

TO: Jeffrey P. Simons, Superintendent of Schools
FROM: Larry Edson, Assistant Superintendent for School Business Finance
DATE: August 20, 2019
RE: 2019-2020 General Fund Restricted Reserves Plan & Reauthorization

QUESTIONS & ANSWERS

What is a reserve fund?

The Cambridge University Press defines a reserve fund as “money that is kept by an organization to pay for something that may happen in the future.” The online citation at dictionary.cambridge.org/us/dictionary is “they’ve been spending millions from the dwindling reserve fund.”

Why do we need a reserve plan?

A common focus of school district and BOCES audits from the Office of the State Comptroller has been reserves. Audit recommendations have included reauthorization of reserves on an annual basis and development of a reserve plan to be authorized by the Board. Although a reserve plan is currently not required based on law or regulation, we believe there is value in providing additional disclosure beyond the annual financial statements to the public. In the event that a reserve plan becomes mandatory and specific guidance is issued, this plan is subject to modification for compliance purposes.

In short, having a reserve plan will allow the Board of Education and resident taxpayers to know why these funds have been accumulated and the ultimate plan for saving or spending each account balance.

Why do we need reserves?

Reserves have many purposes, including:

- **Improvement of cash flow** - Reserve funds not required by law to be in a separate account can mitigate timing gaps in receipt of state aid and property taxes.
- **Avoidance of borrowing interest costs** - When a reserve fund finances purchases of materials or equipment, such as buses, the District does not have to borrow money and incur interest payments on debt.
- **Support of the credit rating** - Rating agencies such as Moody’s typically provide a higher credit rating to local governments with higher reserve fund balances as a percent of the total budget. The higher the credit rating received, the lower the interest cost on multi-year bond financing, typically for capital project expenses.

- **Maintenance of a stable operating budget** - If money is available in reserve funds for projects or equipment, the funds do not need to come from the general operating budget, which would impact the tax levy.
- **Funding beyond the State's limitation on unrestricted fund balance** - New York State sets a limit on surplus funds that may be maintained from year to year at 4% of the succeeding year's budget. Reserve funds provide an additional mechanism for school districts to engage in financial planning for future needs beyond the 4% limitation.

When may we fund reserves?

Funding for reserves is allowable consistent with law and regulation. For example, the capital reserve can only be funded subject to the terms of the proposition initially authorized by the District voters. Funding for other reserves is subject to availability and District financial condition. The annual general fund budget contains estimates of revenues and expenditures, and the actual financial results will differ from the budget. In addition, as recommended by the Office of the State Comptroller, there are contingencies built into budgeted expenditures. In the event that any surplus funds are available at the end of the year, the Board of Education will determine the best use of these funds in accordance with policy #6245, which may include using these funds to reduce taxes, maintain programs, and/or fund reserves.

Where may I find information on reserves?

Reserve information is contained within the District's annual financial statements; the most recent statements are posted online at www.egcsd.org under the budget and tax page, historical information link. The statements contain the June 30th year-end balance for each reserve and a brief description within the notes section of each reserve's purpose and legal limitations.

In addition, the District's Property Tax Report Card contains the following information on reserves: type, name, brief description, March 31st actual balance, June 30th projected balance, and a statement of the intended use of the reserve in the budget year. The Property Tax Report Card is part of the annual budget packet and posted online at www.egcsd.org under the budget and tax page, budget documents link.

The New York State Office of the State Comptroller has published a Local Government Management Guide entitled Reserve Funds and dated January 2010. This Guide is a comprehensive look at reserves authorized by General Municipal Law (GML) and by other statutes.

What types of reserves does the District have?

The District's audited financial statements are set to be approved by the Board of Education on October 16, 2019, and contain reserve balances and information as of June 30, 2019. The notes to the financial statements will describe the legal authority for each reserve, its purpose, and funding. General fund restricted reserves listed below were as follows at June 30, 2019, pending audit, with a projection for the following year-end:

| Reserve Account | Unaudited Balance June 30, 2019 | Projected Balance June 30, 2020 |
|--|--|--|
| Workers Compensation | \$700,000 | \$700,000 |
| Unemployment Insurance | 232,000 | 224,000 |
| Retirement Contribution Reserve | 5,930,542 | 5,930,542 |
| Retirement Contribution Reserve Sub-Fund | 674,000 | 674,000 |
| Tax Certiorari Reserve | 1,214,260 | 800,000 |
| Employee Benefits & Accrued Liabilities | 3,441,853 | 3,441,853 |
| Capital - Construction 1994 | 60,913 | 60,913 |
| Capital - Bus Purchase 2018 | 843,722 | 905,894 |
| Total Restricted Reserves | \$13,097,290 | \$12,737,202 |

What might cause changes in reserve balances?

