

Brockport Central School District

Reserve Fund Plan



March 2024

Financial Management Philosophy

The Board of Education considers strong financial management as vital for the district's well-being and its ability to provide students with exceptional academic experiences. This approach safeguards the community's investment in our schools' infrastructure and ensures the availability of resources to maintain the programs and services necessary to meet the diverse needs of our student body. Financial decisions must not prioritize short-term benefits alone; they must also account for their impact on the future. Reserves play a pivotal role in securing a stable and successful future for the district.

The Brockport Central School District recognizes that the prudent utilization of reserves significantly diminishes long-term borrowing expenses, evens out substantial fluctuations in tax levies, and mitigates the potential for significant disruptions caused by volatile state aid and mid-year budget cuts, directly affecting student learning. The district maintains that it is in the best interest of both students and taxpayers to establish and utilize reserves, thereby navigating the financial challenges and uncertainties that inevitably arise. The Comptroller notes:

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)

During the COVID-19 pandemic, districts faced uncertainty regarding their revenue streams. The governor's directive to school districts included preparation for a potential 20% reduction (\$8.7M) in state aid. This was compounded by expectations of reduced sales tax revenues due to the shutdown. However, contrary to projections, the anticipated loss of revenue did not materialize. Instead, revenue outcomes exceeded expectations, providing a more favorable financial outlook.

Furthermore, the addition of federal stimulus funds and reduced expenditures (staffing, school closures) amid the COVID-19 pandemic resulted in an increase in district reserve balances. The pandemic has also underscored the urgent need to tackle academic learning gaps and bolster social-emotional learning resources to counteract the decline in student behavior and academic achievement stemming from the crisis. Strategic allocation of reserves has facilitated competitive staff recruitment and retention

as well the continuation of these supplementary student supports beyond the one-time federal stimulus funds, ensuring their sustainability past the 2023-24 school year.

Through the management of its reserves the district strives to:

- Sustain exceptional educational programming during economic downturns.
- Preserve programs due to state aid uncertainty and late state budgets.
- Maintain appropriate staffing levels for suitable class sizes and to ensure optimal academic offerings.
- Manage cash flows to eliminate the cost of short-term borrowing if state or federal aid is delayed.
- Capitalize on relevant opportunities resulting in long-term savings for taxpayers.
- Ensure consistency and enhancements in its educational program.
- Develop a long-term strategy for preserving infrastructure and school buildings.
- Maintain a stable tax levy, especially during economic downturns.
- Retain or improve the District's Aa3 bond rating to yield savings for taxpayers at both local and state levels. (Aa3. Bond rating: The fourth highest rating in Moody's Long-term Corporate Obligation Rating. Obligations rated Aa3 are judged to be of high quality and are subject to very low credit risk.)

In terms of its mission and responsibility to manage its fiscal affairs prudently, the Board of Education considers all the goals above to be critical to its philosophy in managing reserves.

Transparency

The district believes that in exercising fiduciary responsibility for taxpayer money its actions should be subject to public inspection. The district accomplishes this goal by continuing the following practices:

- Each year, during at least one Board of Education meeting, the Assistant Superintendent for Business will present all reserve fund balances and outline plans for their future utilization.
- Audited financial statements are posted on the district's website.
- The Board of Education adopts the Property Tax Report Card through resolution and integrates it into the budget document (as mandated by state law). This document is further required to be posted on the website and available in designated locations. Disclosure on the Property Tax Report Card includes the following:
 - The purpose of the reserve fund.
 - Reserve balances at the end of the 3rd quarter of the school year.
 - Projected year-end balances.

- A brief description of any planned use of the reserve in the upcoming school year.
- All reserve deposits are authorized by Board of Education resolution.
- Meeting agendas where funding resolutions are discussed are published on the district's website along with minutes documenting the approved resolutions.
- Budget documents that include proposed voter authorized funding are posted on the district's website and placed in all school buildings.

Legally established reserves offer numerous benefits to the school district and its taxpayers. Nevertheless, they can also lead to confusion when their purpose is not clearly understood by the community. The purpose of this document is to further detail Brockport's plan for the maintenance of reserves.

Workers' Compensation Reserve (GML Section 6-j)

Purpose: The purpose of this reserve fund is to pay for compensation benefits and other expenses authorized by the Workers' Compensation Law, and for payment of expenses for administering the district's self-insured program. The reserve is established by a board resolution.

