NORTH ROSE – WOLCOTT CENTRAL SCHOOL DISTRICT

Funding and Use of Reserves Policy

Created June, 2016

Updated June, 2019

BOE Adopted 6/12/18

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 North Rose – Wolcott Central School District believes that 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 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 such as a capital reserve for the replacement of a roof as an example.

2. Reserves which are intended to protect the district against a large, currently unforeseen risk.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May, the North Rose – Wolcott Central School District budgets conservatively and practices fiscal prudence throughout each budget year 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 and will allow the district in the future to weather state aid holdbacks and other negative budget impacts 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.

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 North Rose – Wolcott Central School District's plan for the purpose, accumulation, use, and maintenance of reserve funds.

TAX CERTIORARI RESERVE

Purpose: Any School District may establish a reserve fund for the payment of judgments and claims in tax certiorari proceedings in accordance with article seven of the real property tax law, without approval of the qualified voters of the District, provided, however, that the total of the monies held in such reserve fund shall not exceed that amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of such tax certiorari proceedings.

Use of Unexpended Balances: Funds reserved for tax certiorari judgments and claims pursuant to Education Law, Section 3651[1-a] that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the monies are deposited to the fund and/or that will not be "reasonably required to pay any such judgment or claim", must be returned to the General Fund on or before the first day of the fourth fiscal year following the deposit of such monies to the reserve fund.

Balance June 30, 2016: $0

Balance June 30, 2017: $0

Balance June 30, 2018: $0

Ideal Balance: Potential liability for all outstanding judgments or claims arising out of tax certiorari proceedings.

Discussion: Since we currently do not have any known potential judgments or claims arising out of tax certiorari proceedings, this money should be returned to the General Fund. In the future, the Board of Education should consider funding this reserve as potential judgments or claims arise.

WORKERS' COMPENSATION RESERVE

Purpose: An expenditure shall be made from such fund only for the payment of compensation and benefits, medical, hospital or other expense authorized by article two of the workmen's compensation law and expenses of administering the self-insurance program for such School District.

Use of Unexpended Balances: If the monies in the fund exceed the amounts required to be paid for compensation, benefits and expenses, plus any additional amount required to pay all pending claims, the governing board, within 60 days of the close of such fiscal year, may elect to transfer all or part of the excess amount to certain other reserve funds or may apply all or part of the excess to the budget appropriation of the next succeeding fiscal year.

Balance June 30, 2016: $1,147,144

Balance June 30, 2017: $226,573

Balance June 30, 2018: $228,734

Balance January 31, 2019: $201,510

Ideal Balance: Equivalent to one year of the District's annual contributions to the consortium.

Discussion: The BOE determined that this reserve was overfunded and transferred money out of it and into the Capital Building Reserve in August of 2016. The current balance is just over $200,000. Our 2019-2020contributions to the consortium will be $166,500. This is a decrease from our 2018-2019 contributions of $197,963. The Board of Education should transfer money out of this reserve this summer to bring this reserve in line with our ideal balance.

UNEMPLOYMENT RESERVE

Purpose: An expenditure shall be made from such fund only as required by law to pay into the unemployment insurance fund an amount equivalent to the amount of benefits paid to claimants and charged to the account of such school district in accordance with the provisions of paragraph (e) of subdivision one of section five hundred eighty-one of the labor law.

Use of Unexpended Balances: If at the end of any fiscal year the monies in such fund shall exceed the amounts required to be paid pursuant to subdivision four of this section plus any additional amount required to pay all pending claims, the School Board may within sixty days of the close of such fiscal year, elect to transfer said excess, or any part thereof, to any fund authorized by this article or section thirty-six hundred fifty-one of the education law; and/or (b) apply said excess, or any part thereof to the budget appropriation of the next succeeding fiscal year.

Balance June 30, 2016: 582,905

Balance June 30, 2017: $111,690

Balance June 30, 2018: $124,755

Ideal Balance: Approximately 0.25% of payroll appropriations ($32,158 is 1% of the 2019-2020 payroll appropriations).

Discussion: The BOE determined that this reserve was overfunded and transferred money out of it and into the Capital Building Reserve in August of 2017. Our unemployment costs peaked in 2011-2012 a t a cost of $102,723. Since that time our annual costs have been as follows:

- 2012-2013: $26,842
- 2013-2014: $57,468
- 2014-2015: $10,939
- 2015-2016: $14,652
- 2016-2017: $7,581
- 2017-2018: $0
- 2018-2019 (to date): $0

The current balance is around $127,722. Our ideal balance had been approximately 1% of payroll appropriations. Due to our decreased potential liability in unemployment costs, we are now adjusting our ideal balance to

approximately 0.25% of payroll appropriations. This change results in this reserve currently being overfunded. The BOE will need to take action to transfer funds out of this reserve this summer.

