

# Gloversville Enlarged School District Reserve Plan

## What is a reserve fund?

Investopedia.com defines a reserve **fund** as “a savings account or other highly liquid asset set aside by an individual or business to meet any future costs or financial obligations, especially those arising unexpectedly”.

## Why do we need a reserve plan?

A common focus of school district and BOCES audits from the Office of the State Comptroller has been reserves. Audit recommendations have included reauthorization of reserves on an annual basis and development of a reserve plan to be authorized by the Board. Although a reserve plan is currently not required based on law or regulation, we believe there is value in providing additional disclosure beyond the annual financial statements to the public. In the event that a reserve plan becomes mandatory and specific guidance is issued, this plan is subject to modification for compliance purposes.

In short, having a reserve plan will allow the Board of Education and resident taxpayers to know why these funds have been accumulated and the ultimate plan for saving or spending each account balance.

## Why do we need reserves?

Reserves have many purposes, including:

- **Improvement of cash flow** – Reserve funds not required by law to be in a separate account can mitigate timing gaps in receipt of state aid and property taxes.
- **Avoidance of borrowing interest costs** – When a reserve fund finances purchases of materials or equipment, such as buses, the District does not have to borrow money and incur interest payments on debt.
- **Support of the credit rating** – Rating agencies such as Moody’s typically provide a higher credit rating to local governments with higher reserve fund balances as a percent of the total budget. The higher the credit rating received, the lower the interest cost on multi-year bond financing, typically for capital project expenses.
- **Maintenance of a stable operating budget** – If money is available in reserve funds for projects or equipment, the funds do not need to come from the general operating budget, which would impact the tax levy.
- **Funding beyond the State’s limitation on unrestricted fund balance** – *New York State sets a limit on surplus funds that may be maintained from year to year at 4% of the succeeding year’s budget. Reserve funds provide an additional mechanism for school districts to engage in financial planning for future needs beyond the 4% limitation.*

### When may we fund reserves?

Funding for reserves is allowable consistent with law and regulation. For example, the capital reserve can only be funded subject to the terms of the proposition initially authorized by the District voters. Funding for other reserves is subject to availability and District financial condition. The annual general fund budget contains estimates of revenues and expenditures, and the actual financial results will differ from the budget. In addition, as recommended by the Office of the State Comptroller, there are contingencies built into budgeted expenditures. In the event that any surplus funds are available at the end of the year, the Board of Education will determine the best use of these funds, which may include using these funds to reduce taxes, maintain programs, and/or fund reserves.

### Where may I find information on reserves?

Reserve information is contained within the District's annual financial statements; the most recent statements are posted online at [www.gesdk12.org](http://www.gesdk12.org) under the budget and tax page, historical information link. The statements contain the June 30 year-end balance for each reserve and a brief description within the notes section of each reserve's purpose and legal limitations.

In addition, the District's Property Tax Report Card contains the following information on reserves: type, name, brief description, March 31st actual balance, June 30th projected balance, and a statement of the intended use of the reserve in the budget year. The Property Tax Report Card is part of the annual budget packet and posted online at [www.gesdk12.org](http://www.gesdk12.org) under the budget and tax page, budget documents link.

The New York State Office of the State Comptroller has published a Local Government Management Guide entitled Reserve Funds and dated January 2010. This Guide is a comprehensive look at reserves authorized by General Municipal Law (GML) and by other statutes.

### What types of reserves does the District have?

The District's audited financial statements are set to be approved by the Board of Education on October 4, 2021, and contain reserve balances and information as of June 30, 2021. The notes to the financial statements will describe the legal authority for each reserve, its purpose, and funding. General fund restricted reserves listed below were as follows at June 30, 2021, pending audit, with a projection for the following year-end:

<b>Reserve Account</b>	<b>Balance June 30, 2020</b>	<b>Unaudited Balance June 30, 2021</b>
Retirement Contribution Reserve	\$ 400,879	\$ 625,904
Retirement Contribution Reserve Sub-Fund	\$ 539,459	\$ 954,748
Tax Certiorari Reserve	\$ 40,616	\$ 40,616
Insurance Reserve	\$ 1,001,214	\$ 3,001,315
Capital Reserve - Construction	\$ 618,258	\$ 868,528

