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Schodack Central School District Fund Balance and Reserve Plan

2024-25

Presented to the Board of Education September 2024.

Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for a 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 NYS 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 Schodack Central School District believes that the judicious use of reserves greatly reduces long term borrowing costs, and smooths large fluctuations in the tax rate. It believes it is in the best interest of both students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur.

Two purposes for establishing reserves include:

- 1) Saving money for a large, one-time future expenditure.
For example: A capital reserve for the replacement of a roof.
- 2) Reserves which are intended to protect the District against a large, currently unknown risk.
For example: a taxpayer challenging a past assessment.

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 reserves Schodack has in place and to detail the District's plan for use and maintenance of these reserves. Excess funds for the year ending June 30, 2024 were used to add to reserves according to Board Approval.

Interest rate spread to the reserves is based on average interest rates received by the district during the school year.

Report Highlights for review and approval of the Board:

- 2023-24 applied interest to each reserve where allowable at the rate of 3.22% (blended and averaged between TD Bank and NYClass).
- Funding the Tax Certiorari Reserve: \$21,570 added.
- Capital Reserve 2022: \$1,351,669 added.
- Unappropriated Fund Balance at \$1,282,974.

EMPLOYEE BENEFIT ACCRUED LIABILITY (A889)

Authority: The governing board of a 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. Establishing the reserve does not require voter approval. Expenditures may only be made for allowed cash payments earned by employees due upon termination of employment (GML, sec 6-p). Established by the BOE on 8/22/2002.

Balance June 30, 2023	\$ 512,593
<u>Interest Earned</u>	<u>\$ 29,003</u>
Balance June 30, 2024	\$ 541,696

Ideal Balance: Total amount of outstanding compensated absence obligation. For year ending 6/30/2024 this liability is equal to \$667,689.

Discussion: This reserve is for contractual entitlements that are to be paid directly to the employee upon termination. It does not include post-retirement health benefits under GASB75. There is currently no funding mechanism for the obligations that school districts face with paying for retiree health insurance obligations.

Districts are allowed, however, to hold in reserve those post-retirement benefits that are based on compensated absences, such as sick leave. The contracts for the various bargaining units spell out the payments available to employees upon retirement. The liability for these days can be held in the reserve. The District recommends funding the EBLR for all employees currently eligible to retire, in addition to those who meet the years of service threshold and age 50. This liability is calculated after the end of the fiscal year based on the available time for existing staff.

Action/Recommendation: Fund to legal available amount as resources become available.

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. Established by the BOE on 8/22/2002.

Balance June 30, 2023	\$ 0
Changes during year	\$ 21,570
<u>Interest Earned</u>	<u>\$ 0</u>
Balance June 30, 2024	\$ 21,570

Ideal Balance: 100% of expected settlements.

Discussion: Schodack Central School District has a long history of tax certiorari cases. Historically all refunds have been handled by the tax certiorari reserve and has not had to be paid out of the general fund.

Action/Recommendation: Beginning in July of 2024 there have been challenges to assessments made. Some of these are significant and as a result of the pending decisions I would recommend that we fund this reserve to the fullest extent possible. This year that amount is: \$21,570.

UNEMPLOYMENT INSURANCE RESERVE (A815)

Authority: This reserve 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 (GML, sec.6-m). Established by the BOE on 9/20/2001.

Balance June 30, 2023	\$ 380,916
Changes during year	\$
<u>Interest Earned</u>	<u>\$ 21,617</u>
Balance June 30, 2024	\$ 402,543

Ideal Balance: Approximately 5% payroll or \$642,464 based on a \$12,849,427 payroll in 2023-24.

Discussion: District practice has been to fund claims out of the General Fund when possible, maintaining a reserve; however, it allows the District to weather any unusual increases in unemployment claims.

Action/Recommendation: *Planned use of \$26,208 in the 2024-25 budget.*

RETIREMENT CONTRIBUTION RESERVE

Employees' Retirement System (ERS) a sub account within the Retirement Contributions Reserve (A827)

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 Local Employees' Retirement System (ERS). 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. (GML sec. 6-1) Established by the BOE on 5/17/2005.

