

# **BUDGET 101**

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**Understanding a School Budget & Taxes**

## **1. School Taxation and our District**

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If school districts can levy taxes to support public education, they are considered fiscally independent. The nature of the precise taxing authority varies from state to state. For example, school boards in some states may need voter approval for any tax increase, while others may need only voter approval after a specified tax rate is surpassed. In some instances, school boards do not have independent tax authority, so another governmental entity typically a municipal or county governing body approves the budget and levies taxes. If a school district cannot levy its own taxes, it is considered fiscally dependent.

In the state of New York, most of its 700 or so school districts are fiscally independent and therefore levy taxes for school purposes. The state's common, union free, central, central high school, and small city school districts are all fiscally independent. They all submit their budgets to resident voters for approval and levy school taxes for authorized purposes, except for central high school districts; here taxes are levied by the component school districts on behalf of the central high school district. Fiscally dependent school districts do not levy taxes. Only large city school districts (the Big 5) are fiscally dependent; they are Buffalo, New York, Rochester, Syracuse and Yonkers. These five districts are dependent on municipal tax revenue to fund education. Municipal governments levy a single real property tax for school and nonschool purposes and allocate a portion of their tax revenues for education. Fiscally dependent districts also may receive income from other local taxes, such as income taxes and sales taxes.

Regardless of how taxes are levied or collected and allocated by a municipality, all districts are responsible for providing a free public education to the K-12 students in their community. Article 11, Section 1, of the state of New York Constitution, declares that "the Legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of this state may be educated". The respective school boards are empowered and responsible therefore, for overseeing and managing the affairs, personnel, and properties of their districts. Generally speaking, fiscally independent school districts can offer more extensive educational programs than fiscally dependent districts because they have a greater say on the expenditure and revenue plans that are needed.

The Blind Brook School District is fiscally independent. Like many school districts in Westchester, Blind Brook is small (approximately 1,380 students) and proud of the quality of its schools, its faculty, and its students. The Bruno M. Ponterio Ridge Street School (K-5) and Blind Brook Middle/High School (6-12) have been nationally recognized "Schools of Excellence" and both are accredited by the Middle States Association. The residents of the District have consistently supported these schools by passing virtually every budget and bond issue presented to them in the past 70 years. Almost all graduates of Blind Brook High School matriculate at four-year colleges and universities, many of which are among our nation's most selective. The District is proud of the achievement of its students on both the state and national levels. Students consistently outperform their peers in similar public school districts and independent schools on a variety of measures, including tests administered by the State of New York, the College Board, and the Educational Records Bureau.

## **2. School Budget Process**

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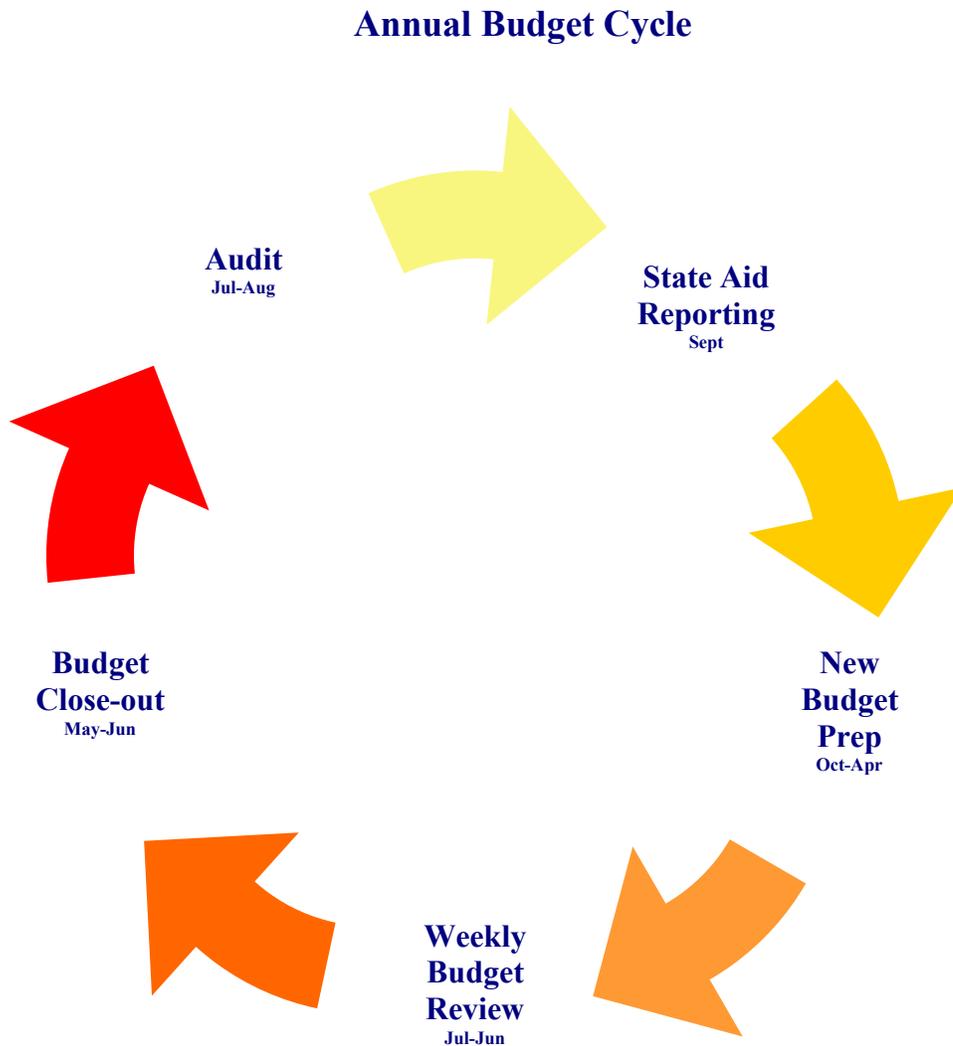
At Blind Brook, the Superintendent and School Board set parameters that frame the school budget development process. This practice has worked well but from time to time is revised as new laws may require or new procedures may be deemed worthy of implementing. Currently, the budget method used is school site budgeting. This permits a grassroots approach to developing budgets and facilitates “buy-in” to the process and outcomes. It also advances the interests of students and educational program needs and assures a high level of accountability not only in the development stages but also with monitoring as the budget plan becomes operational.

