

Fund Balance Management Plan
For
Tully Central School District

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Tully Central Schools
Education Today For Tomorrow's Challenges

Prepared by
Brad Corbin
School Business Administrator

Purpose of Fund Balance Management Plan:

The purpose of this document is to discuss the appropriate use of estimated Fund Balance and corresponding estimated Reserves. The Board of Education and Administration need to work through several aspects of this pursuant to the fiscal health of the District. One area of focus has been to reduce the reliance on Assigned Fund Balance for the following year's budget. In that area we have been successful minimizing the reliance on Assigned Fund Balance as a percentage of the overall budget.

A Capital Reserve fund was created in 2006-07. The existing reserve will expire in May 2017, which creates a need for a new capital reserve especially with a tentatively scheduled capital project scheduled for 2018. That being said, my recommendation is for the Board to create a new Capital Reserve before it expires with a 10 year life and a maximum amount not to exceed \$5,000,000 with annual funding having no set annual limit.

The Board was requested to establish and fund an Employee Benefit Accrued Liability Reserve (EBALR) that will enable the district to pay for accrued benefits due to employees upon termination of service for things such as vacation, sick leave, personal leave, etc.

The district has previously created and funded additional reserves to better enable us to prepare for the future including such as: a Repair Reserve, Tax Certiorari Reserve, Workers Compensation Reserve, Unemployment Reserve, and an Employees' Retirement System (ERS) Payment Reserve.

The Board will continue to review the reserves and related funding levels to allow for future planning throughout the year.

Fund Balance:

Fund Balance is most often a direct result of a well-designed and managed annual district budget. Over the last several years, the Tully Board of Education and Administration have been cognizant to maintain a fiscally appropriate budget. We have been conservative with our revenue estimates by acknowledging that the executive and legislative budget proposals are simply "projections and estimates"—not a "guarantee" of funding to the district. The actual dollars to be received from the state are not provided to us until November of the year following the vote. By being conservative, we avoid the risk of over estimating budgeted revenues.

The development of the expenditure or appropriation side of the budget is an area that requires substantial review and updates from many sources (NYS, BOCES, vendors, etc.). We work with the building administrators and department heads on a consistent basis to determine changes in student placements to accurately plan for our future programs. Even after the budget is adopted, we monitor the fiscal plan on at frequent basis to ensure any variances are minimal from our assumptions.

The result of these efforts has been demonstrated through maintaining low increases in the tax levy as well as reducing the reliance on fund balance to pay for expenses. We also ensure that the Unassigned Fund Balance cannot exceed 4% of the most recent voter approved school budget to be in compliance with legal requirements.

Fund Balance is necessary in order to plan for future liabilities as well as to accommodate unforeseen issues. A good Fund Balance Management Plan will substantially reduce or eliminate a negative effect on normal operation of our District in order to accommodate the liabilities that may arise.

The General Fund budget voted upon by the community is established to only pay for expenses within that year. There is minimal room in a budget to pay for additional or unanticipated expenses. Any Fund Balance that evolves is primarily utilized to offset budget deficits (known and unknown) without negatively affecting the instructional program or negatively impacting our taxpayers.

Reserve Accounts:

- **Tax Certiorari** – We are allowed to deposit money in this reserve based upon the tax certiorari (grievance) claims the District has incurred or can be reasonably predicted. The District is not only responsible for the District's refunded amounts but also the Public Library's refunded amounts. Since these settlements come after the establishment of the tax warrant, there is no method by which the district can reclaim this money through taxes, and therefore, it is prudent for the District to maintain an appropriate balance in the Tax Certiorari Reserve. This will allow us to be prepared in the case of a new unanticipated tax certiorari claim that arises in the next school year after school taxes have been levied. Assuming there is no additional claims that arise between now and when taxes are levied in August, the amount in the Tax Certiorari Reserve is recommended to be approximately **\$1,050,000** to cover existing liabilities. The potential increase in the reserve is the primary result of an on-going tax assessment dispute with Aldi's, Best Western, and Dollar General. These tax assessment disputes have no defined period of time associated with the dispute, that being said, in previous instances similar disputes have more often than not extended out over several years.
- **Workmen's Comp** – At one time there was a requirement that we, as a member of the Worker's Compensation Insurance Consortium, have an amount on our balance sheet that indicated some level of self-insurance. However, we are fully insured through the OCM BOCES Workers' Comp Consortium at the present time. If we feel we will not be utilizing this reserve within a short period of time can transfer money into the General Fund. In this manner, the District would be able to use this money to offset any reductions in revenues or increased expenditures that we may project for the upcoming budget year. This reserve is currently funded at **\$195,578**. The budgeted 2016-17 workmen's comp expenditures are projected to approach \$100K. Based on these calculations, it would appear that our existing Workmen's Comp Reserve fund is adequately funded having approximately two years of budgeted expenditures as the basis of the reserves.
- **ERS Pension Retirement Reserve** – This reserve is used to fund retirement contributions to the New York State and Local Employees' Retirement System (ERS). Our auditors have stated that the most that could be transferred back to the General Fund would be the amount of the current year ERS Pension expense (~\$288,000). The ERS Pension Retirement Reserve has a current balance of **\$1,608,642**. Currently there is legislation supported by Senator John Flanagan to establish a Teacher Retirement Reserve (TRS) to allow school districts to create a reserve fund for TRS related pension costs since there is no current reserve mechanism allowed by NYS. Presently, the district has an annual ERS and TRS combined pension related expense amount of approximately \$1.4M. This proposed TRS reserve legislation would therefore allow the district to maintain an adequate level of funds in relation to the present day ERS and TRS associated expenditures.
- **Capital Reserve** – This is a reserve that can be used only with the permission of the voters to offset local costs on capital projects. It was created by the voters along with yearly funding limits. A well-funded Capital Reserve demonstrates prudent planning for future projects that are required for major capital projects that are required throughout our buildings. We are anticipating the *next capital project to occur in 2018-19*, money from this reserve can be transferred to the Capital Fund to offset local costs for building project expenses. These funds may only be expensed with voter permission. At this time, the amount in the Capital Reserve is recommended to be funded to the highest limit allowed or **\$985,002**. This reserve appears to have been created in 2007 with an overall cap of \$2.0M and a funding limit of \$250K on an annual basis. The proposed 2018-19 Capital Project is projected to require an estimated \$28M per the 2015-16 Building Condition Survey. Current debt projections show debt coming off in both 2017-18 & 2018-19 that will be somewhere near \$9.0M. Based on these calculations, it would appear that our existing Capital Reserve fund is severely underfunded and would require a new Capital Reserve fund being set up with a substantially higher cap and no annual limitations to maximize the scope of the project.

