

# **North Tonawanda City School District**

## **Fund Balance and Reserves Funding and Usage Plan**

**6/30/20 FYE**



Last Updated: November 2020

## Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any 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 New York State 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 North Tonawanda City School District believes that the judicious use of reserves greatly reduces long term borrowing costs, smooths large fluctuations in tax rates and minimizes the possibility of draconian mid-year budget cuts which would have a direct impact on students. It believes it is in the best interest of both the students and taxpayers to prudently establish and use reserves. Reserves provide the District Board and management with a tool that allows financial flexibility in times of financial distress or other uncertainties to support quality educational services.

Reserves serve two major purposes:

- Saving money for a large, one-time future expenditure. A capital reserve for the replacement of a roof is an example.
- Reserves which are intended to protect the district against large, currently unknown risks, including major revenue or expenditure budget fluctuations. The contribution rate for the Employees Retirement System set annually by NYS is an example.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters each May, the North Tonawanda City School District budgets conservatively and practices fiscal prudence throughout each budget year to ensure that unanticipated expenditures do not result in mid-year budget cuts in other areas which would have an immediate impact on students. This practice has allowed and will allow the district in the future to weather state aid holdbacks or cutbacks, the property tax levy cap, and other negative budget impacts with minimal impact to the district's instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews any budget surpluses and determines the best use of these surpluses including transfers to voter or board of education approved reserves and/or a reduction in the ensuing years' tax levy (assigned fund balance).

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 North Tonawanda City School District's plan for use and maintenance of reserves.

The stakeholders of the North Tonawanda City School District recognize the use of reserves as one-time revenues that assist the district in tough budgetary times. They also recognize the importance of funding such reserves in sound financial times so the reserve monies are strong enough to benefit in tougher times. The District believes in conservatively using such reserve monies in times of economic hardship in order to continually preserve and improve the district's current levels of student programming and activities.

## Annual Updates

It is the responsibility of management and the Board to review and update this document annually in accordance with Policy 5512. Reserves should be established prior to the end of the fiscal year when possible. Preliminary estimates of available fund balance should be analyzed by management and the Board so decisions on reserve funding or use can be made prior to June 30 or soon thereafter and prior to the complete of the current year external audit. Reserve discussions must be part of the annual budget process and refined as the fiscal year comes closing to an end.

Additionally, certain reserves allow of transfers between reserves but have strict time frames that expire shortly after year end. Prudent and timely review of reserves will allow the District to effectively manage reserves in accordance with this plan and the District's current financial condition.

## Summary

Upon review of the District's financial condition, reserve balances, and strategy as documented in the following pages, key highlights of the reserve plan are as follow:

- Audit and Finance Committee will make a recommendation to the Board of Education in June, 2020 regarding estimated reserve funding amounts effective June 30, 2020.
- Audit and Finance Committee will make a recommendation to the Board of Education regarding final reserve funding amounts effective June 30, 2020, on or about September, 2020, when all 2019-20 financial information is available.
- Due to the COVID-19 crisis is it the recommendation to follow through on the planned use of reserves in the 20-21 budget and not consider further use of reserves for 20-21. Any surplus from FYE 6/30/20 will not be designated for a reserve at this time due to the potential for mid-year cuts and the necessary use of fund balance to close the gap in lost revenue.
- The 20-21 budget included the planned use of \$1,200,000 from the capital reserve for bus purchases and \$350,000 from the reserve for debt service.
- Consider transferring funds from the Workers Compensation and Retirement Contribution Reserves to fund larger than anticipated expenditures throughout the year, if applicable.
- Consider the creation of a Capital Reserve fund in the May 2021 vote to be used as a funding source for the planned Capital Projects to offset the local share of construction costs.
- If mid-year projections are indicating that the District is on track to achieve a surplus, then consider transfer to the Retirement Contribution Reserves prior to May, 2021 to be used as a funding source for future retirement contribution increases.
- Include appropriated fund balance in the 2021-22 revenue budget between \$4,750,000 and \$5,000,000 depending on mid-year projections and budgetary needs. It is the recommendation to reduce the planned use of fund balance through appropriations.
- If funds are available at year end, maintain unassigned fund balance at a percentage of subsequent year's budget that moves closer to the 4% allowed by law.
- If funds are available at year end above the 4% maximum unassigned fund balance, recommend transfers to the following reserves in the priority order listed:
  - Retirement Contribution Reserve – up to a maximum of the annual ERS expense of approximately \$2,600,000;
  - Employee Benefit Accrued Liability Reserve – up to a maximum of the accrued liability for unused accumulated leave time of approximately \$600,000;
  - Capital Reserve – up to a maximum of the allowable contribution limit that has not yet been funded for future projects based on the Building Condition Survey.