The school budget serves as the financial expression of the educational philosophy of the Blind Brook School District and the Board of Education. It is viewed as the most important and fundamental responsibility of financial management. The school budget seeks to obtain the greatest results with the resources that the community makes available for the educational program it aspires to create and maintain. Budget development in Blind Brook is an integral part of program planning. The annual operating budget must effectively express and allow for the implementation of programs and activities that are aligned with School Board goals and objectives. It is developed in accordance with School Board policy and New York State Education Department guidelines.

The Superintendent has the overall responsibility for budget preparation, including the construction of, and adherence to, a budget calendar. Each year a budget calendar listing all activities required during the budget process is arranged chronologically, by month. While budget development is nearly a year-round process involving participation of district-level administrators, principals, directors, coordinators, teachers, and other personnel, it runs its true course from October through April. Of particular importance is the forecasting of enrollment so that correct staffing levels can be determined. Given that nearly 75 percent of the school budget is comprised of personnel costs, it is no surprise that significant effort is given to this task. Next, program initiatives are determined for the upcoming year based on goals and objectives set by the School Board. After the educational program is agreed upon, expenditure levels are projected for all functional areas taking into account spending levels from the prior and current years and estimates of cost increases based on contractual obligations and the economic climate projected for the new school year. Lastly, revenues are estimated and must balance against projected expenditures.

Each year towards the middle of February the preliminary budget for the ensuing fiscal year is presented to the School Board and public by the Superintendent. During the next eight weeks several public presentations are conducted wherein the budget in its component format (program, capital, administrative) is examined in public session as required by state law. This process allows the community to comment and give feedback. Based on these discussions and deliberations the School Board may choose to authorize changes to the budget. In mid-April, the Board adopts a final budget that is presented to the community for approval via referendum on the third Tuesday in May. The new budget becomes operational on July 1<sup>st</sup>, the first day of the school district’s fiscal year.

To reiterate, the budget is a financial estimate of the operating funds required to achieve goals and objectives of the educational program the Board of Education has adopted for a given school year. The process involves a year-round cycle as depicted below.



### **3. School Budget Constituents**

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There are five major constituency groups that school administrators and school boards must always connect with, but most importantly during the budget process: students, parents, taxpayers, faculty, and staff.

School boards must lawfully provide for the maintenance and support of a system of schools, wherein all the children of the municipality may be educated. These boards are empowered by education laws in New York. They are corporate bodies that oversee and manage the school

districts' affairs, personnel, and properties. Administrators are executive employees of school boards whose responsibilities include day-to-day management of instructional and operational programs. It stands to reason therefore, that the single most important constituency of school boards, school administrators, and teachers are the students.

The parents of school children are similarly a primary constituency group and must be accorded respect and consideration relative to the education and related services provided to their children. A school board is a representative body elected by voters of a district, in particular the parents of school children. Parents are a particularly important constituency because they are responsible for the care, custody, and control of their children most of all, these same children that boards and administrators serve and must provide an adequate K-12 public education. Parents must be encouraged and permitted to be a part of the annual budget process. Public discussion is, therefore, a major part of the overall budget process.

There are many taxpayers who do not have children in schools but nevertheless are important constituents because they are voters and have the same rights afforded every other citizen. School boards and administrators must be cognizant of their fiduciary responsibilities to all residents. The K-12 public education mandate is an irrefutable requirement and school officials must provide the best possible services. But school boards and administrators must never lose sight of the fact that a public school district is an institution dependent on taxpayer support and fiscal prudence in its use of tax dollars must be demonstrated. At Blind Brook, its dependence is on a school tax levy supported by district property owners. Taxpayers must be listened to and their needs considered, especially during the budget process.

