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## Allegheny-Limestone Central School District

### Board of Education Financial Reserve Plan Document

*The Allegheny-Limestone Central School District Board of Education believes that there is a correlation between the long-term financial health of the school district and its ability to provide students with the educational programs and facilities to meet its mission.*



**Vision:** *Allegheny-Limestone Central School will create and sustain a safe, nurturing, and rigorous learning environment in which all students are challenged and prepared to accomplish their goals.*

**Mission:** *By instilling a sense of inquiry, adaptability, creativity and character, the ALCS community will prepare our students as lifelong learners and problem solvers.*

## ALLEGANY-LIMESTONE CSD RESERVE FUND PHILOSOPHY

The District will continue to use conservative budgeting practices which will likely result in excess revenues over expenditures, at the end of the fiscal year. Through the management of its reserves the District hopes to achieve the following:

- Maintenance of educational programming during economic downturns
- Cash flows that will minimize the need to issue Revenue Anticipation Notes in the event state or federal aid is not paid timely
- Cash flows that will allow increased investment earnings
- The ability to take advantage of opportunities as they arise, relevant to school district operations, that could result in better efficiencies, facilities/capital improvements, and instruction that are a savings to taxpayers in the long run
- The ability to fund non-recurring items in the budget
- Consistencies and improvements in its educational program
- A long-term plan for preserving its infrastructure and school buildings
- The ability to maintain a stable tax levy
- The ability to maintain and/or improve its bond rating which will save taxpayers money at both the local and state level

In conjunction with the District mission and the fiduciary responsibility to manage its fiscal affairs prudently, the Board of Education considers all the above goals critical components that form the basis of how reserve funds should be managed.

## INTENDED USE OF RESERVES

Reserve funds, like other savings plans, are mechanisms for accumulating cash for future capital outlays and other allowable purposes. 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 (litigation) or unknown risks (damage to facilities from a hurricane).

Most reserve funds are established to provide resources for an intended future use. An important concept to remember is that a reserve fund should be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds. School districts should balance the need to accumulate reserves for future needs with the obligation to make sure taxpayers are not overburdened by these practices. There should be a clear purpose or intent for reserve funds that aligns with statutory authorizations.

Each statute that authorizes a reserve fund sets forth a particular purpose for the fund. For example, provisions of the General Municipal Law (the GML) and the Education Law allow municipalities and school districts, respectively, to establish capital reserves for future equipment purchases and capital improvements. The GML also authorizes the establishment of an employee benefit accrued liability reserve for the payment of the monetary value of accumulated, unused leave time to employees upon separation from service. Planning today and saving incrementally for expected future events can help mitigate the financial impact of major, nonrecurring or unforeseen expenditures on the annual operating budget. Establishing and funding allowable reserve funds for a clear purpose can help smooth out spikes in the annual budget and in the real property tax levy.

*Source: Office of the New York State Comptroller – Local Management Guide for Reserves*  
<http://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf>

## OVERVIEW OF AVAILABLE RESERVE FUNDS

### **A814 Workers' Compensation Reserve – GMU Article 2 § 6-j**

- Established by Board of Education resolution
- Funded by budgetary appropriations, or other sums that may be legally appropriated
- Voter approval is not needed to expend funds
- Utilized to pay expenses incurred by a self-funded worker's compensation plan such as compensation and benefits, medical, hospital, and expenses related to administering the plan
- Excess funds may be transferred to other reserves authorized by General Municipal Law and Education Law sixty days before the end of the fiscal year

### **A815 Unemployment Insurance Reserve - GMU Article 2 § 6-m**

- Established by Board of Education resolution
- Funded by budgetary appropriations, amounts from any other fund authorized by this chapter by resolution subject to referendum, or other sums that may be legally appropriated
- Voter approval is not needed to expend funds
- Utilized to pay unemployment claims
- Excess funds may be transferred to other reserves authorized by General Municipal Law and Education Law sixty days before the end of the fiscal year

**A827 ERS/A828 TRS Retirement Contribution Reserve – GMU Article 2 § 6-r**

- Established by Board of Education
- Funded by budgetary appropriations, revenues not required by law to be paid into other funds or accounts, transfers from other reserve funds as permitted by law, and such other funds as the board may legally appropriate
- Voter approval is not needed to expend funds
- A portion of the funds may be transferred to another reserve fund established pursuant to Education Law § 3651 following a public hearing conducted in the manner set forth by in law
- Section 6-r was amended in 2019 to allow for the establishment of retirement contribution sub-fund TRS. Contributions to this sub-fund reserve is not to exceed 2% of the total salaries of all TRS members employed in the preceding year, with an overall cap balance of 10% of the same.

