

# **BUDGET 101**

---

**Understanding a School Budget**

## 1. School Taxation and our District

---

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, with the exception of 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 are able to 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 1,550 students) and proud of the quality of its schools, its faculty, and its students. The 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 60 years. Almost all graduates of Blind Brook High School matriculate at four-year colleges and universities, many of which are among the 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

---

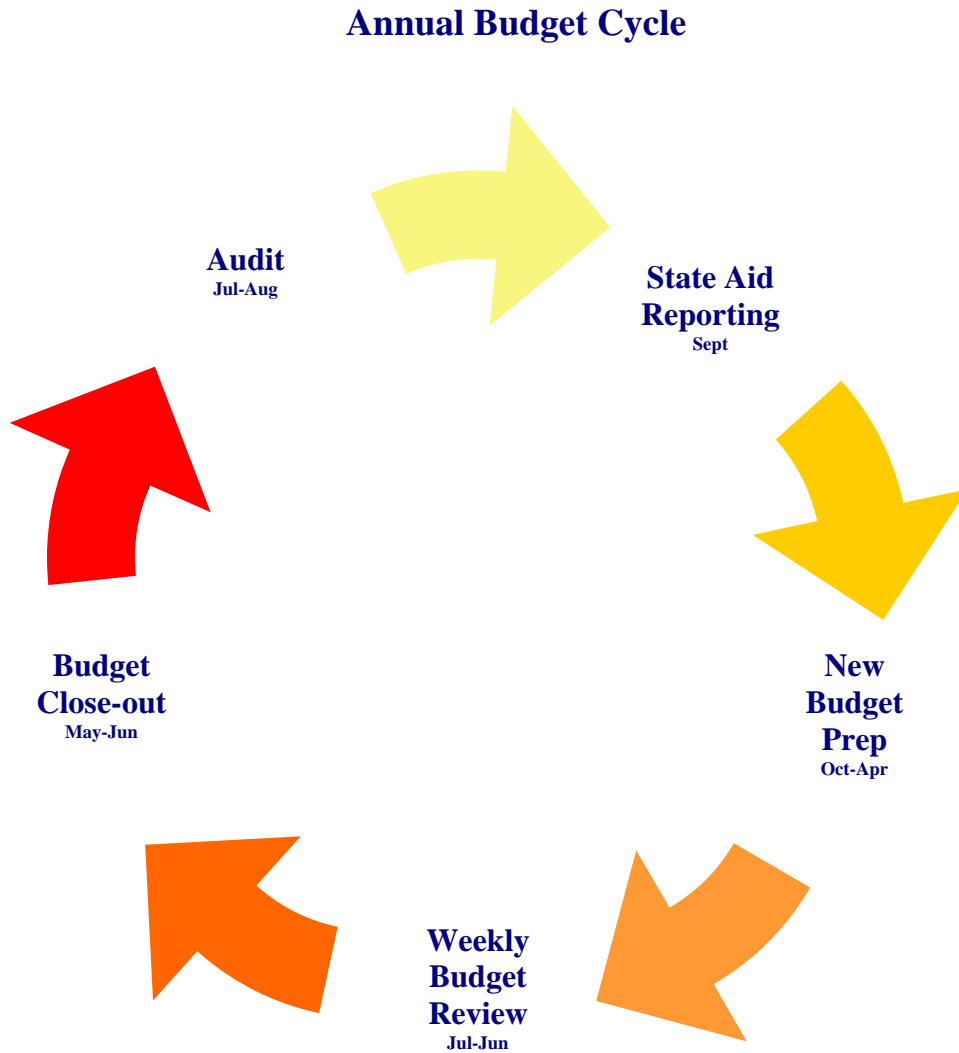
At Blind Brook, the superintendent and school board set parameters that frame the school budget development process. This practice has worked well but from time to time is revised as new laws may require or new procedures may be deemed worthy of implementing. Currently, the budget method used is school 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 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 planning and development at this district is an integral part of program planning so that the annual operating budget effectively expresses and implements programs and activities that are aligned with school board goals and objectives. It is developed in accordance with local school board policy #5110 and New York State Education Department guidelines.

The superintendent has overall responsibility for budget preparation, including the construction of and adherence to a budget calendar. 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 projections so that correct staffing levels can be determined. Given that about 75 to 80 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 year. Lastly, revenues are estimated and must balance against projected expenditures.

