

Salmon River Central School District

Board of Education

Financial Reserve Plan

June 14, 2023

The Salmon River Central School District Board of Education believes that long term financial health of the school district is essential to maintain a high quality educational program and facility for our students to meet its mission.



Mission Statement

Salmon River Central School District values academic achievement, cultural diversity, and celebrates individuality within a safe, supportive learning environment.

Factors Bearing on the District's Future

The District faces multiple future economic challenges. These challenges include:

- The factor that will have the most impact on our District is the financial condition of New York State. Our District is very heavily dependent on State Aid with 92% of revenues coming from State, Federal and Native American Aid.
- Rising health insurance rates and increasing personnel costs will also undoubtedly lead to increased program costs.
- Increasing unfunded mandates from NYS
- Inability to raise taxes due to the low tax base in our community. A 2% tax levy increase equates to approximately \$39,151.

Salmon River Central School District Reserve Fund Philosophy

Over the long run 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. In the short term, due to difficult economic times the District will 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 aims 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 of 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 natural disaster such as flooding).

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. Reserve funds should not be merely a “parking lot” for excess cash or fund balance. 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 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 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/lmg/reservefunds.pdf>

Overview of Available Reserve Funds

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

Creation: Established by the Board of Education during the 2005-06 school year.

Purpose: To pay for worker's compensation claims, related medical expenses and self-insurance administrative costs.

Funding Method: Budgetary Appropriation or other funds that may be legally appropriated.

Use of Reserve: This reserve will be used to offset the District's cost associated with the self-insured Worker's Compensation plan through Franklin-Essex-Hamilton BOCES, including the administration of the plan. Annually each member district funds the plan based on its expected losses over time, as well as the overall needs and expenses of the plan. The amount paid in premiums for the fiscal year 2021-2022 was \$230,802. Losses that exceed estimated amounts and changes in the NYS Workers' Compensation Law can result in premium spikes.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: This reserve was initially setup with an amount equivalent to 1 year of Worker's Compensation claims and self-insurance administration costs. Since that time, the annual costs have nearly tripled. During the 2018-19 school year the Board of Education adjusted the reserve with an authorization up to 5 years of Worker's Compensation claims and administrative costs. Five years of annual cost of \$265, 657 is equal to \$1,328,285.

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| Balance June 30, 2022 | \$1,154,860 |
| Changes during year | \$ 173,425 |
| Interest Earned (as of June 1 st) | \$ 27,680 |
| Balance June 30, 2023 | \$1,355,965 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$173,425.

A815 Unemployment Insurance Reserve – GMU Article 2 § 6-m -

Creation: Established by the Board of Education during the 2018-19 school year.

Purpose: To pay for the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the school district uses the benefit reimbursement method. The District is obligated to pay 100% of all unemployment claims granted by the NYS Department of Labor. 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.

Funding Method: Budgetary Appropriation or other funds that may be legally appropriated.

Use of Reserve: The District is obligated to pay 100% of all unemployment claims granted by the NYS Department of Labor. 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.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: Given the uncertainties regarding future state aid, property tax cap limits, changing enrollment and declining economic conditions the District could be forced to lay off employees causing a spike in unemployment costs. The District currently has 349 full time employees. On average a single lay off would cost the District \$13,104 maximum, if the District were to lay off 8 employees in a single year that would be \$104,832. The reserve should maintain at a maximum 5 years of unemployment as a conservative estimate for a total of \$524,160 plus interest.

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| Balance June 30, 2022 | \$524,588 |
| Changes during year | \$ 0 |
| Interest Earned (As of June 1 st) | <u>\$ 12,573</u> |
| Balance June 30, 2023 | \$537,161 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$0.

A827 Retirement Contribution Reserve – GMU Article 2 § 6-r - ERS

Creation: Established by the Board of Education during the 2018-19 school year.

Purpose: To fund employer retirement contributions. i.e. any portion of the amount(s) payable by an eligible school district to NY State and Local Employees’ Retirement System (ERS), but not TRS.

Funding Method: Budgetary Appropriations, revenues not restricted by law to be paid to another fund or account, transfers from other reserves as permitted by law or other funds that may be legally appropriated.

