

Germantown Central School District

Board of Education
2019-2028 Financial Reserve Plan

The Germantown Central School District Board of Education believes that long-term financial health of the school district is essential to provide students with the educational programs and facilities to meet its mission.

Accepted by the Board of Education on 2/13/19

MISSION STATEMENT

The Germantown School District is a comprehensive, rural public school district that is dedicated to providing opportunity, resources, environment, and instruction so that all students may be productive, successful, independent, responsible and contributing members of our global society.

GERMANTOWN CSD RESERVE FUND PHILOSOPHY

The District will continue to use conservative budgeting practices and constantly monitor the use of reserves. The District will continually update and analyze a 5-year financial outlook of the school each year. The goal is to provide long-term financial stability, avoid drastic cuts to the education program due to a lack of financial resources, and maintain a stable tax levy. As the District monitors the use of reserves, it will attempt to avoid a major funding cliff due to the reliance on reserves in balancing the budget. In the short term, due to difficult economic times, the District will attempt to construct its budget as close to breakeven as possible to avoid large excesses at the end of the year.

Through the management of its reserves, the District hopes to achieve the following:

- Stability and improvements in the educational program
- Maintenance of educational programming during economic downturns
- The ability to maintain a stable tax levy
- Cash flows that will allow increased investment earnings
- The ability to fund non-recurring items in the budget
- A long-term plan for preserving its infrastructure and school buildings
- The ability to maintain and/or improve its bond rating which will save taxpayers money at both the local and state level
- Cash flows that will eliminate the need to issue Revenue Anticipation Notes in the event state or federal aid are not paid timely

GERMANTOWN CSD RESERVE FUND PROCEDURES

This document contains a description and history of each reserve maintained by the Germantown Central School District. It also identifies a target reserve level. These targets were recommended by the Board of Education Policy Committee, based on a review of the following information:

- Five year financial projections
- Possible exposure in each area
- Financial history of the District
- Regional events and factors that have impacted other Districts

Annually, the plan will be updated and implemented as follows:

- The Superintendent and Business Administrator will review balances and patterns of revenues, expenses, and appropriations after books close each fall.
- The Superintendent and Business Administrator will review the updated five year financial projection.
- The Superintendent and Business Administrator will review regional events and/or patterns and their impact on potential exposure.
- The Superintendent and Business Administrator will review reserve targets and balances, adjust targets as appropriate, and present recommendations.
- The Board will make suggestions and will adopt the updated plan.
- Throughout the year, by Board resolution, adjust the budget to allow for charging appropriate expenditures to reserves.
- In June, by Board resolution, allocate funds to reserves as established in the plan.

SUMMARY OF FUND BALANCE ACCOUNTS FOR FISCAL YEAR 2017-18

Reserve	Balance 6/30/18
Employee Benefit Accrued Liability Reserve	\$336,291
Encumbrances	139,400
Workers Compensation Reserve	650,000
Unemployment Reserve	398,600
Retirement Contribution Reserve	1,564,273
Repair Reserve	250,000
Tax Certiorari Reserve	20,000
Capital Reserve	831,513
Subtotal	\$4,190,078
Reserve for Subsequent Year - assigned	800,600
Unassigned	595,694
Total Fund Balance	\$5,586,373

Employee Benefit Accrued Liability Reserve (EBLAR)

As of June 30, 2018, the balance in this reserve account was \$336,291. Funds in this account can only be used to offset costs for accrued and accumulated but unused sick leave, personal leave, holiday leave, vacation time, and other benefits that are payable upon termination of employment. As of June 30, 2018, the District's liability for employee benefits covered under this reserve to be \$303,879.

For a period, spanning many years' school districts in New York State believed this reserve could be used to save money for retiree health insurance costs. In recent years, guidance provided by the NYS Education Department and the NYS Comptroller has clarified that the EBLAR reserve cannot be used to set aside funds for retiree health insurance.

Note: In current law, there is no mechanism to set aside money for post-employment benefits, specifically for the cost of retiree health insurance. The District is required to have an independent actuarial valuation of its liability related to retiree health insurance. As of June 30, 2018 the District's unfunded actuarial accrued liability was \$47,784,679.

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

- Established by the 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, needs authorization by the Board of Education to expend.
- 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
- No expenditures shall be made from an employee benefit and accrued liability reserve fund for any employee benefit for which a reserve fund has already been established under any other provision of law.

Reserve Target – Actual calculated liability for employee benefits +10% (\$334,266)

June 30, 2018 Balance - \$336,291

Recommended June 30, 2019- \$334,266

Encumbrance Reserve

At the end of the school's fiscal year, there have been purchases of goods and services that have been ordered but have not yet been received. The encumbrance reserve is utilized to set aside funds that are committed from the previous fiscal year toward paying for the purchases or services that will occur in the next fiscal year.