CAPITAL BUILDING RESERVE

Purpose: 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.

Use of Unexpended Balances: The Voters may authorize the transfer of all or any part of this reserve fund to any other reserve fund established pursuant to §3651 of the Education Law. Whenever the Voters shall determine that the original purpose for which a reserve fund has been established is no longer desirable, the school authorities may liquidate, first applying its proceeds to any outstanding bonded indebtedness and the balance to the annual tax levy.

Balance June 30, 2016: $7,388,362

Balance June 30, 2017: $338,890

Balance June 30, 2018: $629,688

Ideal Balance: Up to the maximum amount authorized by the Voters.

Discussion: On 5/16/17, the voters authorized establishment of a new $5 m reserve. To date, we have contributed $2,621,559. However, we also withdrew $2,000,000 (with voter authorization) in May of 2017.The BOE should also continue to aggressively fund this reserve to plan for future capital project work. We are able to contribute an additional $2,378,441 in order to hit the voter authorized contribution level of $5m. Once this reserve has been filled, the balance will be approximately $3m plus interest earned (estimated at $50,000 to $75,000). The BOE should consider asking the community to establish a new reserve in 2019 or 2020 in order to allow the district to continue saving for future capital project work. The BOE should continue to aggressively fund this reserve.

CAPITAL BUS RESERVE

Purpose: To be used to pay for bus purchases. Voter authorization is required for both the establishment of the reserve and payments from the reserve.

Use of Unexpended Balances: The Voters may authorize the transfer of all or any part of this reserve fund to any other reserve fund established pursuant to §3651 of the Education Law. Whenever the Voters shall determine that the original purpose for which a reserve fund has been established is no longer desirable, the school authorities may liquidate, first applying its proceeds to any outstanding bonded indebtedness and the balance to the annual tax levy.

Balance June 30, 2016: $1,487,178

Balance June 30, 2017: $1,450,457

Balance June 30, 2018: $1,295,314

Ideal Balance: Up to the maximum amount authorized by the Voters.

Discussion: On March 12, 2019 the BOE transferred $218,756 into this reserve. With that transfer, the maximum contribution of $2.5m has been met. The current balance in that reserve is approximately $1,545,665. The community authorized the establishment of a new reserve (2019 Capital Bus Reserve) with a maximum contribution limit of $2m on May 21, 2019. Our 2018-2019 transportation aid for bus purchases is $440,060. Since $218,576 of this amount was already transferred in March, the remaining $221,484 will be transferred into this new reserve in June 2019.

INSURANCE RESERVE

Purpose: To fund certain uninsured losses, claims, action, or judgments for which the local government is authorized or required to purchase or maintain insurance. An insurance reserve fund may also be used to pay for expert or professional services in connection with the investigation, adjustment, or settlement of claims, actions, or judgments.

Use of Unexpended Balances: If it is determined that the fund is no longer needed, the monies remaining in the fund may be transferred to another reserve fund authorized by the General Municipal Law or, in the case of a School District, a reserve fund established under Education Law Section ş3651, but only to the extent that the monies in the fund exceed a sum sufficient to pay all liabilities incurred or accrued against the funds, as certified to the School Board by the fiscal and legal officers of the School prior to discontinuance of the fund.

Balance June 30, 2016: $0

Balance June 30, 2017: $0

Balance June 30, 2018: $0

Ideal Balance: Not applicable

Discussion: This reserve was liquidated by Board of Education Action on January 12, 2016. No action is needed at this time.

LIABILITY RESERVE

Purpose: To establish and maintain a program of reserves to cover property loss and liability claims.

Use of Unexpended Balances: The balance of the reserve shall not exceed three percent, exclusive of any planned balance presently authorized, of the annual budget of the District to cover property loss and liability claims. Separate funds may be established for property loss and for liability claims and the separate identity of each fund may be maintained. Such reserve funds shall not be reduced to amounts less than the total of the amounts estimated to be necessary to cover incurred but unsettled claims or suits including expenses in connection therewith other than by payments for losses for which such amounts were established. Payments from such reserve funds shall not be made for purposes other than those for which such funds were established without authorizations by Vote of the electors of the Districts, except that such Board May authorize use of such funds

other than amounts allocated for unsettled claims or suits including expenses in connection therewith to pay premiums for insurance policies purchased to insure subsequent losses in areas previously self-insured, in the event of dissolution of the self-insurance plan.

Balance June 30, 2016: 571,288

Balance June 30, 2017: $662,182

Balance June 30, 2018: $758,495

Ideal Balance: 3% of the budget ($942,576 is 3% of the 2019-2020 budget).

