

**WHITE PLAINS CITY SCHOOL DISTRICT
FUND BALANCE RESERVES REPORT
JUNE 30, 2020**



New York State requires School Districts to adopt annually, through Board of Education resolution, the District's Fund Balance Reserve Plan

Overview

Fund Balance Reserves are created to satisfy legal restrictions, plan for the future expenditures or relate to resources that are not available for general use or appropriation.

The Board of Education recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the school district. In addition, it is fiscally advantageous for both the District and the Taxpayer in that it helps mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and assists in ensuring stable tax rates, which is vital to the District's long-term financial planning.

New York State Comptroller (Local Management Guide - Reserve Funds, 2010):

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 (Pg.1).

In addition, the Government Finance Officers Association (GFOA) states that not only is fund balance crucial to an entity's long-range planning, but also important to how credit agencies evaluate a government's continued creditworthiness. Typically, the GFOA recommends governments to have 15% unreserved fund balance. Unfortunately, school districts have a statutory limit of 4%.

RESTRICTED FUND BALANCES

Restricted Fund Balances includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Reserve for Tax Certiorari (A864)

Authorized by Education Law Section 3651 (1-a)

Creation – This reserve has been in existence prior to 1993 and was established by Board Resolution.

Purpose – To pay judgments and claims in tax certiorari proceedings in accordance with Article seven of the Real Property Tax Law, without approval of the qualified voters of the District. The total of the monies held in such reserve fund shall not exceed that amount which might reasonably be deemed necessary to meet anticipated judgements and claims arising out of such tax certiorari proceedings.

Funding Methods – This reserve is funded from excess fund balance.

Use of Reserve – The reserve is used to pay settlements, judgements, and claims in tax certiorari proceedings. Upon recommendation by legal counsel and authorization by the Board of Education, funds from the reserve are appropriated in order to pay such claims.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Business. Each year, legal counsel provides a detailed analysis of tax certiorari filings, listing the District's potential exposure, as well as an estimate of any potential refunds (liability).

Funding Level – Each year the reserve should be sufficient to fund the estimated liability as indicated by legal counsel.

6/30/19 Actual Balance: \$60,494,278

Funds Estimated to be used as of 6/30/20: \$3,953,762

Balance (Prior to Restoring Funds and Accruing Interest \$848,108) = \$56,540,516

Recommendation: Restore funds by \$3,137,327, for a total estimated reserve at June 30, 2020 of \$60,575,950, as per legal counsel. Legal counsel will update this estimate based on petitions received after 3/1/2020, for the year-ending June 20, 2020. Note: Due to the pandemic, State Executive Order extended the statute of limitations to file petitions into July.

Reserve for Retirement Contributions ERS (A827)

Authorized by General Municipal Law Section 6-r (11)

Creation – This reserve was created effective June 10, 2019 and was established by Board Resolution with an initial deposit of \$100,000.

Purpose – For the purpose of financing retirement contributions to New York State and Local Employees' Retirement System.

Funding Methods – This reserve is funded from unappropriated unreserved fund balance.

Use of Reserve – The reserve is used to pay obligations to the New York State and Local Employees' Retirement System. Upon authorization by the Board of Education, funds from the reserve are appropriated in order to pay such costs.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Business.

Funding Level – The District annually, will calculate using the guidance of 2% of member (ERS) salaries for the preceding year, the amount that could be reasonably funded to support future increases in pension expenses.

6/30/19 Actual Balance: \$290,000

Funds estimated to be used as of 6/30/20: \$-0-

Balance (Prior to Restoring Funds and Accruing Interest \$4,350) = \$290,000

Recommendation: Increase the reserve by \$6,021 based on current calculation of 2% of 2018-19 member salaries. Estimated reserve at June 30, 2020 is \$300,371.

Reserve for Retirement Contributions Sub – Fund TRS (A827.1)

Authorized by General Municipal Law Section 6-r (11)

Creation – This reserve was created effective June 10, 2019 and was established by Board Resolution with an initial deposit of \$500,000.

Purpose – For the purpose of financing retirement contributions to New York State Teachers’ Retirement System and/or to offset all or a portion of the amount deducted from the moneys apportioned to the District from the State for the support of schools pursuant to Section 521 of the Education Law.

Funding Methods – This reserve is funded from budgetary appropriation or from excess fund balance. The funds may be transferred from reserves authorized by GML 6-c, 6-d, 6-e, 6-f, 6-g, and Education Law Section 3651.

Use of Reserve – The reserve is used to pay obligations to the New York State Teachers Retirement System. Upon authorization by the Board of Education, funds from the reserve are appropriated in order to pay such costs.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Business.

Funding Level – The moneys contributed annually to the Reserve Sub-Fund for TRS shall not exceed 2% of the total compensation or salaries of all teachers (as that term is defined in Education Law §501[4]) employed by the White Plains City School District who are members of TRS paid during the immediately preceding fiscal year.

6/30/19 Actual Balance: \$1,817,000

Funds estimated to be used as of 6/30/20: \$1,000,000 of the reserve will be used to support the increase in pension contribution rates, per the 2020-21 Adopted Budget.

