation. The 2025-26 Budget Act funds Part-Time Faculty Office Hours at \$23.6 million; the Part-Time Faculty Health Insurance Program at \$200.5 million; and Full-Time Faculty Hiring at \$150 million. In addition, because these programs do not necessarily provide 100 percent reimbursement, districts will need to use local resources to provide compensation.
- The Chancellor's Office indicates that distributing general fund reserves to non-supervisory and non-management employees would be considered a "bonus" payment beyond the salary they receive for actually doing their work, which may be considered a "gift of public funds" under California's Constitution. This also violates the Rodda Act which requires collective bargaining for wages and circumvents local boards' authority.
- The Chancellor's office estimates one-time General Fund workload costs of \$33,000 to \$53,000 to issue guidance and update its training materials related to

fiscal health and resiliency, and ongoing General Fund costs of \$519,000 and 3.0 positions to monitor district health and provide technical assistance regarding the bill's implementation.

Background: Existing law establishes the Public School System Stabilization Account (Proposition 98 Reserve), a state reserve specifically for school and community college districts.

Existing law establishes a 10 percent reserve cap for a K-12 school district only in years when the amount of money in the Proposition 98 Reserve is equal to or exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year. The reserve cap requirement does not apply to small school districts or basic aid school districts. Additionally, a county superintendent of schools may grant a school district under its jurisdiction an exemption from the reserve cap for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances, including, but not limited to, multiyear infrastructure or technology projects, substantiate the need for a combined assigned or unassigned ending general fund balance that is in excess of 10 percent.

Existing law establishes the Part-Time Community College Faculty Health Insurance Program to encourage community college districts to offer health insurance for part-time faculty. Community college districts that establish a program must negotiate with the exclusive bargaining representative the share of the premium payments not covered by the state.

Existing law establishes the Community College Part-Time Faculty Office Hours Program to encourage community college districts to compensate part-time faculty who hold office hours related to their teaching load. To establish a program, a district must negotiate with the exclusive bargaining representative or with faculty, if there is no bargaining unit.

Existing law requires the Board of Governors of the California Community Colleges to adopt regulations regarding the percent of credit instruction taught by full-time faculty and authorizes districts with less than 75 percent full-time instructors to apply a portion of their "program improvement" funds toward reaching a 75 percent goal. However, the state has stopped providing program improvement funds and the Board has since required community college districts to provide a portion of their growth funds to hire more full-time faculty.

Proposed Law: This bill prohibits a community college district's annual unrestricted general fund balance for a fiscal year from exceeding 50 percent of its unrestricted general fund expenditures for that year, unless the CCD does all of the following:

1. Participates in the Part-Time Community College Faculty Health Insurance Program;
2. Participates in the Community College Part-Time Faculty Office Hours Program;
3. Has at least 75 percent of hours of credit instruction taught by full-time faculty.

This bill prohibits a district from transferring unrestricted general funds to another fund for the purpose of complying with this bill if either of the following applies: the receiving fund has an existing balance of 33 percent or more of the district's unrestricted general fund expenditures for that fiscal year; or the transfer of the unrestricted general funds would cause the receiving fund to have a balance of 33 percent or more of the district's unrestricted general fund expenditures for that fiscal year.

This bill specifies that, for a community college district that violates these provisions, the amount of the annual unrestricted general fund balance that exceeds 50 percent shall be proportionally distributed to the nonsupervisory and nonmanagement employees of the district based solely on the number of hours worked by those employees in the preceding fiscal year, as determined by a collective bargaining agreement between those employees and the governing board of the community college district.

Related Legislation: SB 1388 (Archuleta, 2024) would have established an annual 16.7 percent reserve cap for a community college district, unless the district participates in specified employee benefit programs and has at least 75 percent of instruction taught by full-time instructors. SB 1388 was held on the Suspense File in this committee.

Staff Comments: Local reserves allow community colleges to sustain their operations even if their annual funding drops due to economic recessions. Local reserves also allow them to handle lower-than-budgeted local property tax receipts or unexpected drops in enrollment. Further, local reserves help colleges manage their cash flow and pay their bills while awaiting receipt of funds which is especially helpful during times when the state is deferring payments, as colleges might not receive their state funding until many months after they have incurred operating costs. Reserves can help cover unexpected costs as well. However, according to the author, in spite of the state providing "significant financial support for community college districts to provide part-time faculty health insurance, to provide part-time faculty compensation for providing students office hours, and to ensure that most teaching hours are being performed by full time faculty... the programs which provide community college districts these financial resources or reimbursements are undersubscribed or under-utilized." At the same time, "in 2021, several districts had over 70% of their annual budget in reserve. These unused funds, or unrestricted balance, indicate that community colleges are not fully utilizing their funding to benefit student learning and faculty stability, a determinative component to student learning."

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