**A862 Liability and Property Loss Reserve – EDN Article 35 § 8-c**

- Established by Board of Education resolution
- May be established as separate funds
- Each fund may not exceed 3 percent of the annual budget, or \$15,000 whichever is greater
- Once established funds may not be reduced below amounts needed to cover incurred but unsettled claims other than for payments for which the funds were established
- May be expended without voter approval unless the funds are expended for a purpose other than the one for which it was established
- Utilized to cover property loss and other liability claims

**A863 Insurance Reserve – GMU Article 2 § 6-n**

- Established by Board of Education
- Funded by budgetary appropriations, transfers from other reserve funds as permitted by law, and such other funds as the school board may legally appropriate
- Contributions to the fund may not exceed 5 percent of the total budget for that year, or \$33,000, whichever is greater
- Voter approval is not needed to expend funds. A judicial approval is needed to pay settled or compromised claims exceeding \$25,000
- Upon determination that this fund is no longer needed the fund may be discontinued and transferred to another reserve fund as permitted by law

**A864 Tax Certiorari Reserve – EDN Article 74 §3651**

- Established by Board of Education resolution
- Voter approval is not needed to expend funds
- Utilized to pay judgments and claims arising out of tax certiorari proceedings
- Established in the amount which might be deemed reasonably necessary to pay judgments and claims
- Monies not used and/or are not reasonably required to pay judgments or claims are to be returned to the general fund on or before the first day of the fourth fiscal year following deposit into such fund
- Such monies shall be deemed reasonably required to pay any such judgment or claim if the proceeding or claim has not been finally determined, or otherwise terminated or disposed of after the exhaustion of all appeals

**A867 Employee Benefit Accrued Liability Reserve – GMU Article 2 § 6-p**

- Established by Board of Education
- Funded by budgetary appropriations, transfers from other reserve funds as permitted by law, and other funds as the school board may legally appropriate
- Voter approval is not needed to expend funds
- Utilized to pay for accrued and accumulated but unused sick leave, personal leave, holiday leave, vacation time, and other benefits earned by employees and payable upon termination
- Upon determination that this fund is no longer needed the fund may be discontinued and funds may be transferred to another reserve fund as permitted by law
- Funds cannot be used to pay lump sum “retirement awards” calculated as a percent of an employee’s final salary and paid upon retirement under a collective bargaining agreement

**A878 Capital Reserve – EDN Article 74 § 3651 (1)**

- Established by voter approval
- States the purpose of the fund, the amount, the term of fund, and sources where funds are obtained e.g. budgetary appropriations, unappropriated fund balance, and New York State aid
- Utilized to pay for any object or purpose for which a school district may issue bonds pursuant to Finance Law
- Expended only with voter approval and for the purpose for which the fund was established
- Transferred to other funds only by voter approval
- May be liquidated by approval of voters if determined fund is no longer needed for the original purpose. Proceeds must be applied first to outstanding bond indebtedness then to tax levy

**A882 Repair Reserve – GMU Article 2 § 6-d**

- Established by Board of Education resolution
- Funded by budgetary appropriations, or revenues not required by law to be paid into another account or fund
- In cases of an emergency moneys in this fund may be expended, without voter approval, by resolution of the Board of Education approved by not less 2/3 of the board provided that not less than ½ of the moneys expended are repaid not less than one year immediately following the year in which the moneys were expended and the total amount shall be repaid no later than the last day of the second fiscal year in which the moneys were expended
- Utilized to pay for repairs to capital improvements or equipment of a type that does not recur annually or at shorter intervals

## SUMMARY OF FUND BALANCE ACCOUNTS

Code	Description	Beginning Balance	Inflow Amount	Inflow Interest	Outflow	Ending Balance
A815	Unemployment Insurance Reserve	73,893.21	-	40.49	-	73,933.70
A827	Retirement Contributions ERS Reserve	1,212,117.42	-	585.70	145,000.00	1,067,703.12
A828	Retirement Contributions TRS Sub-Fund Reserve	-	145,000.00	-	-	145,000.00
A863	Insurance Reserve	283,394.14	-	151.10	-	283,545.24
A867	Reserve for Employee Benefits & Accrued liabilities	446,469.19	-	236.96	-	446,706.15
A878	Capital Reserve 2014	1,372,414.42	630,000.00	465.15	-	2,002,879.57
A878	Capital Reserve 2019	-	170,000.00	-	-	170,000.00
A882	Reserve for Repairs	447,528.61	-	238.08	-	447,766.69
<b>AT092</b>	<b>Total Restricted Fund Balance</b>	<b>3,835,816.99</b>	945,000.00	1,717.48	145,000.00	<b>4,637,534.47</b>
<b>A917</b>	<b>Unassigned Fund Balance</b>	<b>2,063,721.00</b>	-	-	84,995.00	<b>1,978,726.00</b>

The District's Standard & Poor's "A" Credit Rating was upgraded to "A+" based on the District's improved general fund reserves and positive financial performance. A strong collective fund balance position plays an important role in providing additional liquidity and access to favorable interest rates when financing debt.