Competent and committed teachers and support staff are central to an effective school system. It is essential that they be given support in the form of a focus on their personal and professional development, skill levels, and working conditions. In return they need to display unquestionable levels of commitment, diligence, effort, passion, professionalism and conduct. School boards and administrators must listen to these constituents and work collaboratively with them in building a cohesive educational system. Program directors and coordinators develop and submit budget requests for their particular areas of responsibility after seeking the advice and suggestions of these staff members. Principals develop and submit budget requests for their particular schools in conjunction with the advice and suggestions of teachers and staff members and their own professional judgment. Each school's budget request is developed into the principal's recommendation as to the most effective way to use available resources in achieving progress toward the approved educational objectives of the school. Program budgets and school budgets must always reflect state and/or federal requirements, special sources of funding, and District objectives and priorities. At the end of the process the Board considers budget requests and reviews allocations for appropriateness and for their consistency with the school district's educational priorities.

It is essential for school-based constituent groups to participate and express needs and wants and be accountable for the parts of a budget they may oversee and spend. They must articulate needs and when allocations are distributed, they must ultimately be accountable for this money, how it is spent, and how it is used to benefit students.

## 4. School Budget Codes

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In school budget design, the expenditures are organized around the major functional categories of school district activities. Typically, specific expenditures or objects are reported within each function. In the state of New York, a school district's budget essentially follows a format prescribed by the commissioner of education based upon the uniform system of accounts for school districts as promulgated by the office of the State Comptroller. General fund appropriations are classified by major and sub-major functional areas as follows:

### General Support

- √ Board of Education
- √ Central Administration
- √ Central Services
- √ Operations and Maintenance
- √ Supervision

### Instruction

- √ Curriculum and Instruction
- √ Regular Instruction
- √ Special Services
- √ Occupational Education
- √ Guidance and Health Services
- √ Library and Media Services
- √ Computer Technology
- √ Co-curricular Programs
- √ Interscholastic Athletics

### Pupil Transportation

### Community Services

### Undistributed Appropriations

- √ Employees Benefits
- √ Debt Service
- √ Interfund Transfers

Each functional unit has expenditure descriptors called object codes as well as location codes. Object codes include expenditure lines for salaries, equipment, materials and supplies, textbooks, and contractual expenditures. At Blind Brook, we provide two additional codes that provide even greater levels of budget detail than required by the state: location and program. A simple way to understand the four codes is to think of them as answering these basic questions about the budget:

**WHY?** The function code indicates why something is allocated in the budget.

**WHAT?** The object code describes the specific item or service.

**WHERE?** The location code tells us where the item or service is being provided.

**WHICH?** The program code specifies which part of the program the item or service is allocated for.

Let us look at an example of an actual budget code:

**2110.450.03.1000**

The function code, **2110**, indicates that the budget item is for regular instruction.

The object code, **450**, describes the needed item(s) as supplies and/or materials.

The location code, **03**, tells us that the supplies and/or materials are for the High School.

The program code, **1000**, specifies that these supplies and/or materials are for a particular department or program within that location.

This coding system has the distinct advantage of allowing the budget to be reviewed in multiple ways. For example, if we wanted to know how much the district spends on supplies, we can filter the 450 object codes. Or, if we wanted to know what the aggregate of high school costs are district-wide, we can zero in on the 03 location codes. There are literally hundreds of combinations of codes the school district can use to monitor expenditures. Moreover, the uniformity of these codes through the state facilitates the examination of school finances by state agencies and independent auditors.

## **5. Impact of Budget on School Taxes**

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It ought to be simple..... if the school budget increases by a certain amount, school taxes should go up by that same amount. However, school spending is just one of several factors that influence the actual school taxes that property owners pay. In fact, school spending is the only part of the property tax scenario over which the school district has direct control. But that control is hampered by many unfunded mandates, both instructional and non-instructional, that undercut the ability of school districts in New York to introduce new programs or initiate property tax controls. The mounting pressure to control spending rates, the absence of meaningful education aid from the state or federal government, and directives to meet learning and achievement standards, have caused stress at Blind Brook. Current projections require that 94 percent of the revenue budget be supplied from local revenue sources with the substantial majority coming from the tax levy (about 87 percent of the total revenue budget).

To help understand how school taxes are computed one must also understand the impact of a property's assessed valuation. Assessed valuation is defined as the value of real property for the purpose of levying taxes. In the Blind Brook community there are 2,486 taxable parcels that yield a total district-wide full value assessment of \$2,303,170,091 as of June 2019, an increase of \$60,712,010, or 2.7% from the prior year. For the 2020-2021 budget, the homestead/non-homestead breakdown is:

Homestead Valuation:	\$2,077,644,258	# Taxable Parcels	2,396
Non-Homestead Valuation:	\$225,525,833	# Taxable Parcels	90