Workers' Compensation Reserve

The district is part of a worker's compensation consortium through OCM BOCES and is considered self-insured. Worker's Compensation costs of individuals are paid in the form of an annual premium. These premiums are based on actual expenses paid to employees and the cost to administer the self-insurance program. Therefore, the use of reserve funds will be budgeted in the voter-approved budget to cover a portion or all of the worker's compensation expenditures. The District utilizes this reserve in 18/19 budget by placing a \$0 in the budget code and paying for the worker's compensation expense from the reserve.

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

- Established by the 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, within 60 days of the close of the school yr., to other reserve funds or applied to budgetary appropriations for the new school year.

Reserve Target

5%-12% of payroll

The lower amount allows us to pay several years at the current expense level. A single catastrophic or serious event can cause a spike in costs that can double premiums. The higher level of funding allows for such circumstances.

June 30, 2018 Balance-\$650,000(11%)

Recommended June 30, 2019-\$675,000

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 Germantown CSD, uncertainties regarding future state aid, property tax cap limits, enrollment decline, and a stagnant economy have created questions regarding the workforce. If at a future date, the District finds it necessary to restructure its workforce, this reserve will help offset costs related to a staff reduction. The District will utilize this reserve in the 18-19 school year's budget by placing \$0 in the budget code and paying any unemployment claims out of this reserve. The District will continue to monitor and possibly increase this reserve in future years, as reductions in force may be necessary to balance future budgets.

Unemployment Insurance Reserve - GMU Article 2 § 6-m

- Established by the 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
- Utilized to pay unemployment claims
- Excess funds may be transferred to other reserves authorized by General Municipal Law and Education Law, within 60 days of the close of the school yr., to other reserve funds or applied to budgetary appropriations for the new school year.

Reserve Target

2%-5% of payroll

Over the past few years, our enrollment has been dropping. Based on this and other factors, we have a steady pattern of adjusting staffing levels accordingly. There have been some layoffs, but we have been able to utilize attrition. An examination of our staffing profile indicates that opportunities for attrition will be lower going forward, and we anticipate a higher reliance on layoffs, with the accompanying unemployment responsibilities.

June 30, 2018 Balance-\$398,600(6% of payroll)

Recommended June 30, 2019-\$398,600

Tax Certiorari Reserve

Every four years monies not used to pay judgments or claims must be returned to the General Fund. This Fund allows the district not to have to budget for these items. The District will review and update this tax certiorari case schedule at the end of each school year and adjust the balance of this reserve to match those potential claims.

Tax Certiorari Reserve Fund – EDN Article 74 §3651

- Established by the Board of Education resolution
- Voter approval is not needed to expend funds
- Utilized to pay judgments and claims arising out of tax certiorari proceedings, public hearing required (except in an emergency) before spending from this reserve.
- 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

Reserve Target

The funding of the Tax Certiorari Reverse fund shall be based upon the total amount of the assessment reduction that is deemed to be reasonably calculated to cover the contingent liability without the requirement of bonding a settlement amount to a court order refund the amounts. With a minimum of \$25,000 to cover the district for an unseen assessment reduction.

June 30, 2018 Balance-\$20,000

Recommended June 30, 2019-\$25,000

Retirement Contribution Reserve (ERS)

As a result of the severe stock market declines in 2008, the NYSERS (New York State Employees' Retirement System) has steadily increased the employer contribution rate to ERS. Recently due to better stock returns, there has been a decrease in rates. The main issue is the volatility of the stock market and the associated risks with significant increases in retirement rates.

In recent years, the average ERS rates have been as follows:

2013-2014	20.9%	2016-2017	13.6%
2014-2015	20.1%	2017-2018	13.6%
2015-2016	18.2%	2018-2019	13.5%

The District has paid out 85,904in Employee Retirement costs for the 2017-18 school year. Due to the uncertainty of the stock markets and overall economy, the District will continue to monitor this fund in future years. Since retirement, costs are a significant line item in the budget this reserve is very useful if money is needed to assist in balancing budgets in the short term to provide an educational program and tax stability.

Retirement Contribution Reserve – GMU Article 2 § 6-r

- Established by the 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 under Education Law § 3651 following a public hearing conducted in the manner set forth by in law

Reserve Target

15%-20% of ERS payroll multiplied by five years

Pension costs are a significant factor in district budgets. It is desirable to have enough reserve to pay these costs for five years, as contributions are based on Five -year averages. The lower and upper targets are based on the history demonstrated in the above chart. On 7/31/18 the district transferred \$632,267 to our capital reserve, which lowered our balance to \$932,006.11

June 30, 2018Balance-\$1,564,273 (20% of ERS payroll multiplied by 8.76years)

Recommended June 30, 2019-\$932,006 (20% of ERS payroll multiplied by five years)

Repair Reserve

This reserve is used for capital improvements or equipment not recurring annually (maintenance) in 17-18, Germantown CSD used this reserve to fund the repair of the high school gym floor.