Discussion: After discussions with our external auditors and insurance representative, potential uncovered risks exist in the areas of:

- Cyber security – Although our current coverage was increased to a $500,000 limit (from previous limit of $250,000), we still have significant exposure. Mandated credit monitoring costs alone, currently run in the $175 to $200 range per name, annually. Pricing on a policy for $5m worth of coverage runs in the $40,000 range
- Pollution Remediation Claims
- Special Education Claims
- Employment Related Claims
- Potential 3020a cases tied to the new APPR

This reserve should be funded with a philosophy of looking forward to potential liabilities, not looking back at claims in prior years. A $92,000 claim is equivalent to 1% of the tax levy.

After discussion with both the Audit Committee and the Budget Committee, it has been determined that we will increase this reserve by $90,000 per year until we maintain our ideal balance. Our current balance is approximately $776,533. The BOE will transfer approximately $90,000 into this reserve in June of 2019.

EMPLOYEE BENEFIT ACCRUED LIABILITY RESERVE

Purpose: These monies can be used to pay for unused sick leave, holiday leave, vacation leave, and time allowance granted in lieu of overtime compensation and other forms of payment. It may NOT be used to pay for incentives that are not tied to accumulated sick leave. It may Not be used to pay for retiree health benefits.

Use of Unexpended Balances: If the School Board determines that such fund is no longer needed, any remaining monies may be transferred to any other reserve fund authorized by General Municipal Law or , a reserve fund established under Education Law Section §3651, but only to the extent that the monies in the employee benefit accrued liability reserve fund exceed a sum sufficient to pay all liabilities incurred or accrued against the employee benefit accrued liability fund, as certified to the School Board by the fiscal and legal officers of the school prior to the discontinuance of the fund.

Balance June 30, 2016: $518,558

Balance June 30, 2017: $79,393

Balance June 30, 2018: $83,498

Ideal Balance: In accordance with maintained spreadsheet

Discussion: The BOE determined that this reserve was overfunded and transferred money out of it and into the Capital Building Reserve in August of 2017. A spreadsheet is updated on an annual basis that details our potential liability based on current employees. Our current balance is approximately $101,969. When we built our 2018-2019 budget, we estimated compensated absences expenditures at $5,000 and appropriated the same amount from this reserve. At this time our best estimate of actual compensated absences expenditures for 2018-2019 will be $17,942.62. Since we fund these expenses in full from this reserve, we will appropriate an additional $12,942.62 through BOE action in June of 2019. We will continue to update the spreadsheet each summer and readjust this reserve's balance accordingly after that.

RETIREMENT CONTRIBUTION RESERVE

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 to finance retirement contributions. Effective April 1, 2019 the law allows school districts and BOCES to establish a sub-fund in the retirement contribution reserve fund to include amounts payable to the New York State Teachers Retirement System (NYSTRS). This TRS sub-fund can be used to pay amounts due to NYSTRS or to offset all or some of the amounts deducted from state aid.

Use of Unexpended Balances: The Board may authorize the transfer of a portion of the moneys in the retirement contribution reserve to a reserve fund established pursuant to Sections 6-c, 6-d, 6-e , 6-f, or 6-g of the General Municipal Law, or a reserve fund established pursuant to Section ş3651 of the Education Law. Such a transfer is subject to a public hearing. If the Board determines that the retirement contribution reserve is not longer needed, the Board may terminate the fund by resolution. The resolution must transfer any monies remaining in such fund to other reserve funds established pursuant to Section ş3651 of Education Law.

Balance June 30, 2016: $1,558,984

Balance June 30, 2017: $1,200,297

Balance June 30, 2018: $879,857

Ideal Balance: Three to five years' worth of annual contributions to the NY State and Local Employees' Retirement System

Discussion: This reserve was established in 2010 and reached its highest balance ($2,080,569) in 2013. Our expense for ERS has been as follows:

- 2009-2010: $196,973
- 2010-2011: $275,304
- 2011-2012: $364,379

- 2012-2013: $354,616
- 2013-2014: $438,197
- 2014-2015: $395,365
- 2015-2016: $344,806
- 2016-2017: $320,396
- 2017-2018: $302,362
- 2018-2019 (estimated): - $312,000

Because this expense can vary greatly from year to year, we appropriate funds from this reserve every year to match our expenditures. Based on our estimated expenditures for this year, our balance will drop to approximately $600,000. Our current ideal balance is between $1m and $2m. This means that the BOE should look to contribute funds to this reserve in June of 2019 so that we are able to continue using this reserve on an annual basis.

TRS sub fund: In a fiscal year the contribution to this sub-fund may not exceed 2% of teacher salaries in the prior year. The total balance may not exceed 10% of teacher salaries in the prior year.

Ideal Balance of sub-fund: Up to 10% of teacher salaries in the prior year

Discussion: The BOE should pass a resolution in June of 2019 to establish this sub-fund and begin funding it immediately. Our maximum contribution in the 2018-2019 fiscal year is limited to $197,266.