Rush-Henrietta Central School District

Reserve Funding and Allowable Uses

2024-25

November 2024

Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any 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 New York State 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 Rush-Henrietta Central School District believes that the judicious use of reserves greatly reduces long-term borrowing costs, smooths large fluctuations in tax rates and minimizes the effect of mid-year budget cuts which would have a direct impact on students – midyear reductions would be significantly detrimental to students. It believes it is in the best interest of both the students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur. Again, the Comptroller notes:

> The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management. Saving for future capital needs can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can be utilized to help protect the budget against known risks (a potential lawsuit) or unknown risks (a major ice storm). (*Office of the New York State Comptroller – Local Government Management Guide – Reserve Funds, Pg. 2*)

This quote reflects the two purposes for the establishment of reserves:

1. Saving money for a large, one-time future expenditure. A capital reserve for the replacement of a roof is an example.
2. Protect the district against a large, currently unknown risk. An insurance liability reserve is an example of this type. Mid-year state aid reductions resulting from the COVID-19 pandemic is another example.

Furthermore, the infusion of federal stimulus funds and reduction of expenditures during COVID has resulted in an increase in district reserve balances. COVID also drove a significant increase in need to support academic learning loss and increase Social Emotional Learning supports to mitigate the severe deterioration in student behavior and academic performance because of the pandemic. The prudent use of reserves will enable these additional supports to continue as the federal stimulus funds were exhausted after the 2023-24 school year.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters the previous May, the Rush-Henrietta Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year budget cuts that would have an immediate impact on students. This practice has allowed the district to weather mid-year sales tax reductions, state aid holdbacks and significant fuel cost fluctuations, without affecting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews all budget surpluses and determines the best use of these surpluses including transfers to voter or board of education approved reserves or to a reduction in the ensuing year's tax levy. This budgeting practice has been endorsed by the Moody's Rating Agency, which has rated Rush-Henrietta's bonds as Aa2 and commented on the district budgeting practices:

> "Rush-Henrietta CSD's credit position is strong. Furthermore, the Aa2 rating is slightly higher than the US school district median of Aa3. Key credit factors include a healthy economy, a strong enrollment trend, a sound financial position, modest leverage and low fixed costs."

Moody's also noted:

- Cash balance ratio is strong at 57.7%.
- Available fund balance ratio is healthy at 24.7%.
- Rush-Henrietta CSD's fixed costs ratio of 5.2% is less than half that of all Aa Medians of 12.2%

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 Rush-Henrietta's plan for funding and maintenance of reserves.

In addition to reserves the District's General Fund, Unassigned Fund Balance will be maintained at or close to the 4% allowed by law to provide the District with financial stability and a margin of safety to fund unanticipated contingent expenditures that may occur unexpectedly during the fiscal year. The Unassigned Fund Balance also provides the cash flow necessary to fund school activities from July 1st through late September when property taxes start to be received.

Financial Management Philosophy

The Board of Education views strong financial management as an essential to the District's long term fiscal health and ability to provide a quality learning experience to its students. It protects the community's infrastructure investment in our schools and ensures that resources are available to protect the programs and services necessary to meet the varying needs of a diverse student population. Financial decisions cannot be made for the short term without consideration of how they affect the future, and reserves play a vital role in ensuring a sound future.

Objectives

The Board of Education's beliefs about fiscal management and the maintenance of reserves are based on the following principles:

- Programs and services that provide a demonstrable benefit to our students must be protected in both the short and long term.
- Exceeding the tax cap and proposing an override vote carries a significant risk to the District's financial stability and should be avoided if possible.
- Constraints on the growth in revenue (e.g. property tax cap) do not allow current decisions that affect future revenues and expenses to be easily corrected so decisions should not vary significantly from year to year.
- Academic and Social, Emotional, Learning supports added with federal stimulus funds to mitigate the impact of the COVID closings on students, should be continued through prudent utilization of reserve funds.

Financial management practices include the budgeting process, amount of surplus generated, management of reserves and the impact of the political environment on decision-making. Reserve management provides a buffer to the vagaries of the various influences on the budget.