Capital Reserve – School Buses & Vehicles	\$ 269,333	\$ 1,224,333
Capital Reserve - Technology	\$ 400,000	\$ 650,000
<b>Total Restricted Reserves</b>	<b>\$3,269,759</b>	<b>\$7,365,444</b>

### **What might cause changes in reserve balances?**

The funding or spending of a reserve can only be done by a Board resolution or voter authorization as prescribed by law or statute. Other increases or decreases in a reserve balance can occur from:

#### **Increases:**

- Excess surplus funds available from the District budget to fund a reserve
- Improved financial resources available from state and federal sources
- Receipt of State transportation aid to fund bus purchase reserve
- Tax litigation – The number of businesses filing tax certiorari may require the Board to fund higher amounts related to refund exposure.

#### **Decreases:**

- Property tax cap limitations on the ability of the Board to raise funds
- Budgetary need to withdraw from the reserve for contingent expenses
- Limitation on reserve deposits over time – i.e., the capital reserve for bus and vehicle purchases has a maximum limit of \$3,500,000 in deposits over its life. Once the limit is reached, no additional deposits to the account may occur.

### **DISTRICT RESERVE DETAIL**

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#### **Reserve: Retirement Contribution Reserve Fund (ERS)**

**Account:** A827, Restricted Fund Balance

**Purpose:** To fund employer retirement contributions payable by an eligible school district to the New York State and Local Employees' Retirement System (ERS).

**Board Resolution:** June 30, 2014

**06/30/20 Balance:** \$400,879

**06/30/21 Projected:** \$625,904

**Valuation:** The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain no more than 85% of five years' worth of employer retirement contribution expenses in the reserve. The current balance at June 30, 2021 is approximately 24% of the goal amount. The reserve balance can offset future payments made to the New York State and Local Employees' Retirement System.

**Plan:** The 2021-2022 budget does not utilize any of the ERS Reserve, but future budgets most likely will due to the uncertainty of state aid and the affect it may have on district finances. The current plan is to continue to monitor employer contribution rates to the pension system and consider additional funding to the reserve in the future.

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**Reserve: Retirement Contribution Reserve Sub-Fund (TRS)**

**Account:** A828, Restricted Fund Balance

**Purpose:** To fund employer retirement contributions payable by an eligible school district to the New York State Teachers' Retirement System.

**Board Resolution:** May 14, 2019

**06/30/20 Balance:** \$539,459

**06/30/21 Projected:** \$954,748

**Valuation:** The Board will receive an annual update on the reserve beginning in May or June. The goal for this reserve would be just under the maximum 10% of the previous year's TRS eligible salaries. Currently the maximum for the reserve is estimated at \$2,126,839 (2% limit per year for 5 years).

**Plan:** The 2021-2022 budget does not anticipate any use of the reserve to offset current year TRS expense. Each year, if general fund monies are available for TRS contributions, they will be used first before reserve funds in accordance with Board of Education Policy. The current plan is to continue to monitor employer contribution rates to the pension system and consider additional funding to the reserve in the future.

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**Reserve: Insurance Reserve**

**Account:** A889 Restricted Fund Balance

**Purpose:** To fund uninsured losses, claims, actions, 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.

**Board Resolution:** Reaffirmed September 9, 2019

**06/30/20 Balance:** \$1,001,214

**06/30/21 Projected:** \$3,001,315

**Valuation:** The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain a sufficient amount to offset expenses that may occur because of current or future lawsuits for which the district's current liability insurance policy does not cover.

**Plan:** The 2021-2022 budget does not utilize any of the Insurance Reserve fund. The current plan is to continue to monitor the pending lawsuits, confer with the district's attorneys with respect to potential resolution of these cases. Currently the district has several potential cases brought about by the Child Victims Act legislation.

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**Reserve: Tax Certiorari**

**Account:** A864, Restricted Fund Balance

**Purpose:** To pay judgments and claims in tax certiorari cases.

**Board Resolution:** August 21, 2017

**06/30/20 Balance:** \$40,616

**06/30/21 Projected:** \$40,616

**Valuation:** Tax certiorari reserves are evaluated based on the exposure outstanding on the open cases. The Board receives an update in May or June. If the balance exceeds the exposure,

excess is transferred back to the general fund. Any unused funds within the reserve at the end of four years (June 30, 2024) must be returned to the general fund.

