



ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS

Reserve, Fund Balance, and Strategic Planning

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AGENDA

- Where are we now?
- Reserve overview
- Strategic planning
- District Prudent Use of Reserves
- Question and Answer Session

Where are we now?

- Significant level of fund balance growth last year due to COVID closures
- Federal stimulus funds for next few years
- Districts could see some surpluses as a result of federal stimulus
- Foundation Aid – fully funding over time
- Inflation – what will your budget look like
- Staff shortages
- What can Districts do to better position themselves for the future if reserves are adequately funded
 - Prudent funding and use of reserves

SCHOOL DISTRICT RESERVES

Summary Listing of Authorized Reserve Funds

<u>Reserve Name</u>	<u>Law</u>	<u>Purpose</u>	<u>Voter Approval</u>
1. Capital	ED3651	Construction or Purchase of Equipment	Yes
2. Repair	GML 6-d	Non-recurring Repairs	Yes
3. Workers' Compensation	GML 6-j	Self-Funding	No
4. Unemployment Insurance	GML 6-m	Self-Funding	No
5. Tax Certiorari	ED 3651	Tax Certiorari Cases	No
6. Reserve for Debt Service	GML 6-l	Retire Debt	No
7. Insurance	GML 6-n	Self-Funded	No
8. Property Loss/Liability	ED 1709	Self-Funded	No
9. Retirement Contribution - ERS 10. Retirement Contribution – TRS	GML 6-r	Prefunding for future increases in ERS and TRS expense	No
11. Employee Benefit Accrued Liability	GML 6-p	Benefits due employees upon termination of services	No
12. Tax Reduction Reserve	Ed Law 1604(36) & 1709 (37)	Sale of buildings not required to go into mandatory reserve for Debt 10-year max, use for tax reduction	No

CAPITAL RESERVES

- Voters must approve the expenditures from the reserve
 - Voters cannot vote to approve the use of funds that are not there!
 - Cannot approve using \$500,000 to support capital project if you only have \$450,000 in the reserve at the time of the vote
- Commissioner's Decision Number 15,219 – Voter authorization to expend monies must be received in the same year as the expenditures out of the reserve fund
 - Interfund transfer (supported by the appropriated reserve) to the project is considered the expenditure

School District Reserves

Capital Reserves

- Creation of reserve requires Voter approval and proposition should include:
 - Purpose of reserve
 - Ultimate amount
 - Probable term
 - Source of funds
- Funding of this reserve requires a Board resolution (new legislation requirement)

School District Reserves

Repair Reserve

- In order to use these funds for “repairs” a public hearing is required. The Board may transfer all or part of this reserve to a “Capital Reserve” or “Tax Certiorari Reserve”.
- Voter approval required to fund reserve (OSC Opinion 81-401)

School District Reserves

Workers' Compensation Reserve

- If the District elects to use this reserve, they should declare how much to be used at budget time and include an appropriation out of the reserve when developing the budget to help reduce the tax levy.
- If there is an unexpected assessment (cost) that the school is required to pay during the year, the Board can amend the budget and appropriate the reserve at that time.
- If it is determined this reserve is overfunded the Board may elect within 60 days of the close of such fiscal year either transfer excess to other reserve funds or apply an amount as revenue (appropriated reserve) to the next years budget.

School District Reserves

Unemployment Insurance Reserve

- The Board can appropriate funds at budget time.
- The Board can appropriate funds during the year if unemployment cost exceeds original estimate.
- The Board can use funds from this reserve as a revenue in the budget or authorize a transfer to other reserves. (within 60 days of the close of such fiscal year)

School District Reserves

Tax Certiorari Reserve

- Can be used to pay judgments and claims in tax certiorari proceedings. The amount in said reserve may not exceed the amount that might reasonably be deemed necessary to meet anticipated claims. Surplus funds must be returned to the General Fund on or before the fourth fiscal year (by the end of the third year).

Employee Benefit Accrued Liability Reserve

- Used to pay any “accrued benefits” to employees upon termination of employment (maybe not incentives). Items included are accrued sick leave, holiday leave, and vacation leave (definitely not retiree health insurance). If it is determined that the fund is no longer needed the remaining money may be transferred to another reserve fund.