Repair Reserve Fund- GML §6-d

- Established by the Board of Education resolution
- Voter approval is required to fund reserve.
- Public hearing required before spending from this reserve, except in an emergency.
- If expenses are made without a public hearing, then reserve must be repaid in equal installments over the next two school years.
- Emergency spending requires 2/3 majority vote of the Board of Education.
- Unneeded balance may be transferred to Capital, Tax Certiorari or Retirement Contribution Reserves.

Reserve Target

\$100,000-\$250,000

June 30, 2018 Balance-\$250,000

Recommended June 30, 2019- \$250,000

Capital Reserve Fund

In May 2018 the voters approved a capital reserve fund for ten years for a maximum of 3 million dollars. As of 6/30/18, we have \$831,513 in this fund, on 7/31/18 we transfer an additional \$632,267 for a total of \$1,463,780.34. In the coming years if the district has an operating surplus we would like to increase this reserve to help offset local cost on future capital projects.

Capital Reserve – EDN Article 74 § 3651 (1)

- Established by voter approval
- States the purpose of the fund, the amount, the term of the 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 under 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
- Maybe liquidated by approval of voters if the determined fund is no longer needed for the original purpose. Proceeds must be applied first to outstanding bond indebtedness than to tax levy

Reserve Target

The District completed the required Building Condition Survey in 2016. This survey identifies four categories of projected capital work: (1) Building Condition (code related work), (2) Includes work or remediation required to maintain minimum standards for building maintenance and operation, (3) includes work required to comply with codes and laws and to replace building systems, and (4) includes work desired by the District to upgrade its facilities. The Superintendent and Business Administrator would like to base this reserve on the projected local share of the cost of the remaining projects. Germantown's building aid ratio is approximately 58%.

Target Minimum (1)+(2)

Target Maximum (1)+(2)+(3)+(4)

Assigned Fund Balance

For the 2018-2019 school year, the District appropriated \$800,600 of assigned fund balance towards its budget. This represents approximately 5.4% of the current budget. These funds are set aside to lower the required tax levy to support the district's budget.

Reserve Target

4%-6% of the budget

Currently, the district appropriates \$800,600, which falls into our reserve targets. Unexpected costs, such as high-cost special education students, can disrupt school district finances. This reserve allows minimizing the impact of such unexpected costs on planned programming. The district would like to return these funds every year, but the district is also aware that unforeseen expenses during a budget year may prohibit the return of these funds.

2018-2019 Budget

\$800,600 (5.38% of the current budget)

Unassigned Fund Balance

For the year ended June 30, 2018 the amount in the unassigned fund balance was \$595,694, or 4%,

Reserve Target

By law, this reserve is limited to 4% of the current budget; the district would like to continue to be at 4% ,

- to help reduce the cost of borrowing for cash flow,
- offset revenue shortfalls in poor economic times as well as unexpected expenditures,
- help purchase one-time emergence outlays not provided for by reserves,
- stabilize taxes and maintain services without budget cut back,
- improve long-term planning initiatives and enhance the district credit ratings.

June 30, 2018 Balance

\$595,694 (4.0%)

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 and systematically saving for capital acquisitions and other contingencies are 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).

Most reserve funds are established to provide resources for 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 from the reserve. Reserve funds should not be merely a “parking lot” for excess cash or fund balance. Local governments and school districts should balance the desirability of accumulating 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 align with statutory authorizations.

Each statute that authorizes a reserve fund sets forth a particular underlying 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 your annual operating budget. Establishing and funding allowable reserve funds for a clear purpose can help smooth out spikes in the annual budget and 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/lmgq/reservefunds.pdf>

ANALYSIS OF RESERVE/FUND BALANCE ACCOUNTS AND PROJECTED NEEDS

The District has created a multi-year financial plan document that is updated and discussed each year. A financial graph is incorporated into the document to monitor reserve usage and plan for the challenges that are facing all school districts due to the property tax cap and limited State aid. Appendix A displays three different fund balance scenarios, worst, expected, and best case. These scenarios are adjusted by changing some of the major factors of the budget such as health insurance, retirement, tax revenue, and state aid revenues. The financial model developed is utilized for discussions centered on different assumptions in the financial plan, which in turn changes the remaining reserves in the graph. An annual budget contains estimates of revenues and expenditures, and the actual results may differ from the budget. Also, there are contingencies built into the budgeted expenditures to plan for different scenarios. If any surplus funds are available at the end of the fiscal year, the Board of Education will determine the best use of these funds.

APPENDIX A

Fund Balance and Reserves