The following page shows the General Fund Balance Sheet from the annual Basic Financial Statements that include the reserve balances as of June 30, 2023 and June 30, 2024:

Rush-Henrietta Central School District

General Fund - Summarized Balance Sheet

June 30, 2023 and June 30, 2024

	2023	2024	Variance
Fund Balance and Reserves			
Workers' Compensation Reserve	$3,949,622	$4,030,270	$80,648
Unemployment Insurance Reserve	518,593	600,206	$81,613
Retirement Contribution Reserve	12,131,452	13,418,138	$1,286,686
TRS Retirement Contribution Reserve	4,250,029	4,777,085	$527,056
Insurance Reserve	3,033,723	3,101,661	$67,938
Tax Certiorari Reserve	3,801,216	3,886,342	$85,125
Employee Benefits & Accrued Liability Res.	3,586,687	3,667,008	$80,321
Capital Reserves	22,252,530	41,122,977	$18,870,447
Encumbrances	4,747,799	4,752,820	$5,021
Undesignated Fund Balance	6,471,168	6,809,516	$338,348
Total Fund Balance and Reserves	$64,742,819	$86,166,023	$21,423,204

WORKERS' COMPENSATION RESERVE

Authority: The purpose of this reserve fund is to pay for compensation benefits and other expenses authorized by the Workers' Compensation Law, and for payment of expenses for administering this self-insurance program. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (General Municipal Law, §6j).

Funds remaining at the end of each school year, in excess of all pending claims, may be transferred, within 60 days of the close of the school year, to other reserve funds or applied to budgetary appropriations for the new school year.

Balance June 30, 2023: $3,949,622

Balance June 30, 2024: $4,030,270

Targeted Balance: Three to four years' worth of an average year's payment, which average around $900K per year, plus adequate coverage for prior year claims still outstanding.

Discussion: Rush-Henrietta Central School District is self-insured for workers compensation up to $100,000 per case. Claims can remain open for years so this reserve protects against both the cumulative effect of lagging claims and an abnormally large payout for a settled claim. Our

estimated future liability for current outstanding claims is about $823,225 so the current reserve would cover these plus about four years of expenses. Additionally, recent NYS Workers Compensation law changes have increased employer costs significantly.

UNEMPLOYMENT INSURANCE RESERVE

Authority: This reserve fund 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 (General Municipal Law, §6-m).

Excess funds remaining at the end of any school year, may be transferred, within 60 days of the close of the school year, to other reserve funds or applied to budgetary appropriations for the new school year.

Balance June 30, 2023: $ 518,593

Balance June 30, 2024: $ 600,206

Targeted Balance: Approximately 1.0% of payroll or $788,000. This would support up to 20 employees' unemployment claims if extended benefit periods are enacted as they were in the prior recession. Most position reductions are accomplished through attrition rather than layoffs so the targeted amount is relatively low, but it will not suffice in the face of a severe recession such as we were initially experiencing with the COVID-19 pandemic, prior to federal stimulus funds being made available.

Discussion: Because of limited state aid increases, the Property Tax Levy Cap and growing benefit costs the likelihood of job cuts will become more probable in future years. Although normal claim levels are relatively low, the reserve is intended for severe recessions or unexpected events such as the COVID-19 closing of schools. Also, the ongoing risk of a need for reductions remains real as the Property Tax Levy Cap is often lower than contractual wage and benefits increases. However, the Board of Education has expressed an interest in, when possible, reducing staffing levels through attrition rather than layoffs.

RETIREMENT CONTRIBUTION RESERVE

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. 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 (General Municipal Law, §6-l).

Transfers to or from other reserves are allowed but require a public hearing with 15 days published notice in the official school newspaper.

Balance June 30, 2023: $12,131,452

Balance June 30, 2024: $13,418,138

Targeted Balance: Recently the State Comptroller lowered his expected rate of return to 5.9% from 6.8%. Typically, a lower assumed rate of return will mean a higher employer contribution requirement. The 2024 employer contribution rate will be 16.5%, up from 15.2% this year, as a new base measurement period has been set for the ERS actuarial assumption. Longer term it is expected the reduced expected rate of return will result in ongoing higher employer contribution rates. The target is to fund five years of current ERS costs so it can be utilized to offset district contributions in future years to enable the district to sustain ongoing costs previously funded with federal stimulus funds.

