

Provide Reserve Fund Flexibility

THE COUNCIL SUPPORTS legislative efforts to provide reserve fund flexibility to better plan for the future

The Council has and will continue to advocate for increased state *and* federal support for schools throughout this budget season and it may not be clear what dividends these efforts will pay until April 1, at the earliest.

However, regardless of additional aid to schools beyond what the Executive Budget would promise, we expect schools to face difficult budgetary times for years ahead. The economy will take years to fully recover from the disruption inflicted by the coronavirus pandemic and schools will need to provide more resources to support students that have fallen behind or suffered mental health issues because of the pandemic. Districts have also expended additional resources to ensure schools are safe for students and staff.

Chapter 157 of the laws of 2021 provided what at the time appeared to be a reserve fund relief law that would help schools manage the upcoming fiscal crisis. That law authorized schools to utilize restricted reserve funds to pay for pandemic-related expenses provided that such reserve funds were fully replenished within five years, with interest. But due to these restrictions, this law has been barely utilized. To effectuate the intended purpose of Chapter 157, we urge the legislature to lengthen the payback period and eliminate the interest attributed to such payback requirement.

To provide further relief around financial management, the Legislature should provide relief from the 4% unrestricted reserve fund limit. Due to concerns regarding potential 20% across the board state aid cuts threatened by the Governor and his Budget Director, as well as actual withholdings of state aid, districts took steps to responsibly reduce their spending. Only since the release of the Executive Budget on January 19 has the Division of the Budget announced all withholdings will be restored.

Due to local cost-control measures and an influx in federal support, many districts could be in a situation where they would have to spend funds in the current year solely to get below the 4% limit. The near-term funding outlook for schools is hard to predict but we can anticipate that, once federal stimulus aid is exhausted, hard choices will face state and school district leaders. To help districts plan for and manage this situation, the Legislature should increase the unrestricted reserve fund limit to 8% for the next five years. Municipalities have no percentage limit on unrestricted reserve fund amounts.

For all the foregoing reasons, the Council of School Superintendents strongly supports legislation to provide additional flexibility regarding the use of reserve funds.