Authority: The purpose of this reserve fund is to pay for compensation benefits and other expenditures authorized by the Workers' Compensation Law, and for payment of expenditures of administering this self-insurance program. The reserve may be established by board resolution and is funded by budgetary appropriations and such other funds as may be legally appropriated (General Municipal Law, §6-j). Appropriations from this reserve shall be included in the annual budget as a revenue source. Expenditures from this reserve do not require board action. Annual budgeted appropriations from this reserve should not exceed the budgeted expenditure in A9040.800. Annual actual appropriations from this reserve should not exceed annual actual expenditures from A9040.800.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	No action needed. Must be less than or equal to annual expenditures related to Worker's Compensation Insurance-A9040.800
Overfunding:	Within 60 days of year end the Board may elect to transfer excess monies from this reserve to other reserves, apply to unappropriated fund balance, or apply towards budgetary appropriations for the new school year.
Established:	June 1991

Balance June 30, 2018: \$1,113,484

Balance June 30, 2019: \$1,132,080

Balance June 30, 2020: \$1,142,827

Ideal Balance: This reserve should be adequate to stabilize the District's contribution to workers compensation, which can vary in cycles with claims experience. It should be funded in years of improved experience and used to moderate rates as expenses increase.

Discussion: The district currently utilizes FCS Administrators which is a fully licensed, full service, third party claims administrator serving NY State employers for over thirty-five years. Annual premiums approximately \$68,000 are calculated at a rate of \$0.1988 per \$100 of estimated payroll of \$34,250,000 providing the District Specific Excess Workers Compensation/Employers Liability with statutory policy limit and coverage of \$1,000,000 and a self-insured retention (SIR) of \$700,000. Over the past three years the District has averaged slightly over \$400,000 in self-insured claims and other related expenses. Due to poor recent claims experience (high frequency of use), the district's experience rating is high compared to industry averages. It is recommended that an analysis be conducted to determine the cost savings of participation in a workers compensation consortium compared to operating a self-insured program with a high SIR\* (Self-Insured Retention) plus the costs of an annual premium for excess costs.

\*Self-Insured Retention (SIR) — a dollar amount specified in a liability insurance policy that must be paid by the insured before the insurance policy will respond to a loss.

Authority: This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants on unemployment. The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (General Municipal Law, §6-m). Appropriations from this reserve shall be included in the annual budget as a revenue source. Expenditures from this reserve do not require board action. Annual budgeted appropriations from this reserve should not exceed the budgeted expenditure in A9050.800. Annual actual appropriations from this reserve should not exceed annual actual expenditures from A9050.800.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	No action needed. Must be less than or equal to annual expenditures related to NYS Unemployment Insurance-A9050.800
Overfunding:	Within 60 days of year end the board may elect to transfer excess monies from this reserve to other reserves, apply to unappropriated fund balance, or apply towards budgetary appropriations for the new school year.
Established:	June 2010
Balance June 30, 2018:	\$156,700
Balance June 30, 2019:	\$159,316
Balance June 30, 2020:	\$160,829

Ideal Balance: Typically, a percent of annual payroll. See below.

Discussion: Recent history is generally used to see what percentage the total annual claims are to payroll in determining the annual use from the reserve fund and ideal balance of the reserve fund. Recent history for the District is not a good indicator as to use or balance of the reserve as over the past five years. The factors that affect the annual expenditures are layoffs, lack of hiring in surrounding districts, and previous extensions of benefits by the federal government.