Discussion: The purpose of this reserve is to set aside available surplus to provide a source of funds to limit the property tax impact of increases in employer contribution rates for the Employees Retirement System. This reserve was authorized by the state legislature in reaction to the significant increases in retirement contribution rates that municipalities and school districts were facing in the last decade. Typically, the district anticipates funding this reserve when retirement rates are below long-term averages and utilizing it when rates exceed long term averages. However, the current board preference is to fund this reserve with surpluses achieved during the COVID pandemic and to utilize the reserve to fund the total ERS expenses now that federal stimulus funds are exhausted. This will allow the continuation of enhanced learning recovery and SEL supports implemented because of the pandemic. It is one of the most readily available reserves because it can directly fund the current year expense.

TRS RETIREMENT CONTRIBUTION RESERVE

Authority: The governing board of a school district, by resolution, may establish a sub-reserve, as part of the Retirement Contribution Reserve, for the purpose of financing retirement contributions made to the Teacher Retirement System (TRS). Annual funding cannot exceed 2% of the prior year total teacher salary amounts, which is about $1,015,000 for Rush-Henrietta. Cumulative funding in the TRS sub-fund cannot exceed 10% of teacher salaries in total (approximately $5,079,224). Establishing or expending the sub-reserve does not require voter approval. Expenditures may only be made pursuant to a board resolution and must be used to finance retirement contributions (General Municipal Law, §6-r).

Balance June 30, 2023: $ 4,250,029

Balance June 30, 2024: $ 4,777,085

Targeted Balance: The expected long-term contribution rate for the Teacher Retirement System is approximately 12% of salaries, if the retirement fund earns 7.1% on its investments. Because of this relatively high assumed rate of return the employer contribution has been below 12% the last few years. However, there is discussion about lowering the assumed rate of return which will cause an increase in the employer contribution percent.

Discussion: The purpose of this reserve is to set aside available surplus to provide a source of funds to limit the property tax impact of increases driven by employer contribution rates for the Teacher Retirement System. This sub-reserve was authorized by the state legislature in reaction to the large expenditure for TRS retirement contribution rates, and the volatility in the employer cost, that school districts are facing. The district anticipates funding this reserve when retirement rates are below long-term averages and utilizing it when rates exceed long term averages. However, the current board preference is to fund this reserve with surpluses achieved during the COVID pandemic and to utilize the reserve to fund TRS expenses now that federal stimulus funds are exhausted. This will allow the continuation of enhanced learning recovery and SEL supports implemented because of the pandemic. It is one of the most readily available reserves because it can directly fund the current year expense.

INSURANCE RESERVE

Authority: This reserve fund is used to pay judgments, claims, incidental costs and professional services connected with the investigation and settlement of claims. The reserve is funded by budgetary appropriations or any other permissive referendum. Board resolutions are required to create the reserve or spend from the reserve. The amount that can be paid into the reserve during each fiscal year is limited to 5% of the annual budget. There is, however, no limit upon the amount which may be accumulated in the fund (General Municipal Law, §6-n).

The BOE can terminate this reserve and remaining funds in excess of incurred or accrued liabilities may be transferred to any other reserve fund authorized by GML or §Ed. Law 3651.

Balance June 30, 2023: $ 3,033,723

Balance June 30, 2024: $ 3,101,661

Targeted Balance: approximately 5% of the annual budget would provide protection against large deductibles and sharp premium increases.

Discussion: Rush-Henrietta buildings are valued at over $350 million. The district plan has a $10K deductible for any claims. This reserve would help fund these deductibles and it is an excellent tool to mitigate against sharp premium increases that occasionally happen in the insurance markets or to fund any judgments or liability settlements not covered by insurance such as prior year Child Victim Act claims or significant cybersecurity incidents.

TAX CERTIORARI RESERVE

Authority: The governing board of any school district, by resolution, may establish a reserve to refund taxes of the current year in tax certiorari proceedings. Establishing or expending the reserve does not require voter approval. Amounts not necessary to refund taxes must be returned

to the unreserved fund balance of the general fund by the first day of the fourth fiscal year following the year for which the reserve was created. (Education Law §3651, Sub.1a, 3a).

Money not expended for judgments and claims in the year deposited, must be returned to the General Fund on or before the 1st day of the 4th school year after such deposit of monies into the reserve unless the claim(s) are still open.

Balance June 30, 2023: $3,801,216

Balance June 30, 2024: $3,886,342

Targeted Balance: Between 50% and 100% of open cases.