- **Repair Reserve** – This reserve will enable us to make major anticipated repairs without impacting the General Fund budget. As of June 30th 2015, the reserve was funded at **\$360,238**. It is recommended to use any additional available funds not previously allocated to other reserves to increase this reserve. This reserve is often used to supplement a Capital Reserve to help fund capital projects. Given, the previously mentioned proposed 2018-19 Capital Project projection of \$28M, debt coming off near \$9M, and a current Capital Reserve of \$785K it would be appear that the current Repair Reserve fund is underfunded and would require additional funds to help maximize the scope of the project.
- **Employee Benefit Accrued Liability Reserve (EBALR)** – This reserve will allow the district to pay for accumulated or accrued and unused sick leave benefits due to employees upon termination of service. At this time, the reserve is currently funded with a **\$60,000** balance. This reserve will need additional funding over time as more employees with related contract language near retirement age.
- **Unemployment** – This reserve can be used to pay our unemployment insurance claims. The District is self-insured and is not a member of the NYS Unemployment Insurance Fund. We have been spending approximately \$20,000 per year in this reserve over the recent years. This is a reserve that if determined to be overfunded would allow the district to be able to transfer the overfunded amounts back into the general operating budget by means of a journal entry. The Unemployment Reserve has a current balance of **\$995,638**. The Unemployment Reserve account is the primary reserve account with sufficient funds to allow the district to fund a reserve account that is currently underfunded (Capital Reserve). It's also projected to be used to fund the Tax Certiorari Reserve with the need for subsequent funding over future years as the liability potential in that reserve increases over time. The use of these funds is paramount given that we are capped in our revenues with State Aid having been reduced year-over-year by a Gap Elimination Adjustment (GEA) that has taken over \$5M in funds from the district and a current tax cap projection that projects for the second year in a row to be below 2%.

Fiscal Overview

It is important to review the status of the funds within our General Fund Budget in order to get a snapshot of our overall fiscal health.

- **Assigned Fund Balance** – At June 30th, this fund balance includes the balance of carryover encumbrances from the prior year and the amount of appropriated funds from the previous budget applied as revenue toward the current spending plan. The district estimates appropriated funds equal to \$150,000 for the 2015-2016 school year.
- **Unassigned Fund Balance** – This is limited to 4% of the most recent approved general fund budget. The amount of unassigned fund balance— the 4% limit to which we are entitled under the law would be a maximum limit of approximately \$787,688 in 2015-16. The 2015-16 Fund Balance Management Plan shows an estimate of retaining \$645,790 or 3.28%, which is similar to previous years (i.e. usually near or above 3%) given the increase in expenditures in the current year.
- **Encumbrances** – This represents activity where we have made payments to purchases that we have already committed to that have not arrived by the end of the fiscal year. As the purchased items arrive, the funds are paid out (liquidated). The open purchase orders (encumbrances) from the prior year are therefore recorded as such in our financial statements due to the year-end timing cutoff.

Summary

The Board will be asked to approve the Fund Balance Management Plan at the June 20, 2016 Board meeting, as well as approve any required transfers to implement this plan. This will help the District to close its accounting books for the 2015-2016 fiscal year to coincide with our annual external audit. The District is required by the external auditors to complete these steps prior to the year end. In addition, we will continue to look at the short and long term liabilities facing the District and make recommendations about adjustments to best record these liabilities. The main purpose of this plan is to mitigate the effects of these liabilities on our taxpayers and on our instructional programs.