The district-wide assessed valuation is one of two main factors influencing the school tax rate in 2020-2021. The other is the actual tax levy. In order to calculate the homestead and non-homestead tax rates the New York State Office for Real Property Services (ORPS) sets homestead and non-homestead percentages which are used to establish the tax burden and portion of assessment to be carried by each class. The Board sets the amount of tax levy. Once this is accomplished the homestead and non-homestead tax (millage) rates are computed using a basic arithmetic formula: tax burden divided by portion of assessment multiplied by 1000. For the 2020-2021 budget, with a district-wide assessed valuation of \$2,303,170,091 and an anticipated \$43,995,268 tax levy, the respective tax rates would be as follows:

<u>Homestead (Residential):</u>	<u>Non-Homestead (Commercial):</u>
Percentage: 84.853720%	Percentage: 15.146280%
Tax Burden: \$37,331,622	Tax Burden: \$6,663,647
Portion of Assessment: \$2,077,644,258	Portion of Assessment: \$225,525,833
Tax Rate: \$17.968245 per \$1000	Tax Rate: \$29.547154 per \$1000
<u>Increase: 12.30%</u>	<u>Decrease: 13.83%</u>

Since 2018, the savings resulting from the Basic or Enhanced STAR exemptions are limited to a 2% increase over the prior year. The maximum STAR savings for each school district is now calculated by the Office of Real Property Tax Services (ORPTS) and available [online](#). For 2020-2021 the basic STAR savings is \$1,360 and the enhanced STAR savings is \$3,091 for Blind Brook. Therefore, 2020-2021 school taxes on the \$867,000 single family home, given the adopted budget and assuming continued eligibility for either the Basic or *Enhanced* STAR exemption, are as follows:

**Estimated Homestead School Tax Computation with Maximum Basic Star Savings:**

Assessed valuation of property =	\$867,000
<i>divided by</i>	\$1000
<i>multiplied by</i>	\$17.968245 (the estimated homestead tax rate)
<i>less</i>	\$1,360 (Basic STAR savings for 2020-2021)
<i>equals</i>	$(\$867,000 / \$1000 * \$17.968245) - \$1,360 = \$14,218$

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*School Tax with Enhanced STAR savings:  $(\$867,000 / \$1000 * \$17.968245) - \$3,091 = \$12,487$*

It is important for community members to remember that their home is assessed at full value and the *actual* cost of school taxes in Blind Brook is best explained as a result of an increase or decrease in a number of factors. In the final analysis the community must know that taxes in support of schools generally increase or decrease as a result of several factors most important of which are:

- the school tax levy
- the ORPS base percentages
- the increase or decrease in a property's assessed valuation determined by the Town of Rye Assessor
- eligibility of the property owner for the STAR exemption

The final school tax rate is determined by the Town of Rye Receiver of Taxes in August of each school year.

## **6. Budget Surplus and Fund Balance and their Use to Lower the School Tax Levy**

### ***Fund Accounting and Fund Balance***

To understand the concepts of operating budget surplus and fund balance one must first recognize that school districts, organize their accounting systems on a "fund" basis. A fund is a separate set of accounting records, segregated for purpose of carrying on an activity. A fund is established for accountability purposes to demonstrate that financial resources are being used only for permitted purposes. In New York school districts typically account for their funds in seven different funds:

1. **General Fund** - accounts for all financial resources except those accounted for in another fund. It is the main operating fund used by school districts to account for funds used to manage the school system.
2. **Special Aid Fund** - accounts for financial resources to be used for specific purposed and funded by state and/or federal grants.
3. **Capital Fund** - accounts for financial resources to be used for the acquisition or construction of capital facilities and other capital assets.
4. **Debt Service Fund** - account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
5. **School Lunch Fund** – accounts for financial resources to be used to for a school food service program.
6. **Special Purpose Fund** - account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.
7. **Permanent Fund** - account for resources that are restricted to the extent that only earnings, not principal, may be used for purposes that benefit the government or its citizenry.

Each fund will have balance sheet accounts consisting of assets, liabilities and fund balance, and a series of revenue and expenditure accounts. A fund balance is created or increased when fund revenues exceed fund expenditures for a fiscal period thus an operating budget surplus will exist. Correspondingly, a fund's balance is decreased when fund expenditures exceed fund revenues

creating an operating budget deficit. The balance sheet accounts identify the assets that belong to a fund, such as cash or a grant payment receivable; and what liabilities it owes, such as accounts payable to a supplier. The difference between the fund's assets and liabilities equals the "fund balance." A positive fund balance represents a financial resource available to finance expenditures of a following fiscal period. A deficit fund balance can only be recovered by having revenues exceed expenditures in a following fiscal period.

For the purposes of discussion of fund balance in this section we are going to specifically refer to the general fund. To restate an important concept, fund balance will increase or decrease in a given fiscal year based on whether the current year operating budget had a surplus or deficit and whether existing reserves were increased or decreased. As will be explained later, therefore it is important to project and track the general fund budget and revenue status reports throughout the year but especially in the second half of a school year. Such an analysis will inform the degree to which the prior year fund balance will be reduced, stay the same or increase. It also will inform the degree to which a school board can appropriate funds to be used in the next school year to reduce taxes (more on this later).