School District Reserves

Insurance Reserve

- To be used to pay for uninsured losses, claims, actions, or judgments (very similar to liability reserve). Funding can not exceed 5% of budget on an annual basis. If this reserve is no longer needed it can be transferred to another reserve (it does not say back to the General Fund)
 - Student accident insurance
 - Deductibles
 - Cyber risk coverage
 - Other use

Property Loss/Liability Reserve

- Used to pay for property loss and/or liability claims. Aggregate funding for this reserve cannot exceed 3% of the annual budget. It appears that the voters would need to authorize un-funding this reserve (there is no mention of transferring these funds to another reserve)
 - Staff buyout to avoid litigation
 - Credit monitoring due to information compromise
 - Child victims act
 - Other use

School District Reserves

Reserve for Debt

- Unused proceeds together with interest earnings from bonded projects must be reported in this reserve. When using this reserve, the District may budget a revenue transfer into the General Fund
 - Budget annually
 - Use to refund debt

Tax Reduction Reserve Ed Law 1604(36) & 1709 (37)

- Gradually use the proceeds of the sale of school district real property where proceeds are not required to be placed in mandatory reserve for debt service.
- Retain proceeds for up to 10 years.
- Used for property tax reductions

School District Reserves

Retirement Contribution Reserve

- Is intended to help offset the cost of payments to the Employees' Retirement System (ERS). The Board would budget for use of this reserve as part of the annual budget. The Board may authorize a transfer of a portion of these moneys to another reserve fund. The Board may also terminate this reserve if it is no longer needed.

School District Reserves

Teachers' Retirement Contribution Reserve – sub fund

- Is intended to help offset the costs of payments to the Teachers' Retirement System (TRS). The Board would budget for use of this reserve as part of the annual budget. The Board may authorize a transfer of a portion of these moneys to another reserve fund. The Board may also terminate this reserve if it is no longer needed.
- Must have ERS Reserve to Create TRS Reserve
- Restrictions of TRS reserve
 - Funding Capped at 2% of prior year TRS salaries
 - Overall Total cap of 10% of prior year TRS salaries
 - Use final reconciliation of TRS bill for cap calculation
- Funding
 - Can transfer from ERS reserve to TRS sub fund, can transfer from Repair, Capital, Tax Cert. reserve and Uncollected taxes reserve fund (small city schools)

Fund Balance - Strategic Planning

- One-time expenditures – Equipment needs
- Pay down debt – cash in lieu of issuing debt
- When refunding debt use excess debt service reserve funds
- Using EBALR with an MOA – changing incentives to sick day payout
- Evaluate current reserves you don't have that you should consider
- Utilize debt service funds to manage tax cap

Fund Balance - Strategic Planning

What are we seeing and getting questions on today?

- Negotiated buy out of employee
- Child victims act
- Cyber insurance challenges
- COVID impact on workers' compensation (will it impact it)
- Bus purchase reserve – for local portion (or the entire amount)

Fund Balance - Strategic Planning

What are we seeing and getting questions on today?

- What can I apply to a liability reserve?
- Board meeting incidents... Any risk?
- How often should I review my reserve plan?



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Andy Whitmore

Reserve Utilization Plan

Reserve Planning

- Reserve Plan – annual BOE review
 - Summary of district reserve balances, YoY balances
 - Description of each district reserve
 - Authorization for establishment and use
 - Target balances
 - Discussion / explanation for use and target balance
- June – Fund Balance disposition
 - Estimate of excess fund balance
 - Proposed use, including reserve funding
- Audit Committee – discuss use and need
- Emergency Use – as needed (e.g tax cert. settlement)