Funding: Budgetary appropriations and such other funds as may be legally appropriated (General Municipal Law, §6j).

Expenditures: Separate Board of Education authorization required to spend from this reserve, unless included in the original budget.

Duration: There is no time constraint; the Board of Education may terminate if district no longer self-insures.

Use of Unexpended Balance: Funds remaining at the end of each school year, in excess of all pending claims, may be transferred, within 60 days of the close of the school year, to other reserve funds or applied to budgetary appropriations for the new school year.

Balance June 30, 2023: \$3,216,596

Targeted Balance: \$2,013,000 - Five years of expenses. Over the next four fiscal years, the district plans to gradually diminish this reserve through transfers to other reserves or appropriations to the general fund budget.

Discussion: Brockport Central School District operates on a self-insured basis for workers' compensation. Given that claims can remain open for several years, this reserve serves as a safeguard against both the cumulative impact of delayed claims and the potential for an exceptionally high payout for a resolved claim or significant injury.

The Workers Compensation Reserve may also be utilized to cover some or all of our annual premium to Rochester Area School Workers Compensation Plan if necessary to support the general fund budget. However, utilizing reserve funds to sustain ongoing operating expenses leads to an unbalanced budget and should be limited to periods of considerable fiscal strain, where alternative measures would cause greater harm to the school district.

Unemployment Insurance Reserve (GML Section 6-m)

Purpose: This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants. The reserve is established by a board resolution.

Funding: Budgetary appropriations or other funds as may be legally appropriated (General Municipal Law, §6-m).

Expenditures: Separate Board of Education approval required to spend from this reserve, unless included in the original budget.

Duration: No time constraint, Board of Education may terminate if the district converts to the “tax contribution” method of funding.

Use of Unexpended Balance: Excess funds remaining at the end of any school year may be transferred, within 60 days of the close of the school year, to other reserve funds or applied to budgetary appropriations for the new school year.

Balance June 30, 2023: \$2,471,300

Targeted Balance: \$752,000 - 2.0% of payroll is allocated to support unemployment claims, especially if extended benefit periods are enacted, similar to prior recessions and the pandemic. The district anticipates appropriating and/or budgeting reserve funds to offset the expenditures in the budget for several years.

Discussion: Due to the uncertainty surrounding state aid, the Property Tax Cap, and the continual rise in benefit expenses, the probability of encountering unemployment expenses in future years may increase. The reserve is specifically designated to moderate the impact of severe economic downturns or unforeseen circumstances, such as the closure of schools during the COVID-19 pandemic.

Employees' Retirement Contribution Reserve (GML Section 6-r)

Purpose: The Board of Education of a school district, by resolution, may establish a reserve for the purpose of financing retirement contributions made to the NY State and Local Employees' Retirement System.

Funding: 1) Budgetary appropriations or other funds that may be legally appropriated. 2) Revenue not restricted by law to be paid to another account or fund. 3) Transfers from Tax Certiorari, Capital, or Repair Reserves subject to public hearing requirements.

Expenditures: Expenditures may only be made pursuant to a board resolution or included in the original budget and must be used to finance retirement contributions (General Municipal Law, §6-r).

Duration: There is no time constraint.

Use of Unexpended Balance: Transfers to or from other reserves are allowed but require a public hearing with 15 days' published notice in the official school newspaper. This is not required when transferring between ERS and TRS sub-funds.

Balance June 30, 2023: \$11,819,823

Targeted Balance: \$7,500,000 - To cover five years' worth of ERS costs (\$1.5M x 5). Adjustments to the targeted balance may be necessary to accommodate annual fluctuations in Employer Contribution Rates.

Discussion: The purpose of this reserve is to allocate surplus funds to ease property tax implications to benefit local taxpayers. The establishment of this reserve was prompted by significant increases in retirement contribution rates experienced by municipalities and school districts. For example, the ERS contribution rate increased from 7.30% per year to 20.90% per year. This represented a 186% cost increase over four years (2009-10 to 2013-14).

Notably, it is one of the most readily available reserves as it can directly cover expenses in the current fiscal year.

In the fiscal year 2023-24, the district plans to utilize approximately \$1,500,000 from this reserve and will use additional funds in subsequent fiscal years. Contributions to this reserve fund will only be made if the balance falls below the targeted threshold.

Teachers' Retirement Contribution Reserve (GML Section 6-r)

Purpose: The Board of Education of a school district, by resolution, may establish a sub-reserve, as part of the Retirement Contribution Reserve, for the purpose of financing retirement contributions made to the Teacher Retirement System (TRS).