Administrators and board members need to understand what a fund balance is and its importance in budgeting decisions. A common misconception is that fund balance is a cash account, and therefore corresponds to the district's bank balance. As discussed above, fund balance represents the fund's total assets minus its liabilities (what a fund owns minus what it owes). Cash is an asset, but it usually is not a fund's only asset. The fund may also have liabilities, such as an accounts payable amount due a supplier that could result in a decrease in fund cash when they are paid off. There are five different fund balance classifications as outlined in GASB Statement 54 and they are each defined as follows:

Nonspendable Fund Balance: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

Restricted Fund Balance: The restricted fund balance classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance: The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the districts highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action. School districts generally do not have a committed fund balance.

Assigned Fund Balance: The assigned fund balance classification reflects amounts that are constrained by the government’s intent to be used for specific purposes but meet neither the restricted nor committed forms of constraint.

Unassigned Fund Balance: The unassigned fund balance classification is the residual classification for the general fund only. It is also where *negative residual amounts for all other* governmental funds would be reported. It is that part of the overall fund balance available to a school board to use in an emergency and represents what is sometimes known as the “rainy day” fund.

### ***How Large a Fund Balance?***

Determination of an appropriate fund balance is a critical factor in district financial planning and the annual budgeting processes, but it is strictly a local matter with certain legal constraints. A district with an appropriate fund balance can:

- avoid excessive short term borrowing thereby avoiding associated interest cost;
- accumulate sufficient assets to make designated purchases and payments or cover unforeseen expenditure needs; and
- demonstrate financial stability and therefore preserve or enhance its bond rating, thereby lowering debt issuance costs.

The most commonly asked question regarding fund balance is how large should it be? Perhaps the best answer would be: “an amount sufficient that short term borrowing for cash flow could be avoided and would also allow the district to set aside sufficient assets to realize its longer-range goals.” However, this may not always be practical or politically possible. With enactment of the tax levy cap legislation in New York State this has never been more apparent than it is today. A school board should follow its own policy and regulation regarding fund balance and/or reserve funds. A school board also has to look at reserves identified in its restricted fund balance and ask questions – do we need this much money in the tax certiorari reserve, employee benefits accrued liability reserve, retirement system contributions reserve, unemployment insurance reserve and any other reserve it may have? It should also be informed of the history of reserve increases and decreases. In good times a school district may have been able to “park” funds in its reserves to increase its fund balance. Today it may not, and a school board must challenge management as to why it is funding them and whether it is justified. With respect to the “rainy day” portion of the unassigned fund balance, prudent fiscal management would seem to require that it be fully funded to the extent that the law allows. In New York State, Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year’s budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4 percent limitation

It is important to reiterate that information concerning fund balance is particularly valuable to the school board and the administration when making final decisions about the proposed budget for the next fiscal year, since the amount of surplus available has an impact on the amount of tax levy needed in the next fiscal year. A fund balance (surplus) projection is estimated beginning in

January of each year. A revised fund balance projection is then calculated each month until the next year's budget is adopted in April. This information is critical as the board considers a budget for the upcoming year and the amount to appropriate to reduce the proposed tax levy.

### ***Understanding Use of Fund Balance in Preparing a Budget***

We will assume the district has an annual budget of \$60 million and it levies \$50 million in property taxes. At the end of the school year, it finds that it has only spent \$59 million. The \$1 million that was not spent is called a year end operating surplus because it is the balance that is left in the general fund at the end of the fiscal year. What can the district do with the \$1 million that is left over? Its options under the law are these:

1. It could transfer the money into a "reserve account", which is like a savings account except that it has a specified purpose (e.g., tax certiorari, capital improvements, emergency repairs, employee benefits accrued liability, employee retirement obligations) or let it roll into its unassigned fund balance if not already at the 4 percent limit. A district may not put this money in a separate bank account and just leave it there.

*ADVANTAGE: A lump sum like this may not come again.*

*DISADVANTAGE: Once reserved, the money cannot be used for any other purpose and the unassigned amount is restricted to 4% or less.*

2. Apply the money to the following year's budget. In other words, use the leftover \$1 million as a revenue source that reduces the amount of money the district must raise in taxes in the following year.

*ADVANTAGE: Lowers the tax liability for one year.*

*DISADVANTAGE: After the first year, the tax benefit will turn into a liability unless it is repeated annually.*

Not having an operating surplus can be a liability. Let us follow the scenario: The school board does not like the idea of having any money left over at the end of the year. So, in year two, with a \$1 million increase in costs, the budget is kept to \$60 million (remember, only \$59 million was spent in year one). The "leftover" money from year one is used to reduce the tax levy from \$50 million to \$49 million - in other words, even though spending goes up by \$1 million, taxes decrease by \$1 million or 2 percent.

But keep this in mind -- The district projects \$60 million in expenditures; levies only \$49 million in taxes; uses the \$1 million "leftover" from the previous year; and plans to have no operating surplus at the end of year two.

At the end of year two, the district finds that it has spent precisely \$60 million, with nothing left over; exactly as planned.