Since the general fund expense fluctuates annually, the unemployment reserve for the district will be used to offset the annual budgeted expenditure, including all or part of the annual actual expense. Accordingly, if the reserve is used to pay for 100% of general fund expenses, the balance as of June 30, 2020 would be sufficient to cover the benefits for 12 employees for 26 weeks each at the maximum weekly benefit payout of \$504 (assuming 50% of benefits would be eligible for Federal reimbursement). Due to COVID-19, employees could receive an additional \$600 per week through July 31, 2020 and an extension of the maximum unemployment weeks to 39 weeks. Additionally, the Federal government will fund 50% of unemployment benefits from March 13 through December 31, 2020.

With recent effects COVID-19 and the likelihood of future NYS aid cuts, District expenses for unemployment benefits may increase sharply in 2020-2021. Having sufficient reserves to cover these potential costs is a prudent financial decision.

Authority: This reserve fund is used to offset the cost of annual district payments made to the New York State and Local Employees' Retirement System (ERS). The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (General Municipal Law, §6-r). Appropriations from this reserve shall be included in the annual budget as a revenue source. Expenditures from this reserve do not require board action. Annual budgeted appropriations from this reserve should not exceed the budgeted expenditure in A9010.800. Annual actual appropriations from this reserve should not exceed annual actual expenditures from A9010.800.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations and other sources
Expenditures:	No action needed. Must be less than or equal to annual expenditures related to NYS ERS payments-A9010.800
Overfunding:	Transfer to certain reserve funds require a public hearing with 15 days' notice published in the official newspaper
Established:	June 2010

Balance June 30, 2018: \$422,005

Balance June 30, 2019: \$429,053

Balance June 30, 2020: \$433,126

Ideal Balance: Between 30%-45% of non-instructional payroll of \$5,842,805 on the December 2020 ERS invoice will result in between two to three years of funding ERS contributions, or approximately \$2,600,000 based on fiscal year 2020-21 estimated payroll.

Discussion: ERS contributions are a direct result of the District's non-instructional ERS eligible salaries multiplied by a percentage identified by ERS (dependent on retirement plan tier of employees). The intended use of this reserve is to fund contributions in excess of budgeted amounts. In times of fiscal stress, the District could use up to 100% of annual cash contributions from this reserve. Accordingly, if the reserve is used to pay for 100% of general fund expenses, the balance as of June 30, 2020 would be sufficient to cover only three quarters of full employee's retirement system contributions for the year.

Although the District has direct control over the amount of non-instructional salaries subject to ERS contributions, it has no control over the ERS rates. These rates are set by ERS and are based on actuarial assumptions which are subject to change. The most notable impact on these rates are the annual investment return on plan assets. Generally, as investment returns are greater than expected the contributions rate will decline and as investment returns are less than expected the contribution rate will increase. ERS uses a five-year average of investment returns to smooth annual market fluctuations.

A majority of the District's non-instructional personnel are in ERS tier 4. For 2021, tier 4 contribution rates are approximately 16% with a long-term expected rate of 13.5%.

Authority: This reserve fund is used to offset the cost of annual district payments made to the New York State Teachers' Retirement System (TRS). The reserve may be established by board action and funded by budgetary appropriations. This reserve is considered a sub fund of the ERS retirement reserve (General Municipal Law, §6-r). Appropriations from this reserve shall be included in the annual budget as a revenue source. Expenditures from this reserve do not require board action. Annual budgeted appropriations from this reserve should not exceed the budgeted expenditure in A9020.800. Annual actual appropriations from this reserve should not exceed annual actual expenditures from A9020.800.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	No action needed. Must be less than or equal to annual expenditures related to NYS TRS payments-A9020.800
Overfunding:	N/A
Established:	June 02, 2020

Balance June 30, 2018: \$0

Balance June 30, 2019: \$0

Balance June 30, 2020: \$0

Ideal Balance: 10% of instructional payroll is the maximum allowed by law, which is approximately \$2,600,000 based on fiscal year June 30, 2020.