Use of Reserve: This reserve is used to off-set the district’s cost associated with NY State and Local Employees’ Retirement system.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: Given the unstable stock market over the last 10 years the employer contribution rate has fluctuated significantly. Since retirement costs are a significant line item in the budget and the District cannot raise funds to pay for spikes in retirement rates the District will maintain no more than 5 years of contributions in this fund. Contributions from the 2023-2024 ERS estimate are \$775,677.

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| Balance June 30, 2022 | \$3,431,765 |
| Changes during year | \$ 446,620 |
| Interest Earned (As of June 1 st) | <u>\$ 82,253</u> |
| Balance June 30, 2023 | \$3,960,638 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$446,620.

A827 Retirement Contribution Reserve – GMU Article 2 § 6-r – TRS Sub Fund

Creation: Established by the Board of Education during the 2018-19 school year.

Purpose: To fund teacher retirement contributions. i.e. any portion of the amount(s) payable by an eligible school district to NY State Teachers Retirement (NYSTRS)

Funding Method: Budgetary Appropriations, revenues not restricted by law to be paid to another fund or account, transfers from other reserves as permitted by law or other funds that may be legally appropriated.

Use of Reserve: This reserve is used to off-set the district’s cost associated with NY State Teachers Retirement system.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: Given the unstable stock market over the last 10 years the teachers retirement contribution rate has fluctuated significantly. Since retirement costs are a significant line item in the budget and the District cannot raise funds to pay for spikes in retirement rates the District shall provide annual contributions of 2% of the prior year’s covered TRS salaries and will maintain no more than 10% of the prior years covered TRS salaries including interest. The covered TRS salaries in the 2021-2022 year were \$13,090,341.

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| Balance June 30, 2022 | \$486,923 |
| Changes during year | \$261,807 |
| Interest Earned (As of June 1 st) | <u>\$ 11,671</u> |
| Balance June 30, 2023 | \$760,401 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$261,807.

A863 Insurance Reserve – GML § 6-n –

Creation: Recommended to be established by the Board of Education during the 2021-2022 school year.

Purpose: This reserve is used to pay casualty and other types of losses, except for those for which insurance may be purchased. This could help to reduce the cost of insurance per year. Furthermore, this reserve may be utilized to cover any liability, casualty, or other types of losses for which coverage may not be purchased. The 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. This reserve is used to pay any allowable claims, thereby preventing the District from potential spikes that one or two large claims could cause and providing the District with financial stability and strong credit ratings.

Funding Method: Budgetary Appropriations, revenues not restricted by law to be paid to another fund or account, transfers from other reserves as permitted by law or other funds that may be legally appropriated.

Use of Reserve: This reserve will pay for settled or compromised claims to pay any allowable claims, as described above, up to \$25,000. Higher claims will require judicial approval. The law does not require Board of Education approval to expend funds from this reserve, although board approval will be the practice.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: Annual contributions are limited by law to the greater of \$33,000 or 5% of the budget which is \$1,716,987 for the 2022-2023 school year. Given the increasing concerns over Child Victim Act claims as well as cyber security, computer fraud and data breaches along with the potential for very large uninsured loss claims in these areas the ideal amount limited by law of

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| Balance June 30, 2022 | \$1,500,000 |
| Changes during year | \$ 216,987 |
| Interest Earned (As of June 1 st) | <u>\$ 35,952</u> |
| Balance June 30, 2023 | \$1,752,939 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$216,987.

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

Creation: Established by the Board of Education during the 2007-08 school year.

Purpose: To pay accrued benefits due employees upon termination of services for vacation, sick leave, and personal leave

Funding Method: Budgetary Appropriations, or other funds that may be legally appropriated or funds from other reserves.

Use of Reserve: This reserve will be used when employees separate from the district and payment of accrued leave is required. These transactions will flow through the general fund budget and the offsetting revenue will be represented as a part of appropriated fund balance.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: Each year, a detailed analysis of the District’s liability is computed and is used to support funding of this reserve at 100% of the liability. Necessary increase in funding are approved by the Board of Education.

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| Balance June 30, 2022 | \$ 971,440 |
| Changes during year | \$ 5,317 |
| Interest Earned (As of June 1 st) | <u>\$ 23,283</u> |
| Balance June 30, 2023 | \$1,000,040 |

Action/Recommendation: Recommend to increase the reserve authorization in the 2022-2023 school year by \$5,317.

A878 Capital Reserve – GMU Article 74 § 3651 (1) -

Creation: Recommend to request voter approval at the 5/21/19 annual election.