Balance (Prior to Restoring Funds and Accruing Interest \$27,255) = \$817,000

Recommendation: Increase the reserve by \$1,068,832 based on current calculation of 2% of 2018-19 member salaries. Estimated reserve at June 30, 2020 is \$1,913,087.

Reserve for Employee Benefits and Accrued Liabilities (A867)

Authorized by General Municipal Law Section 6-p

Creation – This reserve was created by Board Resolution on June 30, 2016.

Purpose – This reserve is used to pay for unused accumulated leave time contractually provided to certain groups of employees. This typically includes payment for unused sick and vacation pay. This fund cannot be used to pay for items such as retirement incentives and retiree health insurance.

Funding Methods – This reserve is funded from excess fund balance.

Use of Reserve – This reserve is used when an employee separates from the District and payment of accumulated leave is required. These transactions flow through the budget via a budget revision with the offsetting revenue coming from a drawdown of this reserve. This reserve will continue to be used in this manner to make these payments.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Business. Each year, a detailed analysis of the liability is computed and is used to support the funding of this reserve.

Funding Level – The reserve funds a portion of the accrued liability for unused accumulated leave time.

6/30/19 Actual Balance: \$3,833,775

Funds estimated to be used as of 6/30/20: \$384,229

Balance (Prior to Restoring Funds and Accruing Interest \$51,743) = \$3,449,546

Recommendation: Restore funds by \$332,486 for a total estimated reserve at June 30, 2020 of \$3,833,775, similar to the prior year. This estimate will be updated after the close of the fiscal year based on unused accumulated leave as of June 30, 2020.

Capital Reserve (2016) (A878)

Authorized by: Education Law Section 3651(1)

Creation – Funding of this reserve up to \$25,000,000 was authorized by the voters on May 20, 2016.

Purpose – This reserve is used to pay for future capital improvements.

Funding Methods – This reserve is funded from excess fund balance. Funds placed in this reserve are restricted for use for specific voter-authorized capital improvement projects. In 2015-16 the district set aside \$12,720,240; 2016-17 \$3,631,715; 2017-18 \$3,523,447 and in 2018-19 recommending \$5,124,598 into this reserve for a total deposited of \$25,000,000, as authorized by the voters.

Use of Reserve – Expenditure of funds from this reserve requires pre-approval by the voters. On May 19, 2018, voters authorized the expenditure of \$10,000,000 from the reserve in 2018-19. On May 21, 2019, voters authorized the expenditure of \$6,400,000 from the reserve in 2019-20. The District has proposed to use the remaining balance of \$9,602,361 of this reserve in 2020-21, pending successful approval by its voters on June 16, 2020.

Monitoring of Reserve – This reserve will be monitored by the Assistant Superintendent for Business. Detailed records will be maintained to support the amounts in this reserve.

Funding Level – This reserve was created with a maximum funding of up to \$25,000,000 plus interest to be accumulated over a ten-year period of time. As of June 30, 2019, the maximum allowable to be deposited into the reserve has been exhausted.

6/30/19 Actual Balance: \$15,860,454

Funds Used As of 6/30/20: \$6,400,000

Balance (Prior to Accruing Interest \$141,907) = 9,460,454

Recommendation: To use the remaining balance as of June 30, 2020 of \$9,602,361, per voter authorization to fund 2020-21 capital projects.

Capital Reserve (2019) (A878)

Authorized by: Education Law Section 3651(1)

Creation – Funding of this reserve up to \$25,000,000 was authorized by the voters on May 21, 2019.

Purpose – This reserve is used to pay for future capital improvements.

Funding Methods – This reserve is funded from excess fund balance. Funds placed in this reserve are restricted for use for specific voter-authorized capital improvement projects.

Use of Reserve – Expenditure of funds from this reserve requires pre-approval by the voters.

Monitoring of Reserve – This reserve will be monitored by the Assistant Superintendent for Business. Detailed records will be maintained to support the amounts in this reserve.

Funding Level – This reserve was created with a maximum funding of up to \$25,000,000 plus interest to be accumulated over a ten-year period of time.

6/30/19 Actual Balance: \$2,753,776

Funds Used As of 6/30/20: \$0

Balance (Prior to Accruing Interest \$41,307) = 2,753,776

Recommendation: To use \$397,639 of the June 30, 2020 balance of \$2,795,083, per voter authorization to fund 2020-21 capital projects. However, given the economic environment, it is not being recommended to deposit any excess funds into this reserve as of this writing. Pending the outcome of the 2020-21 budget vote, potential state aid reductions in 2020-21 and the pandemic, it is recommended that due to the potential future shortfalls and in consultation with the District's auditors, legal counsel and guidance received from the school business association, that the District keep remaining funds at year-end in reserves that are flexible and accessible to manage this unprecedented crisis and to reevaluate once the year-end has closed.

Mandatory Reserve for Debt - (A884, V884 – resides in the Debt Service Fund)

Authorized by: General Municipal Law Section 6-1

Creation – Reserve is mandatory.