In year three, rising costs push the budget up another million to \$61 million. Without an operating surplus the school district is now going to have use part of its fund balance to apply as revenue or else the tax levy is going to have to jump from \$49 million to \$51 million, an increase

of \$2 million. The board will have a difficult time explaining why the tax levy is increasing by \$2 million when spending is only increasing by \$1 million. A loss in voter confidence could very well result in the budget being defeated by the voters. The worst-case scenario is a second defeat forcing the board to adopt a final budget with the same tax levy as the prior year - \$49 million. This would require making staffing/program cuts equal to \$2 million or using more of its existing fund balance to make up the difference. Eventually this could be devastating to the school system because the fund balance will not always be available.

If the district had planned for a \$1 million operating surplus at the end of year two (to be designated to the next year's budget), the budget would have been \$61 million and the tax levy would have been \$50 million (instead of \$49 million), about a 2 percent increase. In year three, with another increase of \$1 million, the tax levy would have kept rising at a steady rate, in parallel with spending increases, instead of creating fiscal stress in that year.

Eliminating the net unassigned fund balance is never a good thing even if the district spends exactly the amount that is in the budget every year. However, in the real world, this does not happen: good budget management should always leave at least some amount leftover. In addition, by cutting it too close, there is always a risk of going over budget. By law, districts cannot borrow money to cover a budget deficit. In an emergency, unless the district had set aside money in a reserve fund that could be used for that particular kind of emergency (as described above), the district would have to make immediate cuts (personnel or programs) in order to meet its obligations and balance the budget. This is never a good situation.

In summation, planning for an operating surplus and maintaining fund balance is needed to protect from times of uncertainty and buffer from events outside the district's sphere of control. It keeps districts from needing to borrow for normal cash flow needs and for unpredicted expenses. Fund balance is an indicator of the district's financial condition and affects the district's overall credit rating resulting in positive bond ratings and lower interest rates on borrowed money. In addition, when fund balance is properly invested it can become a source of revenue through the interest it earns. Finally, as is the case with a personal budget, it is *never* prudent to spend to the extent that your accounts are fully depleted and, it is *always* wise to save for a "rainy" day. Each school district is different and needs to determine what the appropriate fund balance should be given their unique situation. But the board must always follow its own policy, carefully consider the ramifications of its actions, and if necessary discuss the matter with its independent auditor.

## **7. The Contingency Budget**

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In the event it becomes necessary, a contingency budget is developed based on provisions of education law and Blind Brook Board of Education policy. The following narrative summarizes the requirements set forth by both the law and Blind Brook Board Policy #5150.

The School District budget for any school year or any part of such budget, or any proposition involving the expenditure of money for such school year, shall not be submitted for a vote of the qualified voters of the District more than twice in any school year.

If the original proposed budget is not approved by District voters at the Annual District Meeting and Election, the Board has the option of either resubmitting the original or revised budget for voter approval at a special meeting held at a later date; or the Board may, at that point, adopt a contingency budget. If the Board decides to submit either the original or a revised budget to the voters for a second time, and the voters do not approve the second budget submittal, the Board must adopt a contingency budget and the tax levy cannot exceed the total tax levy of the prior year (0% levy growth).

The administrative component of the contingency budget shall not comprise a greater percentage of the contingency budget exclusive of the capital component than the lesser of:

- a) The percentage the administrative component had comprised in the prior year budget exclusive of the capital component; or
- b) The percentage the administrative component had comprised in the last proposed defeated budget exclusive of the capital component.

It is noteworthy that Blind Brook has never been forced to operate under a contingency budget.

## **8. Questions**

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Questions concerning the school budget and/or the process used to develop it should be discussed with Dr. Jonathan Ross. Please forward questions him at [jross@blindbrook.org](mailto:jross@blindbrook.org).

You can also reference more about the school budget at the following link:

<http://www.emsc.nysed.gov/mgtserv/budgeting/handbook/>.

## 9. 2020-2021 Budget Discussion Calendar (revised per E.O. 202.26 COVID-19)

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Thursday	February 13, 2020 <i>BBHS Library 7:30 p.m.</i>	<b>Superintendent's Proposed 2020-2021 Budget Presentation</b>
Tuesday	April 2, 2020 <i>Videoconference 7:00 p.m.</i>	<b>Budget Discussion:      Public Meeting</b>
Tuesday	April 14, 2020 <i>Videoconference 7:00 p.m.</i>	<b>Budget Discussion:      Public Meeting</b>
Tuesday	April 21, 2020 <i>Videoconference 7:00 p.m.</i>	<b>BOCES 2020-2021 Budget &amp; Board Member Vote</b>
Tuesday	May 5, 2020 <i>Videoconference 7:00 p.m.</i>	<b>Budget Discussion:      Public Meeting</b>
Tuesday	May 19, 2020 <i>Videoconference 7:00 p.m.</i>	<b>Adoption of 2020-2021 Budget &amp; Tax Report Card</b>
Tuesday	June 2, 2020 <i>Videoconference 7:00 p.m.</i>	<b>Public Budget Hearing: Summary of 2020-2021 Budget</b>
Tuesday	June 9, 2020 <i>Mail-in Ballot Only</i>	<b>2020-2021 Budget/Proposition Vote &amp; Board Election</b>

## **10. Glossary of School Finance and Budget Terms**

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The glossary below provides a brief description of most of the school budgeting and financial accounting terms which may be used during the school budget hearings and in the budget document itself.

