

East Rochester Union Free School District
Fund Balance and Reserves: Funding and Use Plan
2021-2022



Updated January 2022

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 East Rochester Union Free School District believes that the judicious use of reserves greatly reduces long term borrowing costs, smooths large fluctuations in tax rates and minimizes the possibility of draconian mid-year budget cuts which would have a direct impact on 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. Reserves which are intended to protect the district against a large, currently unknown risk. An insurance liability reserve is an example of this type.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May, the East Rochester Union Free School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year budget cuts which would have an immediate impact on students. This practice has allowed the district to weather mid-year sales tax reductions, state aid holdbacks and other negative effects without impacting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews any 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 recently increased East Rochester's bond Rating to Aa3 (High Quality), noting:

The grade to Aa3 reflects 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.....

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 East Rochester's plan for use and maintenance of reserves.

The following page shows the General Fund Balance Sheet from the annual Basic Financial Statements which include the reserve balances as of June 30, 2020 and 2021:

**East Rochester Union Free School
District
General Fund - Summarized
Balance Sheet
June 30, 2020 and 2021**

<u>Assets:</u>	<u>2020</u>	<u>2021</u>	<u>Variance</u>
Cash	\$18,339,996	\$21,357,501	\$3,017,505
Due from other governments	0	0	0
Receivables	712,734	868,969	156,235
State & Federal aid receivable	391,007	650,701	259,694
Due from other funds, net	1,487,030	2,275,841	788,811
Total Assets	\$20,930,767	\$25,153,012	\$4,222,245
<u>Liabilities</u>			
Accounts payable	\$257,184	\$364,332	\$107,148
Accrued liabilities	44,929	45,799	870
Due to other funds	544,063	684,921	140,858
Due retirement systems	1,106,009	1,122,410	16,401
Deferred revenue	0	27,078	27,078
Other Liabilities	0	727,866	727,866
Total Liabilities	\$1,952,185	\$2,972,406	\$1,020,221
<u>Fund Balance and Reserves</u>			
Workers' Compensation Reserve	\$1,211,737	\$1,107,512	(\$104,225)
Unemployment Insurance Reserve	1,931,773	1,932,475	702
Encumbrances	850,562	361,026	(489,536)
Employee Benefit Accrued Liability	310,011	480,124	170,113
Tax Certiorari Reserve	1,941,418	1,942,124	706
Capital Technology Reserve	1,958,013	2,685,625	727,612
Capital Project Reserve	4,260,441	5,831,990	1,571,549
Capital Equipment Reserve	1,090,341	1,649,908	559,567
Insurance Reserve	507,355	857,539	350,184
<u>Retirement Contribution Reserve:</u>			
ERS	2,443,895	3,048,359	604,464
TRS	172,295	351,191	178,896
Appropriated fund balance	1,123,946	758,000	(365,946)
Undesignated fund balance	1,176,795	1,174,733	(2,062)
Total Fund Balance and Reserves	\$18,978,582	\$22,180,606	\$3,202,024
Total Liabilities, Fund Balance and Reserves	\$20,930,767	\$25,153,012	\$4,222,245

UNEMPLOYMENT INSURANCE RESERVE

Purpose: 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).

Balance June 30, 2021: \$1,932,475

Balance June 30, 2020: \$1,931,773

Ideal Balance: 10+ years of annual claims plus an allotment for increases due to layoffs.

Discussion:

Currently, we utilize this reserve to cover the exact cost of annual claims to the District. Historically, we have funded this reserve for any unusual increases in unemployment claims due to a weakened economy, loss in state aid funding which drives a potential of significant layoffs and mid-year cuts of vital student programs.

RESERVE FOR ENCUMBRANCES

Purpose: 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, 2021: \$361,026

Balance June 30, 2020: \$850,562

Ideal Balance: This reserve must equal the value of outstanding purchase obligations to be satisfied.

Discussion: This required reserve recognizes that purchase commitments were made from a current budget but the goods won't be received until a future period. This ensures that funds used to pay for purchases are aligned with their intended funding sources. The reserve sets aside the funds for these commitments.

Note: The reserve for encumbrances is higher in the 19-20 year due to the set aside funds to use for unanticipated expenses related to the COVID-19 pandemic.

RESERVE FOR WORKERS' COMPENSATION

Purpose: This reserve fund is used to offset expenditures of compensation and benefits, medical, hospital, or other expenses authorized by article two of the workmen's compensation law and expenses of administering the self-insurance program for East Rochester School District. (General Municipal Law, §6-j)

Balance June 30, 2021: \$1,107,512

Balance June 30, 2020: \$1,211,737

Discussion: The Board authorized the creation and funding of this reserve in June 2016 to cover annual rate increases. Currently, we are utilizing this reserve for the entire expense associated with Workers' Compensation claims, not just the rate increases.

EMPLOYEE BENEFIT ACCRUED LIABILITY RESERVE

Purpose: 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 un-liquidated time earned by employees. 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. It may not be used to pay incentives and it may not be used to pay retiree health benefits (OPEB) (General Municipal Law, §6-p).

Balance June 30, 2021: \$480,124

Balance June 30, 2020: \$310,011

Ideal Balance: Based on audited figures from 20-21, \$127,220 of accumulated sick days accrued for all employees 55+, \$214,482 of accumulated sick days accrued for 95% of employees between the ages of 45-54, and \$142,144 of accumulated sick days accrued for 80% of employees between the ages of 30-44. These items total \$483,846 which justifies our current EBLAR balance.

Discussion: This reserve is for contractual entitlements that will be paid directly upon an employee's retirement. It does not include post-employment health benefits under GASB 45. New York State has not yet developed a method to fund that multi-million dollar liability.

TAX CERTIORARI RESERVE

Purpose: 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)

Balance June 30, 2021: \$1,942,124

Balance June 30, 2020: \$1,941,418

Discussion: The District reserves approximately 85% of the outstanding tax certiorari cases. The amount of outstanding cases is examined during the annual external audit regarding the appropriate level of funding.

CAPITAL RESERVES

Purpose: 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.

Balance June 30, 2021: \$5,831,990 - Capital

Balance June 30, 2020: \$4,260,441 - Capital

Balance June 30, 2021: \$2,685,625 - Technology

Balance June 30, 2020: \$1,958,013– Technology

Balance June 30, 2021: \$1,649,908 - Equipment

Balance June 30, 2020: \$1,090,341 - Equipment

Ideal Balance – may not exceed the voter authorized limit, plus accumulated interest earnings.

Discussion: The East Rochester Union Free 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. Funding building projects in this fashion offers the district two advantages:

1. The use of cash financing avoids the interest charges 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 a future revenue stream to the budget.

In summary, the use of cash financing through capital reserves is prudent financial planning, avoids the expense of bond interest and increases state aid to the district.

INSURANCE RESERVE

Purpose: 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. The amount that can be paid into the reserve during each fiscal year is limited to 5% of the annual budget. (General Municipal Law, §6-n).

Balance June 30, 2021: \$857,539

Balance June 30, 2020: \$507,355

Ideal Balance: 3% of the budget, approximately \$883,019

Discussion: This reserve is primarily used to cover expenses related to areas where the District cannot obtain insurance. Since those areas are very few, the District has not utilized or added to this reserve since it was approved. In the future when needed, we may want to consider transferring this balance to another reserve for more efficient use of reserve dollars.

RETIREMENT CONTRIBUTION RESERVE (ERS)

Purpose: 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).

Balance June 30, 2021: \$3,048,359

Balance June 30, 2020: \$2,443,895

Ideal Balance: We have been utilizing this reserve as a direct offset to the expense for the Employee Retirement System (ERS). The expected long term contribution rate for the Employees Retirement System is approximately 16% of salary. The long-range goal is to utilize this reserve only to the extent that there are increases in the retirement contribution rate annually and to fund this reserve when rates are below long-term averages.

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.

- SUB-FUND RESERVE (TRS)

Purpose: The governing board of a school district, by resolution may authorize expenditures from this Reserve Sub-Fund. Except as otherwise provided by law, moneys 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 moneys apportioned to the District from the State for the support of schools pursuant to Section 521 of Education Law.

Balance June 30, 2021: \$351,191

Balance June 30, 2020: \$172,295

Ideal Balance: The moneys contributed annually to the Reserve Sub-Fund shall not exceed 2% 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. The balance of the Reserve Sub-Fund shall not exceed 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.

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 Teachers 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. For East Rochester Schools, 2% of TRS salaries is approximately \$179,000.

In addition to reserves the district also has an Appropriated and Un-appropriated fund balance. Fund balances are used for the following purposes:

APPROPRIATED FUND BALANCE

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

Balance June 30, 2021: \$ 758,000

Balance June 30, 2020: \$1,123,946

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, ultimately leading to spikes in the property tax rate. It is projected the

current designated fund balance is sustainable for the foreseeable future. **Generally, best practice dictates that appropriated fund balance should not exceed 1-2% of the budget. (2% is approximately \$587,366)**

UNDESIGNATED 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.

Balance June 30, 2021: \$1,174,733

Balance June 30, 2020: \$1,176,795

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

FISCAL STRESS

The State Comptroller evaluates school districts financial condition through The Fiscal Stress Monitoring System each year. It measures based on both financial and environmental indicators. Financial indicators include testing critical areas such as year-end fund balance, operating deficits, cash position and reliance on short-term cash-flow debt. The environmental indicators for school districts are measured by poverty, class size, teacher turnover, tax base, budget support and percent of English-language learners. This system then weighs individual indicators according to their relative importance. The school district's performance on each of these indicators is evaluated on a 100-point scale. The sum of these points overall determines the fiscal and environmental stress score. The tables below relate to school districts, they summarize the maximum points assigned to each indicator category and how total points correspond to the system designations.

School District Financial Categories	Number of Indicators	Maximum Points (100)
Year-End Fund Balance	2	50 (25 per indicator)
Operating Deficits	1	20
Cash Position	2	20 (10 per indicator)
Reliance on Short-Term Cash-Flow Debt	1	10



School District Fiscal Stress Designations	Total Accumulated Points
Significant Fiscal Stress	65-100
Moderate Fiscal Stress	45-64.9
Susceptible to Fiscal Stress	25-44.9
No Designation	0-24.9

School District Environmental Categories (1 indicator each)	Maximum Points (100)
Poverty	25
Class Size	15
Teacher Turnover	15
Tax Base	15
Budget Support	15
English-Language Learners	15



School District Environmental Stress Designations	Total Accumulated Points
Significant Environmental Stress	60-100
Moderate Environmental Stress	45-59.9
Susceptible to Environmental Stress	30-44.9
No Designation	0-29.9

East Rochester UFSD fiscal stress scores and designations are summarized below:

FYE	Fiscal Stress		Environmental Stress	
	Score	Designation	Score	Designation
2018	3.3	No Designation	8.3	No Designation
2019	3.3	No Designation	13.3	No Designation
2020	0.0	No Designation	5.0	No Designation
2021	0.0	No Designation	0.0	No Designation