Discussion: Ideally this reserve should be adequate to cover between 50% and 100% of the outstanding tax certiorari cases. It is not unusual for a lawsuit to cover multiple years of assessment for large taxpayers so potential judgments may be significant. The current reserve level is 55% of the open cases totaling $7.0M in claimed reductions. Recently, the town reassessment of commercial properties drove a surge in open cases. Also, the pandemic effects on commercial real estate have resulted in a large number of Tax Certiorari cases being filed. The amounts of settlements can vary greatly from year to year so this reserve protects against large, unbudgeted settlements.

EMPLOYEE BENEFIT ACCRUED LIABILITY RESERVE

Authority: The governing board of any 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 that may be due upon termination of the employee's service. Establishing or expending the reserve does not require voter approval. Expenditures may only be made for allowed cash payments earned by employees due upon their termination of employment (General Municipal Law, §6-p).

Upon termination by the BOE, balance not required to satisfy all incurred or accrued liabilities may be transferred to any other reserve fund(s) authorized in the General Municipal Law or §Ed. Law 3651.

Balance June 30, 2023: $3,586,687

Balance June 30, 2024: $3,667,008

Targeted Balance: fully fund entitlements due employees upon leaving employment.

Discussion: This reserve is for contractual benefit entitlements that will be paid directly upon an employee's termination. It does not include post-employment health benefits under GASB 75. New York State has not yet developed a method to fund that multimillion-dollar liability. Rush-

Henrietta's employee benefit accrued liability supports earned, but not used, sick and personal days. The district goal is to fully fund these contractual obligations.

REPAIR RESERVE

Authority: The Repair Reserve Fund is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. Voter approval is required to fund this reserve. Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years (General Municipal Law, §6-d).

Unneeded balance may be transferred to Capital, Tax Certiorari or Retirement Contribution Reserves.

Balance June 30, 2023: $0

Balance June 30, 2024: $0

Targeted Balance: Projected costs of future repairs on non-instructional buildings.

Discussion: Rush-Henrietta Central School District has not maintained this reserve because no state aid is paid for expenditures from this reserve. Since school renovations tend to generate building aid it is more advantageous to fund from capital reserves. However, projects at the West Henrietta Education Building, Good Shepherd site and the Parker Administration do not qualify for state aid so at a future date the board may want to consider funding this reserve.

CAPITAL RESERVES

Authority: The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. Voter authorization is required for both the establishment of the reserve and for payments from the reserve. The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

Funds may be transferred to other reserves only with voter approval. Voter approval is required to terminate the reserve prior to its specified expiration date. Remaining funds must first be applied to the district's outstanding bonded indebtedness and secondarily to reduce the tax levy.

Balance June 30, 2023: $16,424,748

Balance June 30, 2024: $36,264,686

Targeted Balance – may not exceed the voter authorized limit for each reserve, plus accumulated interest earnings. The 2022 Capital Reserve is fully funded to its $20.0M limit while the recently approved 2024 Capital Reserve has $5,788,661 remaining before the voter approved maximum level is reached.

Discussion: The Rush-Henrietta Central School District has used capital reserves to its advantage for many years. A capital reserve allows the District to save money in anticipation of a renovation or addition to a building. Using saved cash, rather than borrowing, for building projects offers the district two advantages:

1. The use of cash financing avoids the interest charges and debt issuance costs associated with borrowing to accomplish the same result.
2. The current building aid formula provides state aid to the District for cash expenditures as if it had borrowed. That is, state aid is provided on interest expenses, even though those expenses were avoided. This provides an additional future revenue stream.

In short, the use of cash financing through capital reserves is prudent financial planning, avoids the expense of bond interest, increases state aid available to the district and does not encumber future boards with fixed obligations. In order to replenish the reserve the Board of Education has authorized that state aid for projects paid by utilizing the capital reserve and excess year-end fund balance be used to replenish this reserve.

BUS RESERVE

Authority: The Bus Reserve Fund is a capital reserve specified to be used to pay for bus purchases. Voter authorization is required for both the establishment of the reserve and payments from the reserve. The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

Funds may be transferred to other reserves only with voter approval. Voter approval is required to terminate the reserve prior to its specified expiration date. Remaining funds must first be applied to the district's outstanding bonded indebtedness and secondarily to reduce the tax levy.

Balance June 30, 2023: $5,827,782

Balance June 30, 2024: $4,858,291

Targeted Balance – another $6.3M may be contributed to this reserve before it reaches the voter authorized limit of $12 million, plus accumulated interest earnings. Funding from this reserve is used to stabilize the general fund amount budgeted each year for bus purchases. This reserve is more critical with the recent state law requiring all bus purchases be electric commencing in 2027, since electric buses cost more than double what our current buses cost.