**Plan:** We are currently tracking eight cases for the 2021-2022 school year, with exposure of \$40,616. The reserve account currently reflects 100% of the anticipated exposure of these cases. No additional funding is planned during the 2021-2022 school year. The reserve will be evaluated in December or January to ensure it is sufficient to pay settlements and is not overfunded.

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#### **Reserve: Capital Reserve – Construction**

**Account:** A878, Restricted Fund Balance

**Purpose:** To pay the cost of any object or purpose for which bonds may be issued (for our District, capital construction).

**Voter Approval:** Voter Proposition June 5, 2020

**06/30/20 Balance:** \$618,258

**06/30/21 Projected:** \$868,528

**Valuation:** The construction portion of the reserve is newly established.

**Plan:** When the next capital project is planned, there may be consideration given to using the reserve funds to offset some project costs. The Construction Capital Reserve fund was established in an amount not to exceed \$5,000,000, with a probable term of ten (10) years, to be used for the construction and reconstruction of improvements and additions to various District buildings, grounds and facilities, including but not limited to, site work and acquisition of original furnishings, equipment, machinery or apparatus required for the purpose for which such buildings, grounds and facilities are to be used, with such Construction Capital Reserve Fund being funded with (i) year-end budget surplus funds known as unassigned fund balance, as available, (ii) transfers of excess monies from Board of Education designated reserves (iii) amounts from budgetary appropriations from time to time, and (iv) state aid received and made available, all as permitted by law as may be determined from time to time by the Board of Education.

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#### **Reserve: Capital Reserve – School Bus and Vehicle**

**Account:** A839, Restricted Fund Balance

**Purpose:** To pay the cost of any object or purpose for which bonds may be issued (for our District, bus purchases and buildings and grounds vehicles).

**Voter Approval:** Voter Proposition June 5, 2020

**06/30/20 Balance:** \$269,333

**06/30/21 Projected:** \$1,224,333

**Valuation:** The bus portion of the reserve is valued each year based on the beginning balance and any bus or vehicle purchases planned in a subsequent year. The terms of the proposition also allow additional funding of the reserve by resolution of the Board. Such additional funding is subject to availability and District financial condition.

**Plan:** The proposed beginning balance in the reserve at June 30, 2021 is \$1,224,333. This includes \$269,333 that was appropriated in the 2021-2022 budget to purchase two buses and a vehicle for buildings and grounds. The School Bus and Vehicle Capital Reserve fund was established in an amount not to exceed \$3,500,000, with a probable term of ten (10) years, to be used for the acquisition of school buses, vehicles and related equipment, with such School Bus and Vehicle Capital Reserve Fund being funded with (i) year-end budget surplus funds known as unassigned fund balance, as available, (ii) transfers of excess monies from Board of Education designated reserves (iii) amounts from budgetary appropriations from time to time, and (iv)

state aid received and made available, all as permitted by law as may be determined from time to time by the Board of Education.

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**Reserve: Capital Reserve – Technology**

**Account:** A840, Restricted Fund Balance

**Purpose:** To be used for the acquisition and installation of technology equipment and technology infrastructure improvements.

**Voter Approval:** Voter Proposition June 5, 2020

**06/30/20 Balance:** \$400,000

**06/30/21 Projected:** \$650,000

**Valuation:** The district, in consultation with Capital Region BOCES, is developing a technology replacement plan that will allow technology purchases on a rotating basis so that the district can stay up to date on current technology and allow all students in the district to have a district provided device.

**Plan:** The proposed beginning balance in the reserve at June 30, 2021 is \$650,000, which may be used to fund the IP agreement that the district has entered into with Capital Region BOCES. The Technology Capital Reserve fund was established in an amount not to exceed \$3,000,000, with a probable term of ten (10) years, to be used for the acquisition and installation of technology equipment and technology infrastructure improvements, with such Technology Capital Reserve being funded with (i) year-end budget surplus funds known as unassigned fund balance, as available, (ii) transfers of excess monies from Board of Education designated reserves (iii) amounts from budgetary appropriations from time to time, and (iv) state aid received and made available, all as permitted by law as may be determined from time to time by the Board of Education.