*\*Restricted reserves require that each year any interest earned be accrued to the respective reserve account.*

## ANALYSIS OF RESERVE/FUND BALANCE ACCOUNTS AND PROJECTED NEEDS

### A815 Unemployment Reserve

The District is obligated to pay 100% of all unemployment claims granted by the NYS Department of Labor. For many Districts across NYS, as well as Allegany-Limestone CSD, uncertainties regarding future state aid, property tax cap limits, enrollment decline, and changing economic conditions have created questions regarding the future delivery of public education in NYS. If, at a future date, the District finds it necessary to restructure its educational program, this reserve will help offset costs related to a reduction in force. The District's goal is to maintain a \$10,000 balance in this reserve. Excess funds from this reserve will be transferred to other reserves and/or appropriated to support the General Fund Budget on an annual basis to bring funding level in line with District's goal.

### A827 Retirement Contribution Reserve ERS

The Retirement Contribution Reserve ERS was established by the Board of Education on October 5, 2004. In recent years the ERS rates have been as follows:

<b>Year</b>	<b>Rate</b>	<b>Amount</b>
2017-2018	15.30%	315,516
2018-2019	14.90%	321,540
2019-2020	14.60%	315,781 Estimated
<b>Total</b>		<b>952,837</b>

The District's goal is to maintain a balance in the ERS reserve that is equivalent to approximately three (3) years of ERS liability as recommended by the external auditors. The current ERS balance reflects a funding level that exceeds three (3) years liability. The Board of Education approved the transfer of \$145,000 in excess funds from the ERS reserve to the TRS sub-fund reserve. A similar transfer is anticipated in the 2019-2020 school year to bring the ERS funding level in line with District's goal.

### **A828 Retirement Contribution Reserve TRS**

The Retirement Contribution TRS sub-fund was established by the Board of Education on June 4, 2019. The District goal is to fund this reserve to an amount not to exceed 10% of TRS salaries as permitted by law. This amount is estimated to be \$745,000 based on 2018-2019 TRS salaries. Initial funding will be in the form of transfers from the ERS Reserve.

### **A863 Insurance Reserve**

The Insurance Reserve was re-established by the Board of Education on January 22, 2019. Over the past several years the District has successfully defended itself against certain claims and actions. The existence of this reserve has allowed the District to avoid adversely impacting the budget development process and any associated increase in taxes or reduction(s) to program. The District does have a pending notice of claims that it will continue to monitor and make adjustments to this reserve as the situation warrants. The District's goal is to maintain a \$300,000 balance in this reserve.

### **A867 Employee Benefit Accrued Liability Reserve (EBALR)**

The Employee Benefit Accrued Liability Reserve was re-established by the Board of Education on February 5, 2019. Funds in this account can only be used to offset costs for accrued and accumulated unused sick leave, personal leave, holiday leave, vacation time, and other benefits that are payable upon termination of employment.

### **A878 Capital Reserve**

The District Voters at a Special Meeting on December 15, 2014 authorized the Capital Reserve Fund 2014. The purpose of this reserve is to finance reconstruction and equipping of school buildings and facilities in an amount not to exceed \$5,000,000 plus earnings for a term of 10 years. The Voters approved a \$16,100,000 Capital Spending Plan on May 16, 2017 and the use of \$3,000,000 from the Capital Reserve. This reserve is due to expires on December 15, 2024 and a remaining funding level not to exceed \$2,000,000 plus interest. District voters approved to establish the Capital Improvement Reserve Fund 2019 in the amount of \$5,000,000 to fund the local share of future capital projects.

### **A882 Repair Reserve**

To address aging facility concerns, the Board of Education approved increasing the limit of the Repair Reserve to \$1,000,000 at the February 9, 2016 Board of Education Meeting. The Repair reserve was re-established by the Board of Education on February 5, 2019. This reserve serves as an “insurance policy” to bridge the gap between building projects for emergency capital expenditures.

### **A914 Assigned Fund Balance – Reserve for Subsequent Year**

For the 2019-2020 school year the District appropriated \$264,000 of unassigned fund balance towards its budget. This represents a \$1,000 decrease from the prior year. It is important to note that assigned (appropriated) fund balance is a means for districts to provide for contingencies (unexpected expenditures) to avoid adversely impacting the tax levy or programs, and to provide cash flow during periods of low revenue receipts. Caution should be taken to avoid the dependence on assigned fund balance to fund reoccurring expenditures or risk potential fiscal distress.

### **A917 Unassigned Fund Balance**

Unassigned fund balance is limited to 4% of the District budget for the upcoming school year. This is a restrictive requirement particular to school districts. The unassigned fund balance of \$1,978,726 is 8.25% of the 2019-2020 budget total of \$23,968,438 and represent approximately 30 days of operation. The \$84,995 decrease in the unassigned fund balance represents a gradual movement toward the 4% limit. The District will continue to monitor the amount of unassigned fund balance for the upcoming year's budget.