Towards the end of February the preliminary budget for the ensuing fiscal year is presented to the school board and public by the superintendent. During the next six 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. An important aspect of the process is allowing the community to comment and give feedback. From these discussions and deliberations the school board usually authorizes changes to the budget. In mid-April the school board adopts a final budget that is presented to the community for approval via referendum on the third Tuesday in May. If the referendum passes the budget becomes operational on July 1<sup>st</sup>, the first day of the school district’s fiscal year.

In summary, 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**

---

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 gives consideration to budget requests and reviews allocations for appropriateness and for their consistency with the school district's educational priorities.

In summary, the school-based constituent groups must participate and express needs and wants and also 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

---

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's 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**

---

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 a number of 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 nearly 94 percent of the revenue budget be supplied from local revenue sources with the substantial majority coming from the tax levy (85 percent of the total 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 2,338 taxable parcels that yield a total district-wide full value assessment of \$2,223,342,027 as of June 2009, a reduction of \$64,410,582 from the prior year. For the 2010-2011 budget the homestead/non-homestead breakdown was as follows:

Homestead Valuation:	\$1,903,779,360
# Parcels	2,258
Non-Homestead Valuation:	\$319,562,667
# Parcels	80

The district-wide assessed valuation is one of two main factors influencing the school tax rate projection for 2010-2011; the other was the actual tax levy. In order to calculate the homestead and non-homestead tax rates the New York State Office for Real Property Services 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 of education 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 2010-2011 budget, with a district-wide assessed valuation of \$2,223,342,027 and an anticipated \$33,461,744 tax levy, the respective tax rates are as follows:

<u>Homestead (Residential):</u>	<u>Non-Homestead (Commercial):</u>
Percentage: 79.847825	Percentage: 20.152175
Tax Burden: \$26,718,475	Tax Burden: \$6,743,269
Portion of Assessment: \$1,903,779,360	Portion of Assessment: \$319,562,667
Tax Rate: \$14.03 per \$1000	Tax Rate: \$21.10 per \$1000
Increase: 3.42 percent	Increase: 5.72 percent

The average single family home in the Blind Brook community is valued at \$843,126 as of June 2009. School taxes are computed by using this formula: (property's assessed valuation minus basic STAR divided by 1000) multiplied by the tax rate. Therefore, 2010-2011 school taxes on the average single family home are as follows:

School Tax Computation:

Assessed valuation of property =	\$843,126
<i>minus</i>	\$96,350 (Basic STAR state funded tax exemption)
<i>divided by</i>	\$1000
<i>multiplied by</i>	\$14.03 (the estimated tax rate)
 <i>equals</i>	 (\$843,126 - \$96,350 / \$1000) * \$14.03 = \$10,477

If the 2010-2011 budget is approved on May 18, 2010 the average residential property owner would pay \$10,477 in school taxes, slightly more than the \$10,470 for an average residential property last year. With a declining district-wide assessed valuation, a higher tax rate is the result; but, it is important for community members to understand that the cost to taxpayers is best explained as the increase in the tax levy from prior year. The combined decrease in

assessed valuation and STAR exemption value, as well as the increase in tax rate for 2010-2011 results in the estimated 0.98 percent increase in the tax levy.

## 6. Fund Balance and Its Use to Lower School Taxes

---

A fund balance is created when the school district has money left over at the end of its fiscal year from either under spending the budget or taking in additional revenue, or some combination of both. Part of the fund balance (appropriated fund balance) may be applied as revenues to the district's following year operating budget. A portion may also be set aside (unappropriated fund balance) to pay for emergencies or other unforeseen occurrences. In accordance with New York State law, the amount of unreserved fund balance that can be retained by the general fund is 4% of the ensuing year's budget, exclusive of the amount designated for the subsequent year's budget. At the end of the 2008-2009 fiscal year, the unreserved fund balance of Blind Brook's general fund was \$1,549,192 or 3.98%, and therefore within this statutory limit. The amount of fund balance applied to the 2009-2010 budget to help reduce the tax levy was \$1,150,000.

Information concerning fund balance is particularly valuable to the board of education and the administration when making final decisions about the proposed budget for the next fiscal year, since the amount of surplus available has a direct impact on the amount of tax levy needed in the next fiscal year. A fund balance 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.