### Assessed Valuation:

Assessed valuation is defined as the value of real property for the purpose of levying taxes.

### Base proportions:

Base proportions determine how the tax burden is distributed between residential (homestead) and commercial (non-homestead) properties in the municipality. Changes in the base proportion do not change the overall district tax levy, but instead change how much of the tax levy is paid by homeowners and how much is paid by owners of commercial properties. Base proportions are determined by the New York State Office of Real Property Services.

### Bond:

Money borrowed to pay for a school district expenditure. Typically, the money is used for capital expenditures, such as the purchase of buses or the construction or renovation of a building, although in some cases school districts also issue bonds for other large expenditures such as the repayment of back taxes in a certiorari settlement. The goal in borrowing is to spread the cost out over a period of years and lessen the cost to taxpayers in any one year. By definition, a bond is a written promise to pay a specified sum of money, called the face value or principal amount, at a specified date in the future (the maturity date), together with periodic interest at a specified rate.

### Budget:

A plan of financial operation expressing the estimates of proposed expenditures for a fiscal year and the proposed means of financing them. An underlying reason for a budget is the achievement of the school district's specified annual education goals.

### Budget calendar:

A schedule of key dates that the board of education and administrators follow in the preparation, presentation, adoption, and administration of the school district budget.

### Budget Cap:

Per New York State education law, in the event of a school budget defeat and the adoption of a contingent budget, school districts must cap their spending increase at 120% of the Consumer Price index or 4%, whichever is lower. For more on this, see the definition of a contingent budget.

### Capital outlay:

An expenditure that is generally more than \$20,000 and results in the ownership, control, or possession of assets intended for continued use over long periods of time. These can include new buildings or building renovations and additions; new school buses; as well as new equipment (i.e. desks, computers, etc.) and library books purchased for a new or expanded school building.

### Consumer Price Index (CPI):

An index of prices used to measure the change in the cost of basic goods and services in comparison with a fixed base period (also called the cost-of-living index). However, the CPI does not consider many of the items that cause school district budgets to rise, such as the increasing cost of health insurance, liability insurance and retirement contributions.

### Contingent Budget:

Under New York State law, school boards can submit a budget to voters a maximum of two times. If the proposed budget is defeated twice, the board must adopt a contingency budget. The board also has the option of going directly to a contingent budget immediately after the first budget defeat. Under a contingent budget, the district may not increase spending by more than 120 percent of the Consumer Price Index or 4%, whichever is lower. The items exempt from this cap are tax certiorari and other legal settlements, debt service (mortgage payments), and costs associated with enrollment growth. Under a contingent budget, the percentage of the budget devoted to administrative costs cannot increase from what it was in the prior year's budget or the last defeated budget, whichever is lower. Once a contingent budget is established, community residents are no longer allowed to petition boards of education to put additional items up for a separate vote.

### Debt Service:

In order to build facilities and purchase fixed equipment the District borrows money to pay for these large expenditures over time. Consequently, debt service is part of the budget which includes funds for the payment of principal and interest on the District's outstanding construction bond issues, school bus notes, instructional technology notes and tax anticipation notes.

### Employee Benefits:

Fringe benefits costs paid by the district on behalf of employees. These amounts are not included in the gross salary. They are fringe benefits, and while not paid directly to employees, are parts of the cost of operating the school district. Employee benefits include the district cost for health insurance premiums, dental and vision insurance, life and disability insurance, Medicare, retirement, social security, and tuition reimbursement.

### Equalization Rate:

In simple terms, an equalization rate represents the average level of assessment in each community. For example, an equalization rate of 80 means that, on average the property in a community is being assessed at 80% of its market value. The words "on average" are stressed to emphasize that that an equalization rate of 80 does not mean that each and every property is assessed at 80% of full value. Some may be assessed at lower than 80%, while others may be assessed at higher than 80%. Equalization rates are established by the New York State Board of Equalization and Assessment. School districts that comprise more than one city, town or village must use the equalization rate to determine the tax rates for each municipality. The purpose is to bring some semblance of equity to how the taxes are distributed in any one school district, so that ideally a home with a full market value of \$100,000 in one community will pay the same taxes as a home with a market value of \$100,000 in the next community, regardless of how those two homes are assessed. A district at full value assessment does not have an equalization rate (as is the case with Blind Brook).

Expenditure:

Payments of cash or transfer of property or services for the purpose of acquiring an asset or service.

Fiscal Year (FY):

A fiscal year is the accounting period on which a budget is based. The New York State governmental fiscal year runs from April 1 through March 31. The fiscal year for all New York counties and towns and for most cities is the calendar year. School districts in the State operate on a July 1 through June 30 fiscal year.