Purpose – The reserve must be established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale.

Funding Methods – The funding of the reserve is from the proceeds of the sale of District property or capital improvement, unexpended balances remaining after a close of a capital project financed by obligations that still remain outstanding and available funding from the operating fund to pay future outstanding obligations.

Use of Reserve – The reserve may be used to retire the obligations issued to finance the capital improvement sold or for which state or federal aid is received or other obligations of at least equal weighted average life. The District uses the reserve to assist in the annual payment of outstanding obligations in an effort to reduce the District's Tax Levy (Capital Exclusion). In 2018-19 the District used \$700,000, 2019-20 used \$1,500,000 and in 2020-21 will use \$1,200,000.

Monitoring of Reserve – This reserve will be monitored by the Assistant Superintendent for Business. Detailed records will be maintained to support the amounts in this reserve.

Funding Level – This reserve is funded from proceeds from the cash sale of a capital improvement that was financed by obligations that remain outstanding at the time of the sale; State and federal aid received for a capital improvement financed by obligations that are outstanding at the time the aid is received; unexpended balance remaining after a close of a capital project financed by obligations that are still outstanding and; savings from operating budget used to pay outstanding obligations.

6/30/19 Actual Balance: \$4,037,918

Funds Used As of 6/30/20: \$1,500,000

Balance (Prior to funding future obligations) = \$2,537,918

Recommendation: As part of the March 2020 Fund Balance Projections, the District had intended to use projected savings and additional revenues to retire the outstanding balance on the Energy Performance Capital Lease in the amount of \$5,259,598.26. However, given the economic uncertainty, part of these funds will now be used to help fund the unbudgeted expenses needed to reopen schools, in accordance with State Executive Orders and guidance provided by the Federal Center for Disease Control and the State Department of Health. As a result, the District refinanced the Energy Performance Capital Lease, which will yield an interest rate reduction from 3.85% to 1.50%, which equates to approximately \$73,000 in interest savings annually for a total of \$367,000, set to mature April 21, 2026. In addition, part of the savings from 2019-20 is being recommended to fund the next three years of principal and interest payments in order to offset any impact to the

tax levy and its taxpayers in the amount of \$2,570,748.28, which will be transferred into the reserve and result in a year-end balance at June 30, 2020 of \$5,108,666.28. These funds will be segregated to be used specifically to fund the principal and interest payments remaining on the energy performance capital lease over the next three-years.

The following items are not reserve accounts but are equally as important to planning revenues for the District.

ASSIGNED FUND BALANCE

Assigned Fund Balances includes amounts that are constrained by the school district's intent to be used for specific purposes as established by the Board of Education or by their designated official(s).

Assigned Appropriated Fund Balance (A914)

Creation – These funds are those funds in available fund balance which have been set aside for a particular purpose, namely to reduce the tax levy required to support an ensuing years budget.

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

Funding Methods – These funds are assigned from fund balance to offset the next year's tax levy.

Use of Funds – It is recommended that the practice of returning these funds be reduced as much as possible, as budgets permit. As we develop tighter budgets, the amount of excess funds that will be available at year-end is restricted. This makes it more difficult to guarantee that funds will be available to be returned in a subsequent year.

Monitoring of Balance – The balance and use of these funds are monitored by the Assistant Superintendent for Business.

Funding Level – Over time, it is recommended that the planned amount of assigned fund balance included as a revenue source in future budgets be limited.

6/30/19 Actual Balance: \$0

Per 2020-21 Adopted Budget recommendation is \$0

Assigned Unappropriated Fund Balance (A915)

Appropriation of Fund Balance – Loss in State Aid:

As a result of the global pandemic and the resulting economic crisis, the State of New York is facing a \$15 billion dollar deficit and the State Enacted Budget for 2020-21 gave authorization for the State to reassess state revenues to school districts over three measurement periods:

- April 1 – April 30, 2020
- May 1 – June 30, 2020
- July 1 – December 31, 2020

The assessment will be levied if revenues are less than 99% or expenses 101% of projections, per the Department of Budget.

The Governor projects that each school district is at risk of receiving a 20% reduction in state aid, if the Federal Government does not provide support to the States to help them through this economic crisis as a result of the global pandemic. For White Plains City School District this equates to a potential reduction in state aid of \$6 million, which is needed to support the District's adopted 2020-21 Budget.

As a result of this potential loss in state aid revenues, it is being recommended that the District use these funds, originally projected to be deposited into the Capital Reserve Fund, per its March 2020 Fund Balance Projections, for this potential loss in state aid. The amount to be reflected as an Appropriation of Fund Balance – Loss in State Aid at June 30, 2020 is \$6,000,000 to be used to fund the potential 20% loss in state aid for the 2020-21 Budget.

It should be noted that if the reduction in state aid continues into subsequent years, it will be necessary to make permanent reductions to its appropriations budget in 2020-21. The goal would be to do this through efficiencies and to avoid impacting the instructional and extracