

**Onteora Central School District**  
Fund Balance and Reserve Plan

**June 2020**

## 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 Onteora 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 Onteora has in place and to detail the district's plan for use and maintenance of these reserves. While excess funds to add to reserves is not likely for the year ending June 30, 2019, in the event that it does occur, we are 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. The District receives varying interest rates on its accounts depending on the financial institution. For the 18-19 school year the District will credit the reserves with an interest rate of .25%. Reserves balances below do not include accrued interest and any accrued interest is not built-in to the maximum allowable balances.

## **EMPLOYEE BENEFIT ACCRUED LIABILITY (A867)**

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).

Balance June 30, 2019                      \$1,469,819.25

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 are transferred out.*

### **UNEMPLOYMENT INSURANCE RESERVE (A815)**

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).

Balance June 30, 2019                      \$ 674,611

Ideal Balance: Approximately 3% at \$674,611.

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 which we may see given the current economic climate in the state.

*Recommendation: To keep this reserve at the current level.*

### **RETIREMENT CONTRIBUTION RESERVE (A827)**

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-r)

Balance June 30, 2019                      \$3,584,779

Ideal Balance: While the ERS contribution rates have declined for the last few years, the contributions that the District makes is based in part by the performance of the stock market. Given the current economic climate and the volatile nature of the stock market, the balance should be increased to 7 years of average ERS liabilities.

*Recommendation: To fund this reserve up to a maximum of \$5,040,000 which is approx 7 years of the average \$720,000 ERS cost to the District.*

### **RETIREMENT CONTRIBUTION RESERVE TRS SUB-FUND (A828)**

Authority: The monies in this Reserve Sub-Fund may only be appropriated to finance retirement contributions to the New York State Teachers' Retirement System, and/or to offset all or a portion of the amount deducted from the monies apportioned to the District from the State for the support of schools pursuant to Section 521 of the Education Law.

Balance June 30, 2019                      \$383,929

Ideal Balance: The amount of monies contributed annually to the sub-fund cannot exceed 2% of the salaries of TRS members paid during the immediately preceding fiscal year. The balance of the sub-fund cannot exceed 10% of the salaries of all TRS members paid during the immediately preceding fiscal year.

*Recommendation: To fund to the maximum for the current year, approx. \$375,000, and to build the reserve over the next five years up to the maximum allowable amount. Given the current economic situation, the rates for TRS are expected to trend upward and could potentially put a strain on future budgets.*

### **CAPITAL RESERVE FUND (A878)**

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. Expenditures from this reserve must also be authorized by the voters. On May 17, 2016, the voters of Onteora authorized the district to set up a Capital Reserve at a maximum amount of \$8,000,000 for a probable term of 7 years.

Balance June 30, 2019                      \$636,219

Ideal Balance: This Capital Reserve was funded to \$6,796,219, and may not exceed \$8,000,000. \$6,160,000 was taken out for the current ADA Project after voter approval at the May 2019 budget vote. A total of no more than \$1,203,781 may be added to this reserve.

*Recommendation: Given the current economic climate, the recommendation is not to not fund this remainder of this reserve for this fiscal year.*

### **REPAIR RESERVE (A882)**

Authority: A Repair Reserve is used for repairs to capital improvements or equipment not recurring annually or at short intervals. The reserve may be established by Board action and funded by budgetary appropriations or other funds as may be legally appropriated (GML, sec.6-d).

Balance June 30, 2019                      \$1,567,809.54

Discussion: The district plans on using the funds to repair drainage issues on the MS/HS Football field and repoint bricks throughout the District as the funding allows.

*Recommendation: To keep this reserve at the current level.*

### **ASSIGNED APPROPRIATED FUND BALANCE (A910)**

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

Budgeted 17-18	\$3,385,000
Budgeted 18-19	\$3,265,620
Budgeted 19-20	\$3,265,620
Budgeted 20-21	\$3,265,620

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. Given the current economic climate, it is recommended that the District keep this level.

### **UNASSIGNED FUND BALANCE (A909)**

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, 2015	\$2,066,279
Balance June 30, 2016	\$2,128,911
Balance June 30, 2017	\$2,178,846
Balance June 30, 2018	\$2,223,103
Balance June 30, 2019	\$2,296,140

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 holding Unassigned Fund Balance up to the maximum allowable (4% of the 2020-2021 budget); approximately \$2,317,541.*

***If available, the following recommendations are provided for the Board to review and take action at the June 16, 2020 Board of Education Meeting:***

- Adjust Employee Benefit Accrued Liability based on entitlements at end of the year.***
- Fund TRS Sub-Fund Reserve to maximum allowable, approx. \$375,000.***
- Fund the unassigned fund balance up to the maximum allowed with an additional \$21,401***
- Fund the Employee Retirement Reserve (ERS) with any additional remaining monies***