

# Hyde Park Central School District



## Fund Balance & Reserve Plan June 2018

## OVERVIEW

The Hyde Park Central School District is committed to providing the necessary resources to its students and community to support the mission and vision of the District. The intent of the Fund Balance & Reserve Plan is to define the parameters within which funds are to be managed.

This plan has been developed consistent with guidance from the Division of Local Government and School Accountability, a division of the Office of the State Comptroller as follows:

*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 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.*

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any school district. Strict adherence to state laws 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.

The Hyde Park Central School District believes that the judicious use of reserves reduces long-term borrowing costs, soothes large fluctuations in tax rates, and minimizes the possibility of mid-year budget cuts which could have a direct impact on students. We believe it is in the best interest of students, staff, and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that can occur throughout a school year.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May each year, Hyde Park Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year cuts that could have an immediate impact on students and/or staff. This practice has allowed the District to weather revenue reductions, state aid holdbacks, increases in expenditures such as transportation or Special Education, and other negative adjustments without impacting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews budget surpluses via the annual Fund Balance Report and determines the best use of these surpluses including transfers to voter or Board approved reserves, or to a reduction in the ensuing year tax levy.

Legally established reserves can provide many benefits to the School District and to its taxpayers. However, these reserves can also cause confusion when not utilized and/or their purpose is not clearly understood by the community.

## **GOVERNING AUTHORITY**

The Board of Education is the governing authority of the School District. The Fund Balance & Reserve Plan shall be implemented in conformance with applicable federal, state, and other legal sources, including: Education Law, General Municipal Law and HPCSD Board of Education Policies.

In many respects, the Board of Education delegates the practical aspects of implementing the plan to the School Business Official, who should also make recommendations and ensure that all legal requirements are met with appropriate Board of Education action.

Reserves may be established by the Board in accordance with applicable laws. Money set aside in reserves must be used in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended, and/or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances must be reasonable.

Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan for the use of its reserves, including anticipated use and need of reserve funds and how and when disbursements should be made. By maintaining excessive and/or unnecessary reserves, the Board and District officials may miss opportunities to lower the property tax burden and/or funds from being used to meet District needs.

The Board of Education will approve an updated Fund Balance and Reserves plan annually after reviewing the plan and recommended changes.

## **GENERAL OBJECTIVES**

It is the desire of the Hyde Park Central School District to manage fund balance and reserves to provide sufficient cash flow for daily financial needs, secure and maintain investment bond ratings, offset significant economic downturns or revenue shortfalls, and provide funds for unforeseen expenditures related to emergencies.

As outlined in Board of Education Policy 3143 (Fund Balance Policy in Accordance with GASB Statement No. 54), the policy is intended to “ensure sufficient reserves are maintained in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary education services.”

## **RESOURCES**

- New York State Office of State Comptroller guidance document: This document outlines all of the Reserves available to municipalities and school districts.
  - <http://osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>
- New York State Office of State Comptroller Local Government and School Accountability Accounting Releases: The state may create new reserves or clarify requirements related to a reserve. This information is released in a bulletin. Bulletins can be found at this link:
  - <http://osc.state.ny.us/localgov/pubs/releases/index.htm>

## **FUND BALANCE AND RESERVES**

### **Reserve for Encumbrances**

*Funding Goal* – Each year the reserve amount is equal to the outstanding purchase order obligations to be satisfied in the following school year.

*Funding Level* – The Reserve for Encumbrances balance varies throughout the year and typically has a balance of approximately \$32,000 at June 30<sup>th</sup>.

*Creation* – Retention of these funds is allowed by law.

*Purpose* – This reserve allows outstanding encumbrances remaining at the end of a school year to be carried over to the next school year.

*Funding Methods* – The funding is realized from revenue gleaned from the prior school year.

*Use of Reserve* – The reserve is used to liquidate purchase orders and requisitions from prior school years.

*Monitoring of Reserves* – The reserve will be monitored by the School Business Official.

*Caution* – This reserve exists only for so long as there exists an encumbrance (e.g. Purchase Order) to match the funds in the reserve.

### **Workers' Compensation Reserve**

*Purpose* – This reserve is used to pay for workers' compensation benefits, related medical expenses and other expenses authorized by Article 2 of the Workers' Compensation Law.

*Creation* – This reserve was established via Board resolution.

*Funding Goal* – An amount that is deemed adequate to offset the costs of workers' compensation benefits for the District.

*Funding Level* – This reserve will be funded as deemed appropriate. The current amount of the fund is \$341,374.

*Funding Methods*- This reserve will be funded from excess fund balance or by budgetary appropriations.

*Use of Reserve* – This reserve will be used to pay for workers' compensation benefits.

*Monitoring of Reserve* – This reserve is monitored by the School Business Official.

### **Unemployment Insurance Reserve**

*Purpose* – This reserve is used to pay the cost of reimbursement to the New York State Unemployment Insurance Fund for unemployment benefit payments to claimants.

*Creation* – This reserve was established via Board resolution.

*Funding Goal* – An amount that is deemed adequate to offset the costs of unemployment benefits for the District.

*Funding Level* – This reserve will be funded as deemed appropriate. The current amount of the fund is \$103,578.

*Funding Methods* – This reserve will be funded from excess fund balance, by budgetary appropriations, or interest income related to investments of monies in the fund.

*Use of Reserve* – In accordance with the law, this reserve may be used at the discretion of the Superintendent and School Business Official specifically to offset expenses tied to unemployment insurance claims related to employee attrition.

*Monitoring of Reserve* – This reserve is monitored by the School Business Official.

### **Retirement Contribution (ERS) Reserve Fund**

*Purpose* – This reserve is used to pay for district expenses to the NYS Employees’ Retirement System.

*Creation* – This reserve was established via Board resolution.

*Funding Goal* – A funding level equivalent to no more than the value of expenditures for five consecutive years.

*Funding Level* – This reserve will be funded as deemed appropriate. The current amount of the fund is \$3,974,770.

*Funding Methods* – Funds are placed in this reserve from excess fund balance or interest income related to investments of monies in the fund.

*Use of Reserve* – Funds are to be used to finance retirement contributions in the New York State Employees’ Retirement System.

*Monitoring of Reserve* – This reserve is monitored by the School Business Official.

### **Tax Certiorari Reserve**

*Purpose* – This reserve is used to pay for prior year judgments and claims in tax certiorari proceedings.

*Creation* – This reserve was established via Board resolution.

*Funding Goal* – As the District receives tax certiorari claims, we reserve funds to cover the cost of these claims against the District.

*Funding Level* – The current amount of the fund is \$1,071,861 and will be evaluated and adjusted on an annual basis.

*Funding Methods* – Funding methods may include transfers from excess fund balance or other reserves, or interest income related to investments of monies in the fund. Funds placed in this reserve that are not used to pay tax certiorari judgments or claims must be returned to the General Fund by the first day of the fourth fiscal year after the establishment of the fund.

*Use of Reserve* – This reserve would be used to pay for prior year tax certiorari claims.

*Monitoring of Reserve* – This reserve is monitored by the School Business Official. It is anticipated that detailed calculations will be required each year to support the amounts in this reserve.

## **Employee Benefit Accrued Liability Reserve (EBLAR)**

**Funding Goal** – Not to exceed the calculated compensated absences liability. Compensated absences describes paid time off made available to employees in connection with vacation leave and sick leave, which may be payable to employees during employment or upon separation from the School District.

**Funding Level** – The current amount of the fund is \$2,081,043. This reserve should be funded up to 100% of the accrued liability of unused accumulated leave time.

**Creation** – This reserve was established via Board resolution.

**Purpose** – The purpose of this fund is to pay accrued benefits due to employees upon termination of service for vacation, sick leave, personal leave, etc.

**Funding Methods** – The source from which the funds will be obtained can include any or all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, interest income related to the investment of monies in the fund, and any other additional monies thereafter authorized by the voters of the District.

**Use of Reserve** – This reserve is used to pay for employee compensated absences upon termination of employment from the School District. Recent amendments to General Municipal Law allows for use of the reserve as a revenue to cover the amount equivalent to a district's remaining gap elimination adjustment or the dollar value of excess funding remaining in the fund as determined by the Comptroller.

**Monitoring of Reserve** – This reserve is monitored by the School Business Official.

## **Reserve for Repairs**

**Funding Goal** – In any given school year, fund to a level sufficient to account for approximately 1% of the approved budget.

**Funding Level** – This reserve is currently funded at \$101,755 and will continue to be funded as deemed appropriate.

**Creation** – This reserve was established via Board resolution.

**Purpose** – This reserve is used to pay for unanticipated, non-recurring repairs to district capital improvements, facilities and equipment.

**Funding Methods** – Voter approval is required to fund this reserve.

**Use of Reserve** – In accordance with the law, a public hearing must be held in order to use funds from this reserve, except in an emergency. Funds used for an emergency

without holding a public hearing must be returned to the fund within two years with at least one-half in the first year. A vote of two-thirds of the Board is required to authorize an emergency expenditure. Use is restricted to the purpose stated above.

Monitoring of Reserve – This reserve is monitored by the Superintendent and School Business Official.

### **Capital Reserve**

Funding Goal – In May 2016, the voters approved the establishment and funding of a \$2,000,000 capital reserve and in May 2017, they approved the establishment and funding of a second capital reserve for \$5,000,000.

Funding Level – The current amount of both funds is \$7,000,000. The probable term for each shall be 10 years.

Creation – The capital reserves were created in 2016 and 2017 via voter approval.

Purpose – Each capital reserve was approved with a ten-year life and is to be used for capital improvements and renovations including, but not limited to, items listed in the Building Condition Survey.

Funding Methods – The source from which the funds will be obtained can include any or all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, State aid related to expenditures from the capital reserve fund, interest income related to investments of monies in the fund, and any other monies thereafter authorized by the voters of the District.

Use of Reserve – Use of this reserve requires voter approval. The proposition to use these funds must be specific to a set of projects and dollar amounts.

In May 2018, the voters approved the use of \$4,000,000 from the capital reserve to offset the costs of the \$26.2M capital project for science labs and HVAC renovations.

Monitoring of Reserve – This reserve is monitored by the Superintendent and School Business Official.