A fund balance is made up of three parts.

**Designated or Appropriated** – maintained for working cash needs; identified to meet predicted cash flow requirements without borrowing.; it may be applied as revenue to the next year's budget.

**Reserved Accounts** – special accounts established through Board action to provide funding for specific identified purposes (such as the tax certiorari reserve or employee benefit accrued liability reserve); money in these special accounts may not be used as “working cash”.

**Unappropriated** (also called unreserved, or undesignated) – this portion is not identified for a specific purpose; it may be set aside to pay for emergencies and is also available for unplanned events.

The designated fund balance is used to avoid short term borrowing that would be necessary to meet regular cash flow needs. This helps to eliminate the interest costs associated with borrowing. Reserve accounts have specific rules for their use. Reserves are spent to make money available for commitments that will come due in the future. The unappropriated fund balance is the “rainy day” account. When extraordinary or unplanned events create costs that

go beyond our spending plan, we must dip into our “savings” to meet those expenses. Without a fund balance the burden of extra expenses would be transferred directly to taxpayers.

**To understand use of fund balance in preparing a budget the following example is presented.**

We will assume the district has an annual budget of \$40 million. It levies \$40 million in property taxes. At the end of the school year, it finds that it has only spent \$39 million. The \$1 million that was not spent is called a year end operating surplus or “fund balance” 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's left over? Its options under the law are these:

1) Put the money in a "reserve account", which is like a savings account except that it has a specified purpose (e.g., capital improvements, emergency repairs, workers' compensation, employee retirement obligations). A district may not put this money in a regular 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.*

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 has to 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 a fund balance can be a liability. Let's 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 \$40 million (remember, only \$39 million was spent in year one). The “leftover” money from year one is used to reduce the tax levy from \$40 million to \$39 million — in other words, even though spending goes up, taxes decrease by 2.5 percent.

But keep this in mind -- The district projects \$40 million in expenditures; levies only \$39 million in taxes; uses the \$1 million “leftover” from the previous year; and plans to have no fund balance at the end of year two.

At the end of year two, the district finds that it has spent precisely \$40 million, with nothing left over; exactly as planned.

In year three, rising costs push the budget up another million to \$41 million. Without a fund balance to apply as revenue, the tax levy jumps from \$39 million to \$41 million: an increase of more than 5 percent. The board has a difficult time explaining why there is a greater than 5 percent increase in taxes when spending only increased by 2.5 percent. The budget is defeated.

If the district had planned for a \$1 million fund balance at the end of year two, the budget would have been \$41 million and the tax levy would have been \$40 million (instead of \$39 million), about a 2.5 percent increase. In year three, with another increase of \$1 million, again about 2.5 percent, the tax levy would have kept rising at a steady rate, in parallel with spending increases, instead of jumping in one year.

*The writer acknowledges Mr. Joseph Dragone of the Roslyn UFSD for contributing to this scenario.*

Eliminating the fund balance is a good thing only 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 will always leave at least some amount left over. 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.

In summation, 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 all depleted.

## **7. The Contingency Budget**

---

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 Blind Brook 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, cannot 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 and levy the necessary school tax to cover expenses as enumerated in law. 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 levy a tax for those expenditures mandated pursuant to law and/or for those services necessary to maintain the educational program.

The contingency budget must include the sum necessary for teachers' salaries (i.e., professional educator positions certificated by the State Education Department which include teachers, administrators, teaching assistants, and professional specialists in the various areas of pupil personnel services) and ordinary contingent expenses as determined by the Board in accordance with law including, but not limited to, the purchase of library books and other instructional materials associated with the school library; expenses for cafeteria or restaurant services; and expenses incurred for interscholastic athletics, field trips and other extracurricular activities. Ordinary contingent expenses include, but are not limited to, legal expenses incurred by the District; expenditures specifically authorized by statute; and other items necessary to maintain

the educational program, preserve property, and assure the health and safety of students and staff. Typically, school counsel is consulted for review as to those items considered to be ordinary contingent expenses prior to Board adoption of the contingency budget.

In accordance with law, the contingency budget will reflect the statutory expenditure limits imposed on the administrative component of the contingency budget as well as the total spending authorized in the overall contingency budget.

