

Onteora Central School District
Fund Balance and Reserve Plan

June 2024

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 smooths 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. Excess funds to add to reserves is likely for the year ending June 30, 2024. 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 23-24 school year the District will credit the reserves with an interest rate of 1%. 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, 2023	\$1,623,644
Balance March 31, 2024	\$1,607,644

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 to be added to this reserve. If the reserve is overfunded, request that additional monies be 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, 2023	\$ 760,988
Balance March 31, 2024	\$ 750,009

Ideal Balance: 3% of Payroll is ideal balance. Payroll for the 24-25 school year is budgeted to remain flat as compared to 23-24 since the District is not replacing many retiree positions throughout the District.

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, 2023	\$4,500,000
Balance March 31, 2024	\$4,500,000

Ideal Balance: ERS contribution rates have continued to decline. As such, the reserve is funded at greater than 7 years of the average ERS liability. Given the current climate, the recommendation is to reduce the fund but go to an 8-year average instead of 7.

Recommendation: Keep this reserve at the current level.

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, 2023	\$2,007,573
Balance March 31, 2024	\$2,007,573

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. The TRS sub fund is in its 6th year, and as such, the fund has reached its 10% maximum as allowed.

Recommendation: To keep this reserve at the current level.

CAPITAL RESERVE FUND -2021 (A878.2)

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 18, 2021, the voters of Onteora authorized the district to set up a Capital Reserve at a maximum amount of \$10,000,000 for a probable term of 10 years.

Balance June 30, 2023	\$8,873,155
Balance March 31, 2024	\$ 73,155

Ideal Balance: This Capital Reserve will be used to help pay for those areas of the facilities that are pointed out as needing repair based on the 2021 Building Condition Survey.

Recommendation: Keep reserve at current level as the remainder of this reserve will be used based on voter approval of the 2024 Capital Reserve Proposition.

CAPITAL RESERVE FUND -2023 (A878.3)

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 16, 2024, the voters of Onteora authorized the district to set up a Capital Reserve at a maximum amount of \$10,000,000 for a probable term of 10 years.

Balance June 30, 2023	\$4,023,347
Balance March 31, 2024	\$4,023,347

Ideal Balance: This Capital Reserve will be used to help pay for those areas of the facilities that are pointed out as needing repair based on the 2021 Building Condition Survey.

Recommendation: Fund this reserve with any remaining monies, use up to \$1,876,845 of this reserve for the 2024 voter approved Capital Project.

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, 2023	\$1,062,514
Balance March 31, 2024	\$ 836,935

Discussion: The district will continue to review the need to use these funds as use of the Repair Reserve does not allow the District to capture Building Aid as a Capital Project does.

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 19-20	\$3,265,620
Budgeted 20-21	\$3,265,620
Budgeted 21-22	\$2,775,000
Budgeted 22-23	\$3,270,000
Budgeted 23-24	\$3,270,000
Budgeted 24-25	\$2,793,385

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 the available fund balance.

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, 2020	\$2,317,541
Balance June 30, 2021	\$2,351,445
Balance June 30, 2022	\$2,399,665
Balance June 30, 2023	\$2,448,346
Balance June 30, 2024	\$2,493,020

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 2024-2025 budget); or \$2,493,020

If available, the following recommendations are provided to the Board for approval at the June 18, 2024 Board of Education Meeting:

- Adjust Employee Benefit Accrued Liability based on entitlements at end of the year***
- Fund the Unassigned Fund Balance up to the maximum allowed with an additional \$44,674***
- Fund the newly approved 2023 Capital reserve with any remaining monies***