



# RESERVES

## AUDIT COMMITTEE REVIEW

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# Reserves, why are they needed?

### District Overview

- The establishment and funding of reserves is tantamount in promoting fiscal and tax stability in uncertain times.
- Strict adherence to laws governing specific reserves is required. Different reserves require different combinations of voter or Board of Education authorization to:
  - Establish the reserve
  - Fund the reserve
  - Expend from/use the reserve
- The District's philosophy is supported and encouraged by the NYS Comptroller, as evidenced by his "*Local Government Guide – Reserve Funds.*"

### New York State Comptroller

- "Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for 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 and/or levying additional tax to finance capital projects."
- "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 economic times, money not utilized for current purposes can often be set aside in reserves for future use and stability."

# Reserves, how to manage them

### District Philosophy

- The judicious use of reserves is prudent financial management for a school district just as it is for the private sector and savings accounts are for individuals.
- The District does not view reserves as a way to stock pile over-collected revenue, but to plan conservatively and manage costs aggressively to provide unexpended year-end funds to be placed in reserves to:
  - Provide future tax stability
  - Stave off potential mid-year reductions during times of unanticipated reduced revenue and/or cost spikes
- The District believes that when the voters approve a budget in May and pay the resultant taxes in September they have agreed to receive the programs and services contained in that budget. The District is committed to delivering on that agreement and needs reserves as a contingency plan for unforeseen events.

### New York State Comptroller

- “The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management.”
- “Saving for future needs can reduce or eliminate interest and other costs associated with debt issuances.”
- “Certain reserve funds can be utilized to help protect the budget against known risks (i.e., lawsuit) or unknown risks (i.e., natural disaster).”

# What is a surplus and why have one?

- NYS law mandates that, unlike some municipalities, school districts cannot expend more than the budget the voters authorized. Regardless of known or unknown events, expenditures can be no greater than the budget approved by the voters.
- Therefore, the District uses a conservative budget plan that is inherent with some degree of uncertainty to stave off mid-year cuts to instructional programs.
  - During these very uncertain economic times, there are several external forces that can swiftly and adversely impact a budget projection made one year previous.
- This practice has allowed the District to weather certain mid-year events without significantly impacting instructional programs:
  - Sales Tax reductions
  - State Aid reductions
  - Expense hikes – fuel, utilities, retirement systems, health insurance, Federal and State mandates
- The Board of Education, the Audit Oversight Committee and the District’s auditors annually review any year-end surpluses and determine the best use, including:
  - Transfers as permitted by law to an authorized reserve fund
  - And/or to be used to reduce the ensuing year’s Tax Levy

# What is a surplus and why have one?

(continued)

- This budgeting practice has been endorsed by Moody's Rating Agency, (counterpart to an individual's credit rating) which recently upgraded the District's Bond Rating to Aa1 (High Quality), noting:
  - *“The upgrade to Aa1 reflects the management's conservative budgeting practices which have resulted in a healthy reserve position and strong liquidity levels. The high quality rating reflects a trend of strong financial performance into the long-term...”*
  - This is the type of comment and advice a person would be looking for if they were considering investing in a corporation. The Board of Education feels strongly that the community invests in their school annually and the Board is committed to protecting that investment and delivering the best educational value possible in the most fiscally sound manner.
  - Moody's also advised, *“...currently most municipalities are experiencing 'downgrading' of their bond rating due to not having strong financial positions and uncertain long-term future.”*

# Pittsford Central School District - Reserves

## Pittsford Central School District – Reserve Funds

- Below are a few recent examples of the benefits of reserve funds:
  - The Capital Reserve projects approved in 2008 and 2010 were fully funded by the Capital Reserve totaling \$5.2 million and providing savings to the community:
    - \$474,000 per year in debt service bond payments (annual budget relief)
    - If bonded over the term of both bond issues, \$1.9 million in interest would have been paid, the equivalent of 37% of the cost of both improvement projects
  - In December 2012 the voters approved two propositions totaling \$43.1 million (\$35.6 million for school facilities, \$7.5 million for athletic field improvements) with \$12.5 million of reserve funds being used to fund the facility proposition, when combined with NYS Building Aid the proposition projected to be fully funded **without** additional local taxes
  - In March 2022 the voters approved the use of \$14 million from the Capital Reserve to offset the local impact of the proposed \$69.8 million Capital Project resulting in a minimal tax impact
  - Tax Certiorari – over the years has absorbed hundreds of thousands of dollars of prior year tax refunds related to court ordered assessment settlements
- “Legally established reserves can provide many benefits to a school district and its taxpayers. However, reserves and their legal constraints can be complicated, resulting in confusion when their purpose is not clearly understood by the community.” (NYS Comptroller)
  - **The purpose of this document is to provide a summary of the Pittsford Central School District’s Reserve Picture and Management Strategy**

# Pittsford Central School District - Reserves

## *Pittsford Central School District* Reserve Fund Inventory & Definitions

### Accounting Based Reserve - GASB

- Reserve for Encumbrances
  - The Governmental Accounting Standards Board requires the district to recognize purchase commitments outstanding at the close of a fiscal year where goods have been ordered (Purchase Order) but not received and invoiced at 6/30/xxxx
  - The total outstanding obligations (open POs) are placed in a Reserve to pay the obligations during the following year
  - Board or voter action is not required to establish, fund or expend. It is an accounting requirement
  - The Reserve must = 6/30/xxxx open POs and is **not** elective



# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

#### **Restricted for Capital Infrastructure Expenses**

- Capital Transportation Vehicles Reserve Fund - 2023 – *Ed Law 3651*
  - purchasing buses and transportation vehicles without the need to issue debt or pose an additional tax levy
  - State Aid received replenishes the reserve
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Originally established in 2023, maximum deposit \$50 million, term of 10 years
  
- Capital Instructional Technology Reserve – *Ed Law 3651*
  - purchasing technology equipment without levying additional taxes or issuing debt
  - State Aid received replenishes the reserve
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Re-establish , maximum deposit \$15 million, term 10 years
  - Established by voters in 2014
  - Re-Established by voters in 2024, maximum deposit \$15 million, term of 10 years



# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

#### **Restricted for Capital Infrastructure Expenses**

- Capital Swimming Facilities Reserve — *Ed Law 3651*
  - To replace/update swimming pools without levying additional taxes and/or issuing debt
  - State Aid received replenishes the reserve
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Originally established in 2023, maximum deposit \$40 million, term of 10 years
  
- Capital Facilities Reserve — *Ed Law 3651*
  - For the refurbishment and replacement of facilities, infrastructure and equipment without levying additional taxes or issuing debt
  - State Aid received replenishes the reserve
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Established in 2007, maximum deposit \$14 million, term 10 years
  - Extended by voters in 2011, maximum deposit \$39 million, term 20 years
  - Extended by voters in 2023, maximum deposit \$40 million, term of 10 years

# Pittsford Central School District - Reserves

## *Pittsford Central School District* Reserve Fund Inventory & Definitions

### Restricted for Need

- **Insurance Reserve** – *GML sec 6-n*
  - To pay loss and claims not covered by an insurance policy
  - Allows the District to cover higher deductibles on insurance thus reducing annual budget insurance premium costs
  - To eliminate annual premium and administration costs, the District operates “Self - Funded” insurance program for Employee Dental. Therefore the reserve must, at minimum, cover potential loss claims.
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to other reserves
- **Liability Reserve** – *Ed Law 1709 (8)c*
  - May be used to fund property loss, liability claims, litigation and legal judgments
  - The Board of Education may establish, fund and by resolution expend from for legal purposes
  - Voter authorization is required to transfer funds out of this reserve to any other reserve

# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

#### **Restricted for Need**

- Tax Certiorari – *Ed Law 3651.1-a*
  - To pay the reasonably estimated costs of pending property tax assessment challenges (tax certiorari) after taxes have been collected
  - Protects the budget from often expensive and unanticipated expenses to refund property owners for taxes paid in prior years
    - **2010-2011 Fiscal year the judge reduced the assessments for two businesses by more than \$21 million for the past two years, resulting in a refund of more than \$560,000. As a result the reserve was depleted, but it prevented an unanticipated expenditure to the budget and mid-year reduction of programs and services.**
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to the General Fund

# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

#### **Restricted for Operating Expenses**

- Employee Retirement Contribution Reserve
  - To fund cost spikes in the District’s portion of NYS Employee’s Retirement System costs, thereby providing annual budget stability by absorbing these cost increases without raising taxes
    - **The NYS Comptroller establishes annually a rate that the employer must pay to ERS for every dollar of salary an ERS member employee earns.**
    - **In recent years the ERS rate increases were unprecedented. The Retirement System Reserve was able to absorb much of the significant cost increases resulting in saving programs and taxes.**
  
- TRS – Retirement Contribution Reserve Sub-fund *GML sec 6-r*
  - The Board of Education may establish, fund and by resolution expend from for retirement contribution purposes or if excess funds, may transfer to other reserves.
  - Maximum contribution of 10% of the total compensation or salaries of all teachers employed by the District who are members of TRS paid during the immediately preceding fiscal year.

# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

- **Workers' Compensation Reserve** – *GML 6-j*
  - To finance in whole or in part the excess Workers' Compensation claims that may arise against the District
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to the General Fund
  
- **Unemployment Insurance Reserve** – *GML sec 6-m*
  - To pay unemployment claims made to the NYS Unemployment
  - Promotes budget stability by:
    - During times of budget/staffing reductions, the budget does not have to inherit the unemployment expense, thus maximizing the full favorable impact of the budget reductions.
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to other reserves

# Pittsford Central School District - Reserves

## *Pittsford Central School District*

### Reserve Fund Inventory & Definitions

#### **Restricted for Retirement Expenses**

- Employee Benefits Accrued Liability — *GML 6-p*
  - To fund earned but unused sick and vacation time (compensated absences) that an employee is due per Collective Bargaining Agreement upon leaving service.
  - Promotes budget stability by:  
**During difficult times, the budget does not have to inherit the compensated absence expense, thus maximizing the full favorable impact of savings attributed to retirements.**

# DISTRICT'S CURRENT RESERVES

- District currently has 12 Reserves to support the future
- Four basic categories of District Reserves:
  - Support Capital Infrastructure Expenses
  - Restricted for Need
  - Support Operating Expenses
  - Support Retirement Expenses

# RESERVES-CAPITAL EXPENSES



	<b>2021 Building Reserve</b>	<b>Instructional Technology Reserve</b>	<b>Transportation Vehicle Reserve</b>	<b>Swimming Facility Reserve</b>
6/30/2023 Balance:	\$5,326,500	\$2,335,169	\$7,231,765	\$1,500,000
Interest Earnings/Additional Funding	\$5,084,918	\$1,571,625	\$4,237,968	\$1,037,881
Appropriated Reserve/Expense to date	\$0	(\$500,000)	(\$2,229,241)	\$0
Balance as of 6/30/2024:	\$10,411,418	\$3,406,794	\$9,240,492	\$2,537,881



# RESERVES-RESTRICTED FOR NEEDS

	Insurance Reserve	Reserve for Liability	Reserve for Tax Certiorari
6/30/2023 Balance:	\$2,220,537	\$1,217,055	\$2,444,322
Interest Earnings/Additional Funding	\$71,608	\$239,248	\$563,378
Appropriated Reserve/Expense to date	\$0	\$0	(\$804,421)
Balance as of 6/30/2024:	\$2,292,145	\$1,456,303	\$2,203,278

# RESERVES-SUPPORTING OPERATIONS



	<b>Employee Retirement System Reserve</b>	<b>Teacher Retirement System Reserve</b>	<b>Worker's Compensation Reserve</b>	<b>Unemployment Insurance Reserve</b>
6/30/2023 Balance:	\$2,639,508	\$4,515,083	\$654,505	\$393,899
Interest Earnings/Additional Funding	\$578,726	\$484,122	\$69,927	\$12,703
Appropriated Reserve/Expense to date	(\$300,000)	\$0	(\$50,000)	\$0
Balance as of 6/30/2024:	\$2,918,233	\$4,999,205	\$674,431	\$406,601

# RESERVES-SUPPORTING RETIREMENT

- Employee Benefit Accrued Liability (EBLAR)

<b>6/30/2023 Balance:</b>	<b>\$3,583,969</b>
Interest Earnings/Additional Funding	\$1,105,829
Appropriated Reserve/Expense to date	(\$500,000)
Balance as of 6/30/2024:	\$4,189,797



QUESTIONS?



THANK YOU!

*MAY 22, 2024*



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