

Schodack Central School District

Fund Balance and Reserve Plan

September 2018

## Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for a school district. While strict adherence to state law is required to ensure reserves are both legal and appropriate, adequately funded reserves are vital to the long term health and stability of the school district. This concept is recognized by the NYS Comptroller:

Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use.

(Office of the New York State Comptroller – Local Government Management Guide – Reserve Funds, Pg. 1)

The Schodack Central School District believes that the judicious use of reserves greatly reduces long term borrowing costs, and smooth's large fluctuations in the tax rate. It believes it is in the best interest of both students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur.

Two purposes for establishing reserves include:

- 1) Saving money for a large, one time future expenditure.  
For example: A capital reserve for the replacement of a roof.
- 2) Reserves which are intended to protect the district against a large, currently unknown risk.  
For example, a taxpayer challenging a past assessment.

Legally established reserves can provide many benefits to the school district and to its taxpayers. However, these reserves can also cause confusion when their purpose is not clearly understood by the community. The purpose of this document is to detail the reserves Schodack has in place and to detail the district's plan for use and maintenance of these reserves. Any excess funds for the year ending June 30, 2018 will be used to add to reserves according to this plan. To this end, I am requesting the board allow the district to add to the Reserves as listed in the following pages.

Interest rate spread to the reserves is based on average interest rates received by the district during the school year. For the 2017-18 school year the average interest rate received was .76 %.

## **EMPLOYEE BENEFIT ACCRUED LIABILITY**

Authority: The governing board of a school district, by resolution, may establish a reserve for the purpose of funding the monetary value of accrued but unused sick leave, personal leave, vacation time and any other forms of payment of accrued but unliquidated time earned by employees. Establishing the reserve does not require voter approval. Expenditures may only be made for allowed cash payments earned by employees due upon termination of employment (GML, sec 6-p). Established by the BOE on 8/22/2002.

Balance June 30, 2017	\$375,301
Interest Earned (included above)	\$ 3,232

Ideal Balance: Total amount of outstanding obligation.

Discussion: This reserve is for contractual entitlements that are to be paid directly to the employee upon termination. It does not include post-retirement health benefits under GASB45. There is currently no funding mechanism for the obligations that school districts face with paying for retiree health insurance obligations.

Districts are allowed, however, to hold in reserve those post-retirement benefits that are based on compensated absences, such as sick leave. The contracts for the various bargaining units spell out the payments available to employees upon retirement. The liability for these days can be held in the reserve. The district recommends funding the EBLR for all employees currently eligible to retire, in addition to those who meet the years of service threshold and age 50. This liability is calculated after the end of the fiscal year based on the available time for existing staff.

*Recommendation: If money is available at the end of the year, request an additional amount up to the maximum allowable be added to this reserve. If the reserve is overfunded, request additional monies be transferred out.*

### **UNEMPLOYMENT INSURANCE RESERVE**

Authority: This reserve is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants. The reserve may be established by Board action and funded by budgetary appropriations or other funds as may be legally appropriated (GML, sec.6-m). Established by the BOE on 9/20/2001.

Balance June 30, 2017	\$504,373
Interest Earned (included above)	\$ 4,251

Ideal Balance: Approximately 5% payroll or \$537,992

Discussion: District practice has been to fund claims out of the General Fund when possible, maintaining a reserve, however, allows the district to weather any unusual increases in unemployment claims. I believe the current funding is sufficient to pay full any unemployment insurance claims.

*Recommendation: Keep funding at current level.*

### **RETIREMENT CONTRIBUTION RESERVE**

Authority: The governing board of a school district, by resolution, may establish a reserve for the purpose of financing retirement contributions made to the NY State and Local Employees' Retirement System (ERS). Establishing or expending the reserve does not require voter approval. Expenditures may only be made pursuant to a board resolution and must be used to finance retirement contributions. (GML sec. 6-1) Established by the BOE on 5/17/2005.

Balance June 30, 2017	\$437,134
Interest Earned (included above)	\$ 3,684

Ideal Balance: The contribution rates for ERS have declined for the last few years. In 18-19 the rate will be reduced to 15.3% of salaries. Given the volatile nature of ERS the ideal balance would be to have 3 years multiplied by the current average ERS liabilities, or 30% of budgeted salaries. For the 18-19 school year the three year average is: \$382,598.

Discussion: The purpose of this reserve is to set aside available surplus to provide a source of funds to limit the property tax impact of increases in an employer contribution rates for ERS. This reserve was authorized by the state legislature in reaction to the significant increases in retirement contribution rates that municipalities and school districts were facing.

*Recommendation: If additional monies are available, I recommend we increase the ERS reserve up to a maximum of \$1,147,794.*

### **WORKERS' COMPENSATION RESERVE**

Authority: The purpose of this reserve fund is to pay for compensation benefits, medical, hospital and other expenditures authorized by the Workers' Compensation Law. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (GML sec 6j). Established by the BOE on 9/20/2001.

Balance June 30, 2017	\$253,315
Interest Earned (included above)	\$ 2,135

Ideal Balance: 3-6% of payroll is recommended. The lower amount allows the district to offset many years of premiums. The higher level allows for funding if a single catastrophic event could cause a spike in costs that could as much as double premiums.

Discussion: The district has a very good safety record and has been able to keep Workers' Comp costs to a minimum. However, Workers Comp costs are rising as workers who become injured are eligible for larger and larger weekly salaries. The district believes in keeping this reserve to protect the district from potential spikes one or two major accidents could create.

*Recommendation: If additional monies are available, I recommend we increase the Workers Comp Reserve up to a maximum of \$484,193 or 4.5% of payroll.*

### **INSURANCE RESERVE FUND**

Authority: The purpose of this reserve fund is to pay for insurance claims against the district that exceeds insurance policy limits. The reserve is established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (GML sec 6n). Established by the BOE on 6/18/2014.

Balance June 30, 2017	\$251,087
Interest Earned (included above)	\$ 2,116

Ideal Balance: Contributions may not exceed greater of \$33,000 or 5% of total budget, \$1,223,546.

Discussion: This reserve can be used to pay any allowable claims, thereby preventing the district from potential spikes one or two large claims could cause and providing the district with financial stability and strong credit ratings. With cyber security, computer fraud and data breaches becoming more of a topic of concern and outcomes that are so unknown when there is an issue I recommend that we increase this reserve to cover an unexpected loss above and beyond what our current insurance policy will cover.

*Recommendation: Increase by \$200,000.*

### **CAPITAL RESERVE FUND**

Authority: The Capital Reserve Fund can be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount and its probable term. An expenditure from this reserve must also be authorized by the voters. On May 20, 2015, the voters of Schodack authorized the district to set up a Capital Reserve at a maximum amount of \$2,000,000 for a probable term of 10 years.

Balance June 30, 2017	\$1,812,604
Interest Earned (included above)	\$ 15,277

Ideal Balance: May not exceed \$2,000,000.

Discussion: By using monies from a Capital Reserve to fund projects, the district is reducing the amount of borrowing it will need to do, thereby lessening the tax impact to taxpayers and reducing interest expense, while still receiving Building Aid income from the state.

*Recommendation: Increase by \$187,396 to fund this reserve to its maximum level.*

### **DEBT SERVICE FUND**

Authority: A Debt service fund is considered a reserve and is separate from the general fund. It is used to account for the accumulation of resources for the payment of principal and interest on long term debt. These funds are primarily derived from interest earnings on monies obligated to capital projects. These funds may only be used for reduction of debt.

Balance June 30, 2017	\$411,374
Interest Earned (included above)	\$ 39,826

### **ASSIGNED APPROPRIATED FUND BALANCE**

Purpose: Planned reduction in fund balance to reduce the property tax levy necessary to support the current budget.

Budgeted 12-13	\$750,000
Budgeted 13-14	\$775,000
Budgeted 14-15	\$1,000,000
Budgeted 15-16	\$752,000
Budgeted 16-17	\$1,000,000
Budgeted 17-18	\$1,000,000
Budgeted 18-19	\$1,000,000

Ideal Balance: The designation of fund balance represents a “one shot” revenue that cannot be anticipated to be available in the ensuing year’s budget. Overuse can cause the depletion of available fund balance. With the implementation of the Governor’s tax levy cap, a school district can no longer spike its tax rate to handle an overuse of fund balance without receiving a 60% majority vote from taxpayers. There is \$1,000,000 dollars appropriated in the 2018-19 budget. In years to come the district will look to reduce its dependence on Appropriated Fund Balance to balance in its budgets.

### **UNASSIGNED FUND BALANCE**

Purpose: To give the district flexibility in case of unanticipated expenditures, such as increased Special Education Costs due to a new student moving into the district. It also helps with cash flow during the months of July through September before tax receipts are available.

Balance June 30, 2013	\$797,476
Balance June 30, 2014	\$848,545
Balance June 30, 2015	\$868,990
Balance June 30, 2016	\$883,027
Balance June 30, 2017	\$921,999
Balance June 30, 2018	\$978,837

Ideal Balance: By law, the undesignated fund balance is limited to 4% of the ensuing years’ budget. This is generally considered an ideal balance.

*Recommendation: If money is available at the end of the year, request funding Unassigned Fund Balance up to the maximum allowable for this year, \$978,837.*

I recommend the BOE adopt the reserve plan with the following adjustments to the 2017-18 plan:

Increase the Unassigned Fund Balance by \$122,239.

Increase the Capital Reserve by \$187,396.

Increase Retirement Reserve by \$423,682.

Increase Insurance Reserve Fund by \$200,000.