Reserved/Unreserved Fund Balance:

Reserved fund balance is the portion of fund balance set aside for specific purposes such as the Reserve for Encumbrances, Reserve for Repairs, Reserve for Tax Certiorari Reserve, etc. Each reserve fund has certain establishment and use requirements. Unreserved fund balance is the residual amount of fund balance after all reserves have been considered. Unreserved fund balance consists of appropriated (designated) fund balance and unappropriated (undesignated) fund balance. Appropriated fund balance is the portion of unreserved fund balance that has been used to reduce taxes in the subsequent fiscal year. Unappropriated fund balance is limited by Real Property Tax Law Section 1318 to an amount not to exceed 4% of the new year's budget.

Fundamental Operating Budget (FOB):

The total amount of money required to pay for current-year programs, staffing, and services at next year's prices — i.e., what the next year's budget would be if the current year's budget were simply "rolled over".

Homestead:

Refers to residential properties.

Non-homestead:

Refers to commercial properties.

Revenue:

Sources of income financing the operation of the school district generally grouped as tax or non-tax revenues.

Salaries:

The total amount paid to an individual, before deductions, for services rendered while on the payroll of the district. Normally salaries are set by provisions contained in a collective bargaining agreement.

Small Claims Assessment Review (SCAR):

Small Claims Assessment Review is the legal process by which a residential property owner can challenge the real estate tax assessment on their property in attempt to reduce the property's assessment and real estate taxes.

### School Tax Relief Program (STAR):

STAR is New York State's School Tax Relief Program that includes a school property tax rebate program and a partial property tax exemption from school taxes. All New Yorkers who own and live in their home - whether it is a condominium, cooperative apartment, manufactured home, farm dwelling, apartment building or mixed-use property - are eligible for the STAR exemption on their primary residence.

### State Aid:

State Aid is additional money that the state gives to districts, to be used in different areas, such as lowering the tax levy, etc. Until the state passes its budget, the district does not know exactly how much to expect in state aid, but school districts are still required to present their budgets to voters on the third Tuesday in May. To meet that mandate, a district must estimate its state aid revenues unless the state budget is passed on time.

### Supplies:

Consumable materials used in the operation of the school district including food, textbooks, paper, pencils, office supplies, custodial/maintenance supplies, and computer software.

### Tax Anticipation Note (TAN):

A municipal bond, usually with a maturity of less than one year, issued on the assumption that the debt will be paid back with future tax revenue. School districts issue tax anticipation notes usually at the start of a fiscal year to maintain appropriate cash flow to pay immediate or time sensitive obligations.

### Tax Base:

The assessed value of local real estate that a school district may tax for yearly operational monies.

### Tax Certiorari:

The legal process by which a commercial property owner can challenge the real estate tax assessment on a given property in attempt to reduce the property's assessment and real estate taxes.

### Tax Levy:

The total sum of operating funds to be raised by the school district after subtracting out all other non-property revenues including state aid. The tax levy is used to determine the tax rate for property owners in each of the cities, towns or villages that a school district may be comprised of.

### Tax Rate (millage rate):

The amount of tax paid for each \$1,000 of assessed value of property. In districts that cover just one municipality, the tax rate is figured simply by dividing the total assessed property value by 1,000 and then dividing that again into the tax levy (the amount of money to be raised locally). In districts that encompass more than one municipality, the formula for figuring the tax rate is more complicated. It involves assigning a share of the total tax levy to each municipality and applying equalization rates to consider different assessment practices.

### Three-Part Budget:

New York school districts must, by law, divide their budgets into three components - administrative, capital and program - and each year they must show how much each portion has increased in relation to the whole budget. It consists of the following components:

1. Administrative Budget Component - These expenditures include office and administrative costs; salaries and benefits for certified school administrators who spend 50 percent or more of their time performing supervisory duties; data processing; public information; legal fees; property insurance; and school board expenses.
2. Capital Budget Component - This covers all school bus purchases, debt service on buildings, and leasing expenditures; tax certiorari and court-ordered costs; and all facility costs, including salaries and benefits of the custodial staff; service contracts, maintenance supplies and equipment; and utilities.
3. Program Budget Component - This portion includes salaries and benefits of teachers and supervisors who spend the majority of their time teaching; instructional costs such as supplies, equipment and textbooks; co-curricular activities and interscholastic athletes; staff development; and transportation operating costs.

### True Value Tax Rate:

Is what the tax rate would be if assessments of all properties were maintained at 100% of market value. Districts not assessed at full value have the assessed valuation multiplied by an equalization rate set by the New York State Office of Real Property Services. At Blind Brook the actual tax rate is the true tax rate because assessments are set at full-value. A separate true value tax rate is established for homestead (residential) and non-homestead (commercial) properties but sometimes a “blended rate” is referred to which combines the two.

### Union Free School District:

In 1853, the Legislature established union free school districts, which are districts resulting from a “union” of two or more common school districts, “free” from the restrictions that previously barred them from operating high schools. In July 2004, there were 163 school districts of this type. Despite being able to operate high schools, thirty-one of these districts provide only elementary education. Those districts that are not components of central school districts provide secondary education by contracting with other districts. Each union free school district is governed by a three- to nine-member board of education.