The funding or spending of a reserve can only be done by a Board resolution or voter authorization as prescribed by law or statute. Other increases or decreases in a reserve balance can occur from:

Increases:

- Excess surplus funds available from the District budget to fund a reserve
- Improved financial resources available from state and federal sources
- Receipt of State transportation aid to fund bus purchase reserve
- Tax litigation - The number of businesses filing tax certiorari may require the Board to fund higher amounts related to refund exposure.

Decreases:

- Property tax cap limitations on the ability of the Board to raise funds
- Budgetary need to withdraw from the reserve for contingent expenses
- Unanticipated workers compensation claims
- Additional unemployment claims from previous staff
- Limitation on reserve deposits over time - For example, the capital reserve for bus purchases has a maximum limit of \$5,000,000 in deposits over its life. Once the limit is reached, no additional deposits to the account may occur.

DISTRICT RESERVE DETAIL

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| Reserve: | Workers Compensation |
| Account: | A814, Restricted Fund Balance |
| Purpose: | To fund workers compensation expenses, related medical expenses, and self-insurance administrative costs |
| Board Resolution: | Not found, although the Board approved self-insurance for workers compensation at the June 9, 1993 meeting. The reserve was reauthorized at the November 10, 2010 Board of Education meeting. |
| 06/30/19 Balance: | \$700,000 |
| 06/30/20 Projected: | \$700,000 |
| Valuation: | The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain no more than five years' worth of expenses in the reserve. The current balance is at 38.5% of the goal amount. As a reminder, the retention limit on the excess workers compensation policy is currently at \$500,000. In the event of a catastrophic employee injury, the District would be liable for the first \$500,000 in expenses and the excess policy would pay the overage. This further illustrates the need for a healthy reserve balance. |
| Plan: | For the 2019-2020 fiscal year, no withdrawals are planned. Additional funding could be requested, but is not anticipated at this time. |

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| Reserve: | Unemployment Insurance |
| Account: | A815, Restricted Fund Balance |
| Purpose: | To pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the school district uses the benefit reimbursement method |

Board Resolution: April 14, 2010
06/30/19 Balance: \$232,000
06/30/20 Projected: \$224,000
Valuation: The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain no more than five years' worth of expenses in the reserve. The current balance is well over the goal amount in light of stable District employment over the last several years.
Plan: The 2019-2020 budget contains provisions for spending \$8,000 of the reserve to fund current unemployment claims due to excess funds in the reserve. Note that a downward trend in the economy or a failed school budget could cause the District to pay more in the future for unemployment claims.

Reserve: **Retirement Contribution Reserve Fund (ERS)**
Account: A827, Restricted Fund Balance
Purpose: To fund employer retirement contributions payable by an eligible school district to the New York State and Local Employees' Retirement System (ERS)
Board Resolution: June 10, 2009
06/30/19 Balance: \$5,930,542
06/30/20 Projected: \$5,930,542
Valuation: The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain no more than 70% of five years' worth of employer retirement contribution expenses in the reserve. The current balance at June 30, 2019 is slightly over at 75.3% of the goal amount. The reserve balance can offset future payments made to the New York State and Local Employees' Retirement System.
Plan: The 2019-2020 budget contains provisions for utilization of \$830,890 from the reserve to offset current year ERS expense, although it is currently anticipated that the funds will remain in the reserve. In accordance with Board of Education Policy #6245, Fund Balance and Governmental Fund Type Definitions, general fund monies will be used first before reserve funds for ERS contributions. The current plan is to continue to monitor employer contribution rates to the pension system and consider additional funding to the reserve in the future.

Reserve: Retirement Contribution Reserve Sub-Fund (TRS)
Account: A828, Restricted Fund Balance
Purpose: To fund employer retirement contributions payable by an eligible school district to the New York State Teachers Retirement System

Board Resolution: June 10, 2009
06/30/19 Balance: \$674,000
06/30/20 Projected: \$674,000
Valuation: The Board will receive an annual update on the reserve, beginning in May or June 2020. The goal for this reserve would be just under the maximum 10% of the previous year's TRS eligible salaries. Currently the maximum for the reserve is estimated at \$3,372,555.

Plan: The 2019-2020 budget does not anticipate any use of the reserve to offset current year TRS expense. Each year, if general fund monies are available for TRS contributions, they will be used first before reserve funds in accordance with Board of Education Policy #6245, Fund Balance and Governmental Fund Type Definitions. The current plan is to continue to monitor employer contribution rates to the pension system and consider additional funding to the reserve in the future.

Reserve: Tax Certiorari - 2018
Account: A864, Restricted Fund Balance
Purpose: To pay judgments and claims in tax certiorari cases related to the 2018 school tax year

Board Resolution: June 13, 2018
06/30/19 Balance: \$629,689
06/30/20 Projected: \$350,000
Valuation: Tax certiorari reserves are usually evaluated at least twice per year based on the exposure outstanding on the open cases. The Board receives an update in either December or January, and then again in May or June. If the balance exceeds the exposure, excess is transferred back to the general fund. Any unused funds within the reserve at the end of four years (June 30, 2022) must be returned to the general fund.

Plan: We are currently tracking seven cases for the 2019-2020 school year, with exposure of \$1,314,888. The reserve account currently reflects 48% of the anticipated exposure of

these cases. No additional funding is planned during the 2019-2020 school year. The reserve will be evaluated in December or January to ensure it is sufficient to pay settlements and is not overfunded.

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| Reserve: | Tax Certiorari - 2019 |
| Account: | A864, Restricted Fund Balance |
| Purpose: | To pay judgments and claims in tax certiorari cases related to the 2019 school tax year |
| Board Resolution: | May 22, 2019 |
| 06/30/19 Balance: | \$584,571 |
| 06/30/20 Projected: | \$450,000 |
| Valuation: | Tax certiorari reserves are usually evaluated at least twice per year based on the exposure outstanding on the open cases. The Board receives an update in either December or January, and then again in May or June. If the balance exceeds the exposure, excess is transferred back to the general fund. Any unused funds within the reserve at the end of four years (June 30, 2023) must be returned to the general fund. |
| Plan: | We are currently tracking eleven cases for the 2019-2020 school year, with exposure of \$1,522,193. The reserve account currently reflects 38% of the anticipated exposure of these cases. When the reserve is evaluated in December and June, it may be necessary to add funding to be certain that at least 50% of the exposure is reserved. The timeframe for settlement of the litigation is uncertain at this time; although some cases are likely to settle during the year. With regard to all tax certiorari accounts, a goal should be to maintain the same dollar level in total from year to year. Accordingly, a new reserve account is planned to be established in June 2020 for 2020 tax litigation. Any excess funds from old reserve accounts can provide partial or full funding for the new reserve. |

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| Reserve: | Employee Benefit & Accrued Liabilities |
| Account: | A867, Restricted Fund Balance |
| Purpose: | To pay accrued benefits due employees upon termination of service |
| Board Resolution: | August 13, 2003 |
| 06/30/19 Balance: | \$3,441,853 |
| 06/30/20 Projected: | \$3,441,853 |
| Valuation: | The reserve is valued at the end of each fiscal year based |

on the number of accumulated sick and personal days times the contractually determined compensation rate (varies by contract). At June 30, 2019, the amount of the reserve was set at 52.2% of the total value of accumulated time.

Plan: Audits by the Office of the State Comptroller have restricted the use of this reserve. In certain years, school districts had the ability to transfer excess funds to the general fund. Our District reserve is not overfunded. We await further clarification and guidance on any future withdrawals.

Reserve: **Capital Reserve - Construction**
Account: A878, Restricted Fund Balance
Purpose: To pay the cost of any object or purpose for which bonds may be issued (For our District, capital construction)
Voter Approval: Voter Proposition May 17, 1994
06/30/19 Balance: \$60,913
06/30/20 Projected: \$60,913
Valuation: The construction portion of the reserve has not changed since 2002.
Plan: When the next capital project is planned, there may be consideration given to using the reserve funds to offset some project costs rather than bonding.

Reserve: **Capital Reserve – Bus Purchases 2018**
Account: A878, Restricted Fund Balance
Purpose: To pay the cost of any object or purpose for which bonds may be issued (For our District, bus purchases)
Voter Approval: Voter Proposition May 15, 2018
06/30/19 Balance: \$843,722
06/30/20 Projected: \$905,894
Valuation: The bus portion of the reserve is valued each year based on the beginning balance, plus state aid attributable to bus purchases, less the cost of bus purchases approved by the voters as a withdrawal from the reserve. The terms of the proposition also allow additional funding of the reserve by resolution of the Board. Such additional funding is subject to availability and District financial condition.
Plan: The beginning balance in the 2018 reserve at June 30, 2019 is \$843,722. State aid on previous bus purchases is estimated at \$500,650. Additional funding by the Board is projected at \$250,000. Bus purchases totaled \$688,478 for the 2019-2020 school year. Accordingly, the balance at year-end may approximate \$905,894. A plan for future bus

purchases will be developed during the fall of 2019 and posted on the District website at www.egcsd.org under the budget and tax page, budget documents link.

If you have any questions on the reserve plan, please contact me.

RESOLUTION:

Resolved, the Board of Education of the East Greenbush Central School District hereby adopts the 2019-2020 general fund restricted reserves plan and reauthorizes the following reserves of the East Greenbush Central School District as authorized by Education Law and General Municipal Law and reflected in the District's financial statements effective June 30, 2019: Workers Compensation Claims, Unemployment Insurance, Retirement Contribution Reserve, Retirement Contribution Reserve Sub-Fund, Tax Certiorari Reserves (2018 & 2019), Employee Benefits and Accrued Liabilities, Capital Reserve-Construction (1994), and Capital Reserve-Buses (2018).

Motion: Mr. Dunn

Second: Ms. Skumurski

Ayes: 0 Nays: 0 Abstentions: 0