Discussion: Similar to the ERS contributions, TRS required contributions are based on District payroll multiplied by an established rate. In accordance with NYS law, the District can only contribution 2% of instructional payroll per year, up to a cumulative maximum reserve balance of 10% of instructional payroll.

Authority: This reserve fund is used to pay for property losses incurred. The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (Education Law § 1709 (8-c)). The amount that can be paid into the reserve during each fiscal year is limited to the greater of \$15,000 or 3% of the annual budget. There is no limit on the accumulated reserve balance. Appropriations from this reserve shall be included in the annual budget as a revenue source. Expenditures from this reserve do not require board action.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	No action needed. Can only be used for property loss purposes
Overfunding:	Balances not required to settle pending claims can be liquidated by voter approval
Established:	N/A
Balance June 30, 2018:	\$0
Balance June 30, 2019:	\$0
Balance June 30, 2020:	\$0

Ideal Balance: The District does not currently fund this reserve.

Discussion: The District does not currently fund this reserve.



Authority: This reserve fund is used to pay liability, casualty, and other types of losses, except losses incurred for which certain types of insurance may be purchased. It includes funds for judgments, claims, incidental costs and professional services connected with the investigation and settlement of claims. The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (General Municipal Law, §6-n). The amount that can be paid into the reserve during each fiscal year is limited to the greater of \$33,000 or 5% of the annual budget. There is no limit on the accumulated reserve balance.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Included in Annual Revenue Budget
Expenditures:	No action needed. Cannot cover any expense covered by another special reserve. Settled or compromised claims up to \$25,000 may be paid without judicial approval.
Overfunding:	If reserve is terminated by Board, remaining funds in excess of incurred or accrued liabilities may be transferred to any other reserve fund.
Established:	June 1999

Balance June 30, 2018:	\$1,166,221
------------------------	-------------

Balance June 30, 2019:	\$1,185,697
------------------------	-------------

Balance June 30, 2020:	\$1,196,954
------------------------	-------------

Ideal Balance: No ideal balance. Maximum contribution allowed annually is a 5% of annual budget, which would mean a maximum contribution of \$5,193,376 in 2020-21.

Discussion: Due to the degree of insurance coverage the district subscribes to, there are few unique situations that would result in claims for the district to pay out of pocket. This reserve is not intended for use on an ongoing basis; rather, it protects the district in the case of a unique catastrophic event.

Authority: The purpose of this reserve is to fund the refunding of taxes of the current year due to tax certiorari proceedings, per Real Property Tax Law, Article 7. The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (Education Law §365 1, Sub.1a, 3a). Expenditures from this reserve do not require board action. Amounts not necessary to refund taxes must be returned to the unreserved fund balance of the general fund by the first day of the fourth fiscal year following the year for which the monies were deposited.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	May not exceed amount necessary to meet anticipated judgments and claims
Appropriations:	Budgetary appropriations
Expenditures:	No action needed
Overfunding:	Any balance not required to meet anticipated judgments or claims must be returned to the General Fund on or before the first day of the fourth school year after such monies had been deposited into the reserve
Established:	N/A

Balance June 30, 2018: \$0

Balance June 30, 2019: \$0

Balance June 30, 2020: \$0

Ideal Balance: Amount necessary to meet anticipated judgments and claims, which varies annually. The current reserve balance fully covers the 2020-21 potential liability.

Discussion: Annually, the district budgets \$ 42,000 in the general fund expenditure budget for real property tax refunds. Beyond the budgeted expenditure, the district attempts to reserve all of the outstanding tax certiorari cases. The amount of outstanding cases is examined annually in the summer and a decision is made by the Assistant Superintendent regarding the appropriate level of funding. As of June 30, 2020, current cases on file totaled \$ 0 in potential refunds. The District does not currently fund a tax certiorari reserve.