Budget Projections

	Budget	Projected				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Revenues						
Real Property Tax Items	81,652,730	84,566,330	87,018,754	89,455,279	91,960,026	94,534,907
STAR Reimbursement	6,922,320	6,357,050	6,541,404	6,724,564	6,912,852	7,106,411
Non-Property Tax Items	4,800,000	5,000,000	5,000,000	5,250,000	5,512,500	5,788,125
Charges for Services	1,728,262	1,584,817	1,505,576	1,521,902	1,537,121	1,552,492
State Aid	43,389,988	48,937,771	54,294,991	54,837,941	55,386,321	55,940,184
Appropriated Fund Balance	2,600,000	0	0	2,500,000	3,500,000	3,500,000
Federal Stimulus Funds	0	4,700,000	4,000,000	1,000,000	0	0
Total Revenues and Other Sources	\$141,093,300	\$151,145,968	\$158,360,725	\$161,289,686	\$164,808,820	\$168,422,120
Expenditures						
Personnel - Instructional	45,838,934	48,948,439	50,764,789	52,289,262	53,862,519	55,486,119
Personnel - Noninstructional	17,358,221	18,914,688	19,633,446	20,379,517	21,153,939	21,788,557
Employee Benefits	35,684,577	38,079,849	41,787,409	43,860,483	46,055,164	48,339,222
BOCES	18,018,167	19,353,438	20,263,050	21,012,782	21,790,255	22,596,495
Equipment and Capital Outlay	711,279	734,036	748,717	763,691	778,965	794,544
Contractual and Other	13,807,496	15,123,102	15,419,516	15,721,797	16,030,063	16,344,432
Debt Service (Principal and Interest)	1,630,756	1,625,406	1,293,119	1,143,869	1,143,568	1,143,568
Interfund Transfers	8,043,870	8,367,010	8,450,680	8,535,187	8,620,539	8,706,744
Total Expenditures and Other Uses	\$141,093,300	\$151,145,968	\$158,360,725	\$163,706,588	\$169,435,011	\$175,199,682
Cumulative Annual Surplus / (Deficit)	\$0	\$0	\$0	(\$2,416,903)	(\$4,626,192)	(\$6,777,562)
Potential Headcount Impact						
Equivalent # of Instructional positions - cumulative		0	0	(24)	(47)	(69)
Equivalent # of non-Instructional positions - cumulative		0	0	(16)	(31)	(46)
Total Potential Headcount Impact - Cumulative		0	0	(41)	(78)	(115)
Number of Instructional Employees	584	607	618	594	571	549
Number of Non-Instructional Employees	547	547	554	538	523	508
Total Number of Employees	1,131	1,154	1,172	1,131	1,094	1,057
% Annual reduction in Employees		2.0%	1.6%	-3.5%	-3.3%	-3.3%

Reserve Usage

Reserve Utilization Forecast 2021-22

	<u>6/30/21</u>	<u>6/30/22</u>	<u>6/30/23</u>	<u>6/30/24</u>	<u>6/30/25</u>	<u>6/30/26</u>	<u>6/30/27</u>
<u>Non-Capital Reserves</u>							
Workers' Compensation	2,014,832	2,014,832	2,014,832	2,014,832	2,014,832	1,814,832	914,832
Unemployment	512,443	512,443	512,443	512,443	512,443	512,443	512,443
ERS Retirement Reserve	5,028,664	5,028,664	5,028,664	5,028,664	3,028,664	1,028,664	(4,071,336)
TRS Retirement Reserve	2,401,865	2,401,865	2,401,865	2,401,865	2,401,865	400,000	0
Insurance Reserve	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Employee Benefits	3,544,146	3,544,146	3,544,146	3,544,146	3,144,146	2,744,146	2,344,146
Tax Certiorari	2,757,513	2,757,513	2,757,513	2,757,513	2,757,513	2,757,513	2,757,513
Total Reserves	<u>17,759,463</u>	<u>17,759,463</u>	<u>17,759,463</u>	<u>17,759,463</u>	<u>15,359,463</u>	<u>10,757,598</u>	<u>3,957,598</u>

<u>Forecast Reserve Usage</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2025-26</u>
Workers' Compensation	0	0	0	0	0	200,000	900,000
Unemployment	0	0	0	0	0	0	0
ERS Retirement Reserve	0	0	0	0	2,000,000	2,000,000	5,100,000
TRS Retirement Reserve	0	0	0	0	0	2,001,865	400,000
Insurance Reserve	0	0	0	0	0	0	0
Employee Benefits	0	0	0	0	400,000	400,000	400,000
Tax Certiorari	0	0	0	0	0	0	0
Projected Reserve Usage	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,400,000</u>	<u>4,601,865</u>	<u>6,800,000</u>

Reserve Utilization

- ERS and TRS Pension Reserves
 - Great for utilizing to supplant pension funding
 - Budget use over multiple years
 - Utilize to offset other budget gaps such as health insurance
- Workers Comp Reserve
 - Offset self-funding or high deductible spikes
 - Budget use over multiple years
- Insurance Reserve
 - Hedge against spikes due to Child Victims Act or Cyber Security events

Capital Projects

- Pay cash for projects
 - Budget line item for transfer to capital
 - Allows reinvestment of state aid stream
 - Avoids borrowing costs
- Start with bus purchases or small projects
 - Utilize fund balance to fund capital reserves
 - Pay cash, budget state aid as a transfer to capital

Summary

- Utilize Reserves to offset vagaries of Tax Cap and State Aid
- Planning for utilization ensures consistency in program, protects against reductions in lean years
- Some reserves are for unanticipated expenses (e.g. insurance and tax cert.), other reserves include in budget (e.g. ERS and TRS)

Question and Answer Session

- Awhitmore@rhnet.org
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- Presentation can be found at
<https://mengelmetzgerbarr.com/Who-We-Serve/Governmental-Entities>