With regard to overall District spending, the contingency budget, as a whole, cannot result in a percentage increase in total spending over the District's total spending under the School District budget for the prior year that exceeds the lesser of:

- a) The result when one hundred twenty percent (120%) is multiplied by the percentage increase in the Consumer Price Index (CPI), with the result rounded to two decimal places; or
- b) Four percent (4%).

Additionally, the administrative component of the contingency budget cannot 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.

The Consumer Price Index to be used refers to the percentage that represents the average of the national consumer price indexes determined by the U.S. Department of Labor for the twelve-month period preceding January first of the current year.

In determining the increase in total expenses when computing the contingency budget percentage increase, the following expenditures must be disregarded:

- a) Expenditures resulting from a tax certiorari proceeding;
- b) Expenditures resulting from a court order or judgment against the School District;
- c) Emergency expenditures that are certified by the Commissioner of Education as necessary as a result of damage to, or destruction of, a school building or school equipment;
- d) Capital expenditures resulting from the construction, acquisition, reconstruction, rehabilitation or improvement of school facilities, including debt service and lease expenditures, subject to the approval of qualified voters;
- e) Expenditures in the contingency budget attributable to projected increases in public school enrollment, which may include increases attributable to the enrollment of

- students attending a pre-kindergarten program established in accordance with Education Law Section 3602-e;
- f) Non-recurring expenditures in the prior year's School District budget;
  - g) Expenditures for payments to charter schools; and
  - h) Expenditures for self-supporting programs (i.e., any programs that are entirely funded by private funds that cover all the costs of the program).

In addition, the Board of Education is authorized to add appropriations for the following:

- a) The categories of expenditures listed in a) through h) above subject to the approval of qualified voters;
- b) Expenditures resulting from an actual increase in enrollment over the projected enrollment used to develop the contingency budget; and
- c) Expenditures of gifts, grants in aid for specific purposes or for general use or insurance proceeds in addition to that which has been previously budgeted.

Should the Board of Education adopt a contingency budget, it will officially pass a resolution reflecting such action; and that resolution will incorporate by reference a statement specifying the projected percentage increase or decrease in total spending for the school year, and explain the reasons why the Board disregarded any portion of an increase in spending in formulating the contingency budget.

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

## **8. Questions**

---

Questions concerning the school budget and/or the process used to develop it should be discussed with Jonathan Ross. Please forward questions to 937-3600x3025 or E-mail 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. 2010-2011 Budget Calendar

---

Monday	February 22, 2010 <i>BBHS Auditorium 8:00 p.m.</i>	<b>Superintendent's Proposed 2010-2011 Budget Presentation</b>	
Saturday	March 6, 2010 <i>BBHS Library 9:00 a.m.</i>	<b>Comprehensive Saturday Budget Workshop</b>	
Monday	March 8, 2010 <i>BBHS Library 8:00 p.m.</i>	<b>Budget Discussion:</b>	<b>Public Meeting</b>
Monday	March 22, 2010 <i>BBHS Library 8:00 p.m.</i>	<b>Budget Discussion:</b>	<b>Public Meeting</b>
Monday	April 12, 2010 <i>BBHS Library 8:00 p.m.</i>	<b>Budget Discussion:</b>	<b>Public Meeting</b>
Monday	April 19, 2010 <i>BBHS Library 8:00 p.m.</i>	<b>Adoption of 2010-2011 Budget &amp; Tax Report Card</b>	
Tuesday	May 4, 2010 <i>Asst District Clerk's Office</i>	<b>Voter Registration</b>	<b>2:00 p.m. to 6:00 p.m.</b>
Monday	May 10, 2010 <i>BBHS Library 8:00 p.m.</i>	<b>Public Budget Hearing:</b>	<b>Summary of 2010-2011 Budget</b>
Wednesday	May 12, 2010 <i>Asst District Clerk's Office</i>	<b>Voter Registration</b>	<b>4:00 p.m. to 8:00 p.m.</b>
Tuesday	May 18, 2010 <i>PRSS Old Gymnasium 7:00 a.m. to 9:00 p.m.</i>	<b>2010-2011 Budget/Proposition Vote &amp; Board Election</b>	

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

---

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 take into account 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 taken into account. 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 has to 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 take into account 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.