Authority: The governing board of any 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 or expending the reserve does not require voter approval. Expenditures from this reserve do not require board action. Expenditures may only be made for allowed cash payments earned by employees due upon their termination (retirement) of employment (General Municipal Law, §6-p). Health insurance and “other” postemployment benefits are not eligible to be funded by this reserve. Appropriations from this reserve shall be included in the annual budget as a revenue source. Annual actual appropriations from this reserve should not exceed annual actual contractual payments to retirees for accrued leave.

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	No action needed. Must be less than or equal to annual expenditures related to payments to retirees for accrued leave
Overfunding:	Any balance not required to satisfy all incurred or accrued liabilities may be transferred to any other reserve fund authorized by GML upon certification by a fiscal or legal officer.
Established:	May 2004

Balance June 30, 2018:	\$ 104,545
------------------------	------------

Balance June 30, 2019:	\$ 106,291
------------------------	------------

Balance June 30, 2020:	\$ 107,300
------------------------	------------

Ideal Balance: Amount necessary to equal the year end compensated absences calculation (according to State Comptroller). As of June 30, 2020, the district’s estimated compensated absences liability amounted to \$598,441, therefore, the current reserve balance covers only a portion of the estimated liability.

Discussion: This reserve is for contractual earned benefits that will be paid directly upon an employee’s retirement. It does not include postemployment health benefits, lump-sum stipends, or severance payments. The use of this reserve is intended for the cash payments directly to a former employee or an employee’s account such as a 403b retirement account and must be from earned benefits such as accumulated sick or vacation time.

Authority: The Capital Reserve Fund is used to pay the cost of any specific object or purpose for which bonds may be issued (building acquisition and improvement, land acquisition and improvement, vehicle acquisition, technology). Voter authorization is required for both the establishment of the reserve and for payments from the reserve. The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. The proposition put before voters must address the specific purpose of the reserve, the ultimate dollar amount of the reserve, the probable term of the reserve, and the source of the funds that will be deposited into the reserve.

Established by:	Voter Resolution
Term Limit:	Limit as set by voters, may be extended by voters upon expiration of term. After expiration, monies moved to General Fund as Unappropriated Fund Balance
Monetary Limit:	Limit as set by voters
Appropriations:	Requires voter approval
Expenditures:	Requires voter approval
Overfunding:	Voters must elect to transfer excess monies from this reserve to other reserves. Voters must also elect to terminate reserve prior to expiration of term limit. Upon termination, excess monies must first be applied to outstanding debt and second to reduce the tax levy.

In short, the use of cash financing through capital reserves is prudent financial planning, avoids the expense of bond interest and may offset portions of the community share of proposed projects.

#### Bus Reserve

A reserve was established in May 2019 with the following purpose: purchasing vehicles to be used in the transportation program of the District

Established:	May 2019
Term Limit:	10 years (expiration in May 2029)
Monetary Limit:	Not to Exceed \$ 1,500,000
Balance June 30, 2018:	\$0
Balance June 30, 2019:	\$1,500,000
Balance June 30, 2020:	\$1,514,241

Ideal Balance: May not exceed the voter authorized limits, plus accumulated interest earnings. The District reached the monetary limit for contributions in August 2019.

Discussion: This reserve was created to provide a mechanism to purchase the fleet of buses currently being leased on a yearly basis without having a negative impact on the tax levy and tax cap exclusion calculation due to the significant funds needed to purchase a significant portion of the District fleet of buses. Since a long-term fleet plan has been established the future use of this fund will be limited to those vehicles necessary to be purchased beyond the current amount allocated in the general fund budget. It is expected there will not be a significant need to expand the size of the fleet beyond the current size so the general fund should have the ability to fund future bus purchases in accordance to the fleet rotation plan. A vehicle reserve allows the district to save money in anticipation of the replacement of transportation vehicles. Funding vehicle purchases in this fashion offers the district three advantages:

1. Minimizes the future financial impact on the budget, tax levy, and the community
2. Allows the district to avoid the interest charges associated with borrowing
3. The current transportation aid formula provides state aid to the District for such expenditures, whether purchased through a reserve, through the budget, or through a borrowing.