Discussion: Currently, the district's bus purchase plan replaces large buses when they reach approximately 100,000 miles and ten years of age. Beyond this, bus maintenance costs begin to increase sharply as equipment ages. This plan serves to keep our fleet current, while stabilizing the tax rate as the number of buses replaced is consistent. Bus purchase costs have increased significantly over the last few years as a result of pandemic driven inflation and commencing in 2027 all bus purchases must be electric. A combination of budget and reserve funding ensures the total cost is not too onerous to district taxpayers.

DEBT SERVICE RESERVE FUND

Authority: The Mandatory Reserve for Debt Service Fund is used to hold the proceeds of a bond issuance in excess of the capital expenditures funded by the bonds. A Board of Education resolution is required for the establishment of the reserve and payments can only be made for debt service or retirement of outstanding bond obligations. The legal basis of this reserve is set forth in §6-1 of General Municipal Law.

Balance June 30, 2023: $371,623

Balance June 30, 2024: $429,885

Targeted Balance – any bond proceeds not fully expended for its targeted capital expenditure must be placed in this reserve. Expenditures may only be made to pay interest and principal for these bonds or to reduce the amount of outstanding bonds.

Discussion: The Rush-Henrietta Central School District issued bonds to fund the Burger / Roth Middle School renovations and the construction of the TOC. Remaining balances, consisting mainly of interest earnings, can be used to defray future debt payments.

PROPERTY LOSS RESERVE AND LIABILITY RESERVE

Authority: This reserve fund is used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required and these annual contributions may not in total exceed 3% of the annual budget or $15,000 whichever is greater. (Education Law, §1709, Subdivision 8-c).

Funds in this reserve cannot be used for any other purpose unless voter approval is given.

Balance June 30, 2023: $0

Balance June 30, 2024: $0

Targeted Balance: 3% of the annual budget.

Discussion: This reserve is not intended for use on an ongoing basis; rather, it protects the District in the case of a catastrophic event. Rush-Henrietta carries $25 million of liability insurance but would be responsible for any judgments in excess of this amount. Currently this reserve is not utilized but funding may be considered in the future.

RESERVE FOR ENCUMBRANCES

Authority: Governmental Accounting Standards Board (GASB) requires the district to recognize purchase commitments that will be expended in a future period. The Reserve for Encumbrances is the amount of purchase commitments made at year-end where the goods won't be received until the following fiscal year.

Balance June 30, 2023: $4,747,799

Balance June 30, 2024: $4,752,820

Targeted Balance: This reserve must equal the value of outstanding purchase obligations at fiscal year-end, to be satisfied.

Discussion: This required reserve recognizes that purchase commitments were made from a current budget but the goods will not be received until a future period. This ensures that funds used to pay for purchases are aligned with their intended funding sources (budget year or identified capital project). The reserve sets aside the funds for these commitments. Under GASB54 there is no longer a reserve for encumbrances but rather these commitments are identified in "Assigned" fund balance.

In addition to reserves the district also has an Assigned Appropriated and Unassigned fund balance. These fund balances are used for the following purposes:

ASSIGNED APPROPRIATED FUND BALANCE

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

Balance June 30, 2023: $ - 0 -

Balance June 30, 2024: $ - 0 -

Targeted Balance: An appropriation of fund balance represents a non-recurring revenue that cannot be anticipated to be available in the ensuing year's budget. Overuse can cause the depletion of available fund balance, ultimately leading to spikes in the property tax rate or reductions in student programs and services. Therefore, there should be a consistent use rather than large variation in application. As the Property Tax Cap continues there will be ongoing

budget reductions so it is believed that the amounts available for appropriated fund balance will be constrained over the upcoming years.

UNASSIGNED FUND BALANCE

Purpose: Used to fund expenditures from July through September of the ensuing year prior to the inflow of property tax receipts. Also provides a source of funds for unanticipated increases in expenditures, decreases in revenue and interruptions in cash flow. These funds provide a margin of safety to fund unanticipated contingent expenditures that may occur unexpectedly.

Balance June 30, 2023: $6,471,168

Balance June 30, 2024: $6,809,516

Targeted Balance: by law, the unassigned fund balance is limited to 4% of the ensuing year's budget. This is generally considered to be the ideal balance.