

## Unrestricted Reserve Fund Flexibility

**THE COUNCIL SUPPORTS an increase in the unrestricted reserve fund balance limit as a tool to prevent educational damage in the event of an economic downturn**

The Council supports increasing the unrestricted fund balance limit of 4% to 8% through at least the 2026-27 school year. Financial experts recommend unrestricted fund balances well above 4%. Local governments in New York State have no cap on their unrestricted fund balance, yet schools are constrained by this low and fiscally unsound figure.

Recent strong infusions of state and federal help have enabled widespread improvement in what schools can offer their students. For example, an October 2022 Council survey found that majorities of superintendents statewide expect improvements in 11 areas of student services, including core instruction in elementary school (74%), middle school (66%), and high school (63%), and in student mental health services (82%), extra academic help (79%), summer enrichment programs (72%), school security (71%), and prekindergarten (58%). In nine annual surveys prior to 2021, only twice had a majority of superintendents anticipated a positive budget impact on *any* area.

*But our survey also found concerns about the ability to sustain improvements once the federal aid expires and what may happen if an economic downturn imperils the state's ability to maintain its support for schools.*

Raising the unrestricted fund limit balance to 8% would give school districts a tool to be prepared for economic challenges and to preserve what recent state and federal assistance has enabled them to build for students.

Again, municipal governments in New York have no specified percentage limit on unrestricted fund balance, yet schools operate with more financial disclosure requirements, a tighter tax cap, and annual budget approval referenda. Independent experts generally recommend that state and local governmental entities maintain an unrestricted fund balance equivalent to two months expenditures, or about 15%. Governor Hochul has set a target of having state “rainy day funds” reach 15% of projected expenditures.

School district leaders are charged with ensuring students are provided with every educational opportunity to succeed *and* with serving as proper stewards of taxpayer dollars. If the unrestricted fund balance limit is raised, school districts will *not* ask their voters to approve larger tax increases to build deeper reserves. Its main, and truly only purpose is to provide a planning tool to ensure ongoing educational and financial strength.

***The Council STRONGLY supports this legislation and urges its approval***