## REPAIR RESERVE

A882

Authority: The Repair Reserve is used to pay the cost of repairs to capital improvements or equipment that do not occur annually (or at shorter intervals).

Established by:	Board Resolution
Term Limit:	N/A
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations (however requires voter approval)
Expenditures:	Requires public hearing with at least 5 days notice Alternatively, for emergencies funds can be spent with two-thirds Board approval with one-half of the funds replenished to the reserve in the following fiscal year and the other half the year after.
Overfunding:	May be transferred to other reserves with specific rules on how to authorize the transfer dependent on the receiving reserve fund
Established:	N/A

Balance June 30, 2018: \$0

Balance June 30, 2019: \$0

Balance June 30, 2020: \$0

Ideal Balance: The District does not currently use this reserve.

Discussion: The District does not currently use this reserve.

Authority: This reserve fund is used to cover debt service payments on outstanding obligations (BANS, bonds) after the sale of district capital assets or improvements. Expenditures may be only for debt service or to retire outstanding obligations (General Municipal Law, §6-1). The reserve may be established by board resolution and is funded by proceeds from the sale of capital assets and improvements, excess/unexpended monies related to capital project debt, and interest earnings from bonded projects (General Municipal Law, §6-c).

Established by:	Situation specific, Board Resolution
Term Limit:	Once outstanding obligations are repaid
Monetary Limit:	N/A
Appropriations:	Budgetary appropriations
Expenditures:	Must be less than or equal to annual expenditures related to debt service (principal & interest)-A9711.600, A9711.700, A9731.600, and A9731.700
Overfunding:	If all outstanding obligations are paid in full, balance may be expended for any other lawful district purpose.
Established:	June 2005

Balance June 30, 2018: \$3,338,478

Balance June 30, 2019: \$3,642,337

Balance June 30, 2020: \$3,716,069

Ideal Balance: N/A – voluntary increase in reserve is not allowed. Balance should not exceed outstanding debt from which the funded reserve was created.

Discussion: The purpose of this reserve is to use proceeds of the sale of district capital assets or unused debt proceeds to repay outstanding debt service. This reserve should be used to offset the annual cost of debt service to the district's taxpayers. The district considers building aid scheduled to be received when determining any expenditure of this reserve. The amount budgeted to be used from this reserve should not exceed the balance remaining after state aid is subtracted from debt payments.

**In addition to reserves the district also has an Assigned/Appropriated and Unassigned/Unappropriated fund balance. Fund balances are used for the following purposes:**

#### **ASSIGNED/APPROPRIATED FUND BALANCE**

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

Balance June 30, 2018:	\$5,050,000	(6.5%)
Balance June 30, 2019:	\$5,000,000	(6.3%)
Balance June 30, 2020:	\$5,000,000	(6.2%)

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, ultimately leading to spikes in the property tax rate or budget cuts. It is projected the current designated fund balance is not sustainable for the foreseeable future and the amount appropriated should be reduced slowly over time.

#### **UNASSIGNED/UNDESIGNATED FUND BALANCE**

Purpose: Used to fund expenditures from July through September of the ensuing year prior to the inflow of property tax receipts. Also provides a source of funds for unanticipated increases in expenditures, decreases in revenue and interruptions in cash flow.

Balance June 30, 2018:	\$5,133,505	(6.6%)
Balance June 30, 2019:	\$4,367,121	(5.5%)
Balance June 30, 2020:	\$4,842,045	(5.98%)

Ideal Balance: By law, the undesignated fund balance is limited to 4% of the ensuing year’s budget. This is generally considered to be the ideal balance as it provides the most flexibility while staying in compliance with New York State law.

2018-2019 approved budget: \$77,887,449  
2019-2020 approved budget: \$79,431,300  
2020-2021 approved budget: \$81,016,940

# RESERVE FUNDS THAT MAY BE USED BY NEW YORK SCHOOL DISTRICTS

Reserve Name/ Account Code	Legal Citation	Purpose	Established By:	Funding Source(s)	Expenditures	Duration	Restrictions
Retirement Contribution Reserve Fund (A 827)	GML §6-r	To fund employer retirement contributions, i.e. any portion of the amount(s) payable by an eligible school district to the NY State and Local Employees' Retirement System (ERS), but not TRS	BOE Resolution	1. Budgetary Approp. or other funds that may be legally appropriated. 2. Revenue not restricted by Law to be paid to another fund or account. 3. Transfers from Tax Certiorari, Capital or Repair Reserves	Authorized by BOE Resolution	No Limit.	Transfers from or back to other reserve funds require a public hearing with 15 days notice published in official newspaper(s)
Workers Compensation Reserve Fund (A 814)	GML §6-j (S)	To fund Workers Compensation expenses, related medical expenses and self-insurance administrative costs.	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated	Separate BOE authorization not required to spend from this reserve.	No Limit. BOE may terminate if district no longer self-insures	Districts that self-insure may establish reserve. Funds remaining at the end of each school year, in excess of requirement to pay all pending claims, may be transferred, within 60 days of the close of the school yr., to other reserve funds or applied to budgetary appropriations for new school year.
Unemployment Insurance Reserve (A 815)	GML §6-m	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.	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated or funds from other reserves authorized in the GML, or Ed. Law subject to permissive referendum.	Separate BOE authorization not required to spend from this reserve.	No Limit. BOE may terminate if district converts to tax contribution method of funding	If district converts to tax contribution funding mechanism, balance exceeding the amount necessary to pay all outstanding claims may be transferred, to any other reserve fund(s) authorized, by GML or Ed. Law §3651. Excess funds remaining at end of any school year may be transferred, within 60 days of the close of that school yr., to other reserve fund(s) or applied to budgetary appropriations for the new school year.
Insurance Reserve Fund (A 863)	GML §6-n	To pay liability, casualty and other types of losses, except those incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee.	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated or funds from other reserves authorized in the GML, subject to permissive referendum.	Separate BOE authorization not required to spend from this reserve.	No Limit.	Annual contribution(s) limited to greater of \$33,000 or 5% of the budget. No limit on accumulated reserve balance. Cannot use \$ for any purpose covered by another special reserve. Settled or compromised claims up to \$25,000 may be paid without judicial approval. Should BOE terminate this reserve, remaining funds in excess of incurred or accrued liabilities may be transferred to any other reserve fund authorized by the GML or Ed. Law §3651.
Property Loss Reserve (A 861) Liability Reserve (A 862)	Ed. Law §1709 (8-c) (S)	To pay for property loss & liability claims incurred	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated	Separate BOE Resolution not required for most expenditures. (See restrictions.)	No Limit.	Annual contribution(s) limited to greater of \$15,000 or 3% of the budget. Separate funds required for property loss and liability claims. \$ deposited cannot be used for another purpose w/o voter approval except BOE may use \$ not required to settle pending claims, to purchase insurance policies to cover losses previously self-insured. Balances may not be reduced below amounts required to settle all pending claims.

(S) in legal citation column indicates requirement for separate bank account per OSC Financial Management Guide.

State Aid & Financial Planning Service – Questar III BOCES  
10 Empire State Boulevard • Castleton, NY 12033 • Phone: 518.477.2635 • Fax: 518.477.4284  
<http://sao.questar.org> • Twitter: @QISAP

June, 2014



# RESERVE FUNDS THAT MAY BE USED BY NEW YORK SCHOOL DISTRICTS

Reserve Name/ Account Code	Legal Citation	Purpose	Established By:	Funding Source(s)	Expenditures	Duration	Restrictions
Employee Benefit Accrued Liability Reserve (A 830)	GML §6-p	To pay accrued benefits due employees upon termination of service for vacation, sick leave, personal leave etc.	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated or funds from other reserves authorized in the GML, subject to permissive referendum.	Separate BOE authorization not required to spend from this reserve.	No Limit	Upon termination by BOE, balance not required to satisfy all incurred or accrued liabilities may be transferred to any other reserve fund(s) authorized in the General Municipal Law (GML). May not be used to fund health or other post retirement benefits.
Tax Certiorari Reserve (A 864)	Ed. Law §3651(1-a) (S)	To pay judgments & claims in tax certiorari proceedings per RPTL, Article 7	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated. Monies held in reserve may not exceed amount necessary to meet anticipated judgments & claims	Separate BOE authorization not required to spend from this reserve.	No Limit	\$ not expended for judgments & claims in the year deposited, must be returned to General Fund on or before 1 <sup>st</sup> day of the 4 <sup>th</sup> school yr. after deposit of such monies into the reserve unless claim(s) are still open and not finally determined or otherwise terminated or disposed of after the exhaustion of all appeals.
Repair Reserve (A 882)	GML §6-d (S)	For repairs to capital improvements or equipment not recurring annually or at shorter intervals.	BOE Resolution	Budgetary Approp. or other funds that may be legally appropriated.	Public hearing required (except in an emergency) before spending from this reserve.	No Limit	Reserve must be repaid in equal installments over next two school yrs. if expenses are made without holding a public hearing. Emergency spending requires 2/3 majority vote of BOE. Legal notice required 5 days in advance of hearing. Unneeded balance may be transferred to Capital, Tax Certiorari or Retirement Contribution Reserves.
Capital Reserve (A 878)	Ed. Law §3651 (S)	To pay the cost of any object or purpose for which bonds may be issued	Voter Approval Only	Proposition(s) put before voters must specify purpose(s), ultimate \$ amount(s) to be deposited into reserve(s), probable term(s) or life/lives and source(s) of funds to be deposited into the reserve(s).	Voter approval required to spend from these reserve(s). Annual appropriation(s) to fund reserve(s) require voter approval.	Limited to term or life approved by voters. Voters may extend term only before end date. Reserve(s) defunct after term(s) expire, except to spend remaining funds w/ voter approval.	Purpose must be specific i.e. to purchase school buses, facility construction, equipment etc. Total exp. over life of each reserve may not exceed voter-approved maximum. Funds may be transferred to other reserves only with voter approval. Voter approval required to terminate reserve before specified expiration date. Remaining funds must first be applied to district's outstanding bonded indebtedness and secondarily to reduce the tax levy.
Mandatory Reserve for Debt Service (A 884) (V 884)	GML §6-1 (S)	To cover debt service payments on outstanding obligations (bonds, BANS) after the sale of district capital assets or improvements	BOE Resolution BOE must establish if	Proceeds from the sale of capital assets and improvements as defined in GML § 6-c. Includes but not limited to land, buildings, equipment and vehicles	For debt service only or to retire outstanding obligations	Terminates once outstanding obligations are repaid.	Applicable State or Federal Aid must also be deposited into the reserve fund if proceeds from sale are not sufficient to repay all outstanding obligations. Proceeds of sale in excess of indebtedness may be expended for any other lawful district purpose.
Reserve for Tax Reduction (A 891)	Ed. Law §1604(36) §1709(37)	To allow for the gradual use of proceeds from the sale of district real property	BOE Resolution	Proceeds from the sale of real property in excess of what is required to repay outstanding debt (Bonds, BANS)	\$'s from reserve to be appropriated annually over ten or fewer yrs. to offset tax levy	Up to ten yrs.	Proceeds of must be placed in Mandatory Reserve for Debt Service in amount necessary to retire all outstanding obligations before BOE may establish Reserve for Tax Reduction.

(S) in legal citation column indicates requirement for separate bank account per OSC Financial Management Guide.

**NOTE: Reserve for Inventory (A 845) may be established to limit maximum investment in inventory and to restrict that portion of fund balance, which is not available for appropriation.**

State Aid & Financial Planning Service – Questar III BOCES  
10 Empire State Boulevard • Castleton, NY 12033 • Phone: 518.477.2635 • Fax: 518.477.4284  
<http://sap.questar.org> • Twitter: QIII/SAP

June, 2014