Balance June 30, 2023	\$ 1,120,937
Changes during year	\$
<u>Interest Earned</u>	<u>\$ 63,643</u>
Balance June 30, 2024	\$ 1,184,580

Ideal Balance: In 2024-25 the rate will be 14.97% (blended) of salaries. Given the volatile nature of ERS the ideal balance would be to have 3 years multiplied by the current average ERS liabilities, or 30% of budgeted salaries. For this school year the three year average is: \$368,043. Ideal balance represents \$1,104,129.

This is based on the previous three years liabilities:

2021-22 - \$308,743
2022-23 - \$373,707
2023-24 - \$421,679

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 an employer contribution rate for ERS. 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.

Action/Recommendation: *Planned use of \$37,383 in the 2024-25 budget. Continue to monitor the balance of this reserve as interest is added. Plan to deal with overages in the reserve through the budgeting process.*

Teachers’ Retirement System (TRS) a sub account within the Retirement Contributions Reserve (A828)

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 Teachers’ Retirement System (TRS). 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. (GML sec. 6-1) Established by the BOE on 5/21/2019.

Balance June 30, 2023	\$ 818,408
Changes during year	\$
Interest Earned	\$ 46,467
Balance June 30, 2024	\$ 864,875

Ideal Balance: 2% of the total compensation or salaries of all teachers (as defined in Education Law 501[4]) 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 (as defined in Education Law 501[4]) 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 an employer contribution rate for TRS. This reserve was authorized by the State Legislature in reaction to support budgets when there are increases in retirement contribution rates that municipalities and school districts will face.

Action/Recommendation: *Planned use of \$74,342 within the 2024-25 budget. Keep this fund fully funded to be available in the future to deal with unforeseen budget constrictions.*

WORKERS’ COMPENSATION RESERVE (A814)

Authority: The purpose of this reserve fund is to pay for compensation benefits, medical, hospital and other expenditures authorized by the Workers’ Compensation Law. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (GML sec 6j). Established by the BOE on 9/20/2001.

Balance June 30, 2023	\$ 266,037
Interest Earned	\$ 15,104
Balance June 30, 2024	\$ 281,141

Ideal Balance: 3-6% of payroll is recommended. The lower amount allows the District to offset many years of premiums. The higher level allows for funding if a single catastrophic event which could cause a spike in costs that could as much as double premiums.

Discussion: The District has a very good safety record and has been able to keep Workers’ Comp costs to a minimum. However, Workers’ Comp costs are rising as workers who become injured are eligible for larger and larger weekly salaries. The District believes in keeping this reserve to protect the District from potential spikes one or two major accidents could create.

Action/Recommendation: *Planned use of \$49,525 in the 2024-25 budget. In future years as additional monies become available, I recommend we increase the Workers’ Compensation Reserve up to a maximum of 5% payroll or \$642,471, based on a \$12,849,427 payroll in 2023-24.*

INSURANCE RESERVE FUND (A863)

Authority: The purpose of this reserve fund is to pay for insurance claims against the District that exceeds insurance policy limits. The reserve is established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (GML sec 6n). Established by the BOE on 6/18/2014.

Balance June 30, 2023	\$ 479,170
Changes during year	\$
Interest Earned	\$ 27,206
Balance June 30, 2024	\$ 506,376

Ideal Balance: Contributions may not exceed greater of \$33,000 or 5% of the 2023-24 total budget, \$1,401,005.

Discussion: This reserve serves as a safeguard to cover allowable claims, helping the District avoid financial strain from one or more large claims. By maintaining this reserve, the District ensures financial stability and preserves strong credit ratings. With the increasing risks and costs associated with cybersecurity threats, computer fraud, and data breaches, it is essential to prioritize funding this reserve whenever feasible to address potential issues promptly and effectively.