Funding: 1) Budgetary appropriations or other funds that may be legally appropriated. 2) Revenue not restricted by law to be paid to another account or fund. 3) Transfers from Tax Certiorari, Capital, or Repair Reserves subject to public hearing requirements.

Annual funding cannot exceed 2% of the prior year's total TRS salary amounts, which is about \$500,000 for Brockport. Cumulative funding in the TRS sub-fund cannot exceed 10% of TRS salaries in total (approximately \$2,500,000).

Expenditures: Expenditures may only be made pursuant to a board resolution or included in the original budget and must be used to finance retirement contributions (General Municipal Law, §6-r).

Duration: There is no time constraint.

Balance June 30, 2023: \$ 2,445,953

Targeted Balance: \$2,477,488 - 10% of TRS salaries. Adjustments to the targeted balance may be necessary to accommodate annual fluctuations in wages.

Discussion: The purpose of this reserve is to allocate surplus funds to ease property tax implications to benefit local taxpayers. This sub-reserve was authorized by the state legislature in reaction to the large expenditure for TRS retirement contribution rates, and the volatility in the employer pension cost that school districts face. For example, the TRS contribution rate increased from 6.19% per year to 16.25% per year. This represented a 163% cost increase over four years (2009-10 to 2013-14).

Notably, it is one of the most readily available reserves as it can directly cover expenses in the current fiscal year. TRS expenses can significantly fluctuate annually and are outside the District's control.

Contributions to this reserve fund will only be made if the balance falls below the targeted threshold.

Insurance Reserve (GML Section 6-n)

Purpose: This reserve fund is used to pay judgments, claims, cybersecurity risks, incidental costs, and professional services connected with the investigation and settlement of claims. Board resolutions are required to create the reserve or spend from the reserve.

Funding: Budgetary appropriations or other funds that may be legally appropriated or funds from other reserves authorized in the GML, subject to permissive referendum. Annual contributions are limited to the greater of \$33,000 or 5% of the budget. There is, however, no limit upon the amount which may be accumulated in the fund (General Municipal Law, §6-n).

Expenditures: Separate Board of Education authorization required to spend from this reserve, unless included in the original budget. This reserve cannot be used for any other purpose covered by another special reserve. Judicial approval is required to pay settled or compromised claims over \$25,000.

Duration: There is no time constraint.

Use of Unexpended Balance: The Board of Education can terminate this reserve, and the remaining funds in excess of incurred or accrued liabilities may be transferred to any other reserve fund authorized by GML or §Ed. Law 3651.

Balance June 30, 2023: \$ 6,715,302

Targeted Balance: \$4,620,000 - 5% of the annual budget.

Discussion: This reserve serves as an effective tool in mitigating deductibles, unforeseen claims, financing judgments or liability settlements not covered by insurance, and addressing significant cybersecurity incidents. The district is committed to collaborating with legal, insurance, and technology consultants to assess potential threats and vulnerabilities that may result in significant claims impacting this reserve.

Adjustments to the targeted balance may be necessary to accommodate exposures. Contributions to this reserve fund will only be made if the balance falls below the targeted threshold. Balances exceeding the target threshold may be transferred to any other reserve fund authorized by GML or §Ed. Law 3651.

Tax Certiorari Reserve (Ed Law Section 3651 [1-a, 3-a])

Purpose: The Board of Education of any school district, by resolution, may establish a reserve to refund taxes of the current year in tax certiorari proceedings per Real Property Tax Law Article 7.

Funding: Budgetary appropriations or other funds that may be legally appropriated. Monies held in reserve may not exceed the amount necessary to meet anticipated judgments and claims.

Expenditures: Separate Board of Education authorization required to spend from this reserve, unless included in the original budget.

Duration: There is no time constraint.

Use of Unexpended Balance: Money not expended for judgments and claims in the year deposited, must be returned to the General Fund on or before the 1st day of the 4th school year after such deposit of monies into the reserve unless the claim(s) are still open and not finally determined or otherwise terminated or disposed of after the exhaustion of all appeals.

Balance June 30, 2023: \$868,646

Targeted Balance: \$868,646 - 100% of open cases and fluctuates.

Discussion: Annually the district conducts a thorough review of outstanding tax certiorari claims. The funds allocated in the reserve account for 100% of the total exposure linked to known claims associated with local assessments. Consistent with the district's protocol, these cases will undergo continual monitoring each year, with adjustments made to the reserve to reflect the total exposure.

Employee Benefit Accrued Liability Reserve (GML section 6-p)

Purpose: The Board of Education of any 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 that may be due upon termination of the employee's service.

Funding: Budgetary appropriations or other funds that may be legally appropriated or funds from other reserves authorized in the GML, subject to permissive referendum.

Expenditures: Separate Board of Education authorization required to spend from this reserve, unless included in the original budget.

Duration: There is no time constraint.

Use of Unexpended Balance: Upon termination by the BOE, balance not required to satisfy all incurred or accrued liabilities may be transferred to any other reserve fund(s) authorized in the General Municipal Law or §Ed. Law 3651.

Balance June 30, 2023: \$125,890

Targeted Balance: \$125,890 - Every year, a thorough analysis of the district's liability is conducted, serving as the basis for fully funding this reserve at 100% of the liability.

Discussion: This reserve is for contractual benefit entitlements that will be paid directly upon an employee's termination of employment. It does not include post-employment health benefits under GASB 75. New York State has yet to establish a method for funding this multi-million-dollar liability. Brockport's employee benefit accrued liability supports earned, but not used, sick, vacation and personal days. The district's objective is to completely fund these contractual obligations.

Capital Reserves for Buildings (Ed Law Section 3651)

Purpose: The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. Voter authorization is required for both the establishment of the reserve and to expend from the reserve. Propositions put before the voters must specify purpose(s), ultimate dollar amounts to be deposited into the reserve(s), probable term(s) or life/lives, and source(s) of funds to be deposited into the reserve(s). The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

Funding: Propositions put before the voters must specify purpose(s), ultimate dollar amounts to be deposited into the reserve(s), probable term(s) or life and source(s) of funds to be deposited into the reserve(s).

Expenditures: Voter approval required to spend from these reserves.

Duration: Time constraint is limited to term or life approved by voters.

Use of Unexpended Balance: Funds may be transferred to other reserves only with voter approval. Voter approval is required to terminate the reserve prior to its specified expiration date. Remaining funds must first be applied to the district’s outstanding bonded indebtedness and secondarily to reduce the tax levy. Voters may extend term only before the end date. Reserve(s) defunct after term(s) expire, except to spend remaining funds with voter approval.

2021 Capital Reserve for Buildings

Voter Authorization 5/18/2021
 Term 10 Years
 Limit (Targeted Balance) \$7,500,000
 Source of Funds Annual budget, surplus funds, NY state aid received

<u>Date</u>	<u>Deposits</u>	<u>Expenditures</u>	<u>Balance</u>
6/30/2023	\$7,500,000	\$0	\$7,500,000

Note: \$5,745,000 was voter authorized (in December 2023) to be used for the 2023 Capital Improvement Project.

2023 Capital Reserve for Buildings

Voter Authorization 5/16/2023
 Term 10 Years
 Limit (Targeted Balance) \$14,700,000
 Source of Funds Annual budget, surplus funds, NY state aid received

<u>Date</u>	<u>Deposits</u>	<u>Expenditures</u>	<u>Balance</u>
6/30/2023	\$5,000,000	\$0	\$5,000,000

Discussion: The Brockport Central School District has effectively utilized capital reserves for numerous years. A capital reserve enables the district to save funds in anticipation of building renovations or additions. Opting to use saved funds instead of borrowing for building projects affords the district two distinct advantages:

1. The use of cash financing saves taxpayers borrowing costs including interest charges and debt issuance costs, thereby achieving the same outcome at a lower overall expense.
2. The existing building aid formula provides state aid to the district for cash expenditures as if it had borrowed funds. Consequently, state aid is calculated based on interest expenses, even though they were avoided, thereby generating an additional revenue stream for the future.

In summary, utilizing cash financing via capital reserves reflects sensible financial planning. It avoids bond interest expenses and issuance costs, enhances state aid accessible to the district, and doesn't burden future boards with fixed obligations.

The district should consider additional capital reserve funds to account for the upcoming building condition survey and for the additional renovations at the transportation facility to accommodate the required transition to zero emission buses.

Capital Reserves for Buses (Ed Law Section 3651)

Purpose: The Bus Reserve Fund is a capital reserve specified to be used to pay for bus purchases. Voter authorization is required for both the establishment of the reserve and for payments from the reserve. Propositions put before the voters must specify purpose(s), ultimate dollar amounts to be deposited into the reserve(s), probable term(s) or life/lives and source(s) of funds to be deposited into the reserve(s). The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

Funding: Propositions put before the voters must specify purpose(s), ultimate dollar amounts to be deposited into the reserve(s), probable term(s) or life and source(s) of funds to be deposited into the reserve(s).

Expenditures: Voter approval required to spend from these reserve(s).

Duration: Limited to term or life approved by voters.

Use of Unexpended Balance: Funds may be transferred to other reserves only with voter approval. Voter approval is required to terminate the reserve prior to its specified expiration date. Remaining funds must first be applied to the district’s outstanding bonded indebtedness and secondarily to reduce the tax levy. Voters may extend term only before the end date. Reserve(s) defunct after term(s) expire, except to spend remaining funds with voter approval.

2021 Bus Reserve

Voter Authorization 5/18/2021
 Term 10 Years
 Limit (Targeted Balance) \$2,400,000
 Source of Funds Annual budget, surplus funds, NY state aid received

<u>Date</u>	<u>Deposit</u>	<u>Expenditures</u>	<u>Balance</u>
6/30/2023	\$2,400,000	\$429,000	\$1,971,000

Note: \$609,000 was voter authorized to be used for the 2023-24 Bus Purchases

2023 Bus Reserve

Voter Authorization 5/16/2023
 Term 10 Years
 Limit (Targeted Balance) \$7,300,000
 Source of Funds Annual budget, surplus funds, NY state aid received

<u>Date</u>	<u>Deposit</u>	<u>Expenditures</u>	<u>Balance</u>
6/30/2023	\$1,000,000	\$0	\$1,000,000

Discussion: Presently, the districts' bus purchase plan cycles through replacements every 8 to 10 years. Beyond this timeframe, bus maintenance expenses tend to surge sharply as equipment ages. This strategy ensures that our fleet remains current while stabilizing the tax levy, given the consistent number of buses replaced. However, bus purchase costs have surged notably in recent years due to enhanced anti-pollution requirements.

Additionally, as required by law, starting in 2027 and fully implemented in 2035, all bus purchases must transition to zero emission buses. The district should consider additional reserves for these bus purchases. The estimated cost of replacing the current fleet with zero emission buses alone surpasses \$40,000,000, excluding expenses for charging stations, facility upgrades, and utility modifications at the Transportation Facility. A portion of these expenses up to a maximum cap are eligible for State aid.

Mandatory Reserve for Debt Service (GML Section 6-I)

Purpose: The Mandatory Reserve for Debt Service Fund is used to hold the proceeds of a bond issuance in excess of the capital expenditures funded by the bonds and bond premiums. A Board of Education resolution is required for the establishment of the reserve and payments can only be made for debt service or retirement of outstanding bond obligations. The legal basis of this reserve is set forth in §6-I of General Municipal Law.

Balance June 30, 2023: \$1,234,942

Targeted Balance: While there is no targeted balance, any bond proceeds not entirely utilized for their intended capital expenditure must be deposited into this reserve. Expenditures from this reserve are restricted solely to paying interest and principal for the bonds or reducing the outstanding bond amount, ultimately benefiting local taxpayers by offsetting future tax levy increases.

Discussion: In the 2023-24 school year, the Brockport Central School District utilized \$451,750, and additional funds will be allocated in the 2024-25 school year. The remaining balances will be allotted to cover borrowing costs in subsequent years.

Property Loss and Liability Reserve (Ed. Law Section 1709 (8-c))

Purpose: This reserve fund is used to pay for property loss and liability claims incurred.

Funding: Budgetary appropriations or other funds that may be legally appropriated. Annual contributions may not in total exceed 3% of the annual budget or \$15,000 whichever is greater. (Education Law, §1709, Subdivision 8-c).

Expenditures: Separate Board of Education authorization required to spend from this reserve, unless included in the original budget.

Duration: There is no time constraint.

Use of Unexpended Balance: Funds deposited cannot be used for another purpose without voter approval, except BOE may use funds not required to settle pending claims, to purchase insurance policies or to cover losses previously self-insured. Balance may not be reduced below amounts required to settle all pending claims.

Balance June 30, 2023: \$1,770,043

Targeted Balance: \$1,848,000 - 2% of the annual budget

Discussion: The purpose of this reserve is not for ongoing use; instead, it serves to safeguard the district in the event of a catastrophic occurrence.