Purpose: To fund the cost of any object or purpose for which bonds may be issued.

Funding Method: Budgetary Appropriations, or other funds that may be legally appropriated. Voter approval is required to fund this reserve.

Use of Reserve: Use of this reserve requires voter approval. The proposition to use these funds must be specific to a set of projects and dollar amounts. At this time the District is in the planning phase of a capital project to utilize this reserve in the future.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: The District currently has a building aid ratio of 98%. The reserve is funded at \$1,500,000 to cover the non-aided portion of future projects.

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| Balance June 30, 2022 | \$1,517,286 |
| Changes during year | \$ 0 |
| Interest Earned (As of June 1 st) | <u>\$ 36,366</u> |
| Balance June 30, 2023 | \$1,553,652 |

Action/Recommendation: No action

Encumbrance Reserve

Creation: Annually.

Purpose: This reserve is a place holder for expenditures that have been approved and ordered, but not yet delivered.

Funding Method: Prior year's budget.

Use of Reserve: As needed.

Monitoring of Reserve: This reserve will be monitored by the Business Executive.

Funding Level: Minimal to the extent the purchases are made late in the year, and not delivered timely.

Assigned Fund Balance

Creation: Annually.

Purpose: These funds are set aside and returned to the community by lowering the required tax levy to support the district's budget.

Funding Method: Unreserved fund balance and reserve accounts.

Use of Reserve: This fund will be used to minimize the impact of unexpected costs.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: This fund will be monitored closely to make sure the District is not dependent on the funds to balance the annual budget.

Unassigned Fund Balance

Creation: Annually.

Purpose: These funds are unrestricted and can be used at the discretion of the Board of Education.

Funding Method: These funds are the result of favorable budget year's when revenues exceeded expenditures.

Use of Reserve: These funds will be used to cover unexpected costs or revenue shortfalls that were not included in the budget.

Monitoring of Reserve: This reserve will be monitored by the Business Executive, reviewed by the Superintendent, and the activity will be approved by the Board of Education on an annual basis.

Funding Level: The maximum legal limit is 4% of the next year's budget, which is \$1,475,443 as of 6/30/23. The unappropriated fund balance has a balance of \$4,563,804 which means there is an excess of \$3,088,361. The excess balance was caused by a one-time adjust for back Native American Tuition that was due to the District from a formula error. Going forward the new formula has brought in addition revenue that was not budgeted. The District has been hesitant to budget the tuition increases due to the uncertain nature of the tuition formula changes with NYS. There is no formal agreement or legislation to guarantee the formula will continue to be revised annually.

Summary of Fund Balance Accounts

| Reserve | Balance 6/30/22 | Estimated Balance 6/30/23 | Increase/ (Decrease) | Interest As of 5/31/23 |
|--|---------------------|---------------------------------|-------------------------|---------------------------|
| Reserve for Encumbrances | \$ 123,889 | \$ 100,000 | \$ (23,889) | \$ - |
| Reserve for Emp Ben and Acc Liab | \$ 971,440 | \$ 1,000,040 | \$ 28,600 | \$ 23,283 |
| Capital Reserve | \$ 1,517,286 | \$ 1,553,652 | \$ 36,366 | \$ 36,366 |
| Unemployment Reserve Reserve | \$ 524,588 | \$ 537,161 | \$ 12,573 | \$ 12,573 |
| Workers' Compensation Reserve | \$ 1,154,860 | \$ 1,355,965 | \$ 201,105 | \$ 27,680 |
| Reserve for Insurance | \$ 1,500,000 | \$ 1,752,939 | \$ 252,939 | \$ 35,952 |
| Reserve for Retirement Contributions - ERS | \$ 3,431,765 | \$ 3,960,638 | \$ 528,873 | \$ 82,253 |
| Reserve for Retirement Contributions - TRS | \$ 486,923 | \$ 760,401 | \$ 273,478 | \$ 11,671 |
| Total Reserved Fund Balance | \$ 9,710,751 | \$ 11,020,796 | \$ 1,310,045 | \$ 229,778 |
| Appropriated Fund Balance | \$ 1,094,585 | \$ 560,717 | \$ 533,868 | |
| Unappropriated Fund Balance | \$ 5,338,811 | \$ 3,962,634 | \$ 1,376,177 | |
| Total Fund Balance | \$16,144,147 | \$ 15,544,147 | \$ (600,000) | \$ 229,778 |