Action/Recommendation: *To continue to monitor this fund balance and add to it as resources become available.*

CAPITAL RESERVE FUND - 2015 (A878)

Authority: The Capital Reserve Fund can be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a Capital Reserve Fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount and its probable term. An expenditure from this reserve must also be authorized by the voters. On May 20, 2015, the voters of Schodack authorized the District to set up a Capital Reserve at a maximum amount of \$2,000,000 for a probable term of 10 years.

Balance June 30, 2023	\$ 31,837
Changes during year	\$
Balance June 30, 2024	\$ 31,837

Ideal Balance: May not exceed \$2,000,000 as voted on by the public.

Discussion: By using monies from a Capital Reserve to fund projects, the district is reducing the amount of borrowing it will need to do, thereby lessening the tax impact to taxpayers and reducing interest expense, while still receiving Building Aid from the State.

CAPITAL RESERVE FUND - 2022 (A878-22)

Authority: The Capital Reserve Fund can be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a Capital Reserve Fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount and its probable term. An expenditure from this reserve must also be authorized by the voters. On December 14, 2021, the voters of Schodack authorized the District to set up a Capital Reserve at a maximum amount of \$4,000,000 for a probable term of 10 years.

Balance June 30, 2023	\$ 1,350,072
<u>Changes during year</u>	<u>\$ 1,351,669</u>
Balance June 30, 2024	\$ 2,701,741

Ideal Balance: May not exceed \$4,000,000 as voted on by the public.

Discussion: By using monies from a Capital Reserve to fund projects, the District is reducing the amount of borrowing it will need to do, thereby lessening the tax impact to taxpayers and reducing interest expense, while still receiving Building Aid from the State.

Action/Recommendation: *To continue to monitor this fund balance and add to it as resources become available.*

DEBT SERVICE FUND (V909)

Authority: A Debt Service Fund is considered a reserve and is separate from the General Fund. It is used to account for the accumulation of resources for the payment of principal and interest on long term debt. These funds are primarily derived from interest earnings on monies obligated to capital projects. These funds may only be used for reduction of debt.

Balance June 30, 2023	\$ 3,877
Changes during year	\$
<u>Interest Earned (V2401)</u>	<u>\$</u>
Balance June 30, 2024	\$ 3,877

Discussion: Through the budget development process, utilize funds to reduce the debt burden placed upon the taxpayers of Schodack Central School District.

ASSIGNED APPROPRIATED FUND BALANCE

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

Budgeted 14-15	\$ 1,000,000
Budgeted 15-16	\$ 752,000
Budgeted 16-17	\$ 1,000,000
Budgeted 17-18	\$ 1,000,000
Budgeted 18-19	\$ 1,000,000
Budgeted 19-20	\$ 900,000
Budgeted 20-21	\$ 850,000
Budgeted 21-22	\$ 800,000
Budgeted 22-23	\$ 750,000
Budgeted 23-24	\$ 700,000
Budgeted 24-25	\$ 700,000

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. With the implementation of the Governor’s Tax Cap, a school district can no longer increase its tax rate to handle an overuse of Fund Balance without receiving a 60% majority vote from taxpayers. There is \$700,000 appropriated in the 2024-25 budget.

UNASSIGNED FUND BALANCE

Purpose: To give the District flexibility in case of unanticipated expenditures in a given year. It also helps with cash flow during the months of July through September before tax receipts are available.

Balance June 30, 2014	\$ 848,545
Balance June 30, 2015	\$ 868,990
Balance June 30, 2016	\$ 883,027
Balance June 30, 2017	\$ 921,999
Balance June 30, 2018	\$ 978,837
Balance June 30, 2019	\$ 954,761
Balance June 30, 2020	\$ 1,803,769
Balance June 30, 2021	\$ 2,779,128
Balance June 30, 2022	\$ 1,075,622
Balance June 30, 2023	\$ 1,102,790
Balance June 30, 2024	\$ 1,282,974

Ideal Balance: By law, the undesignated fund balance is limited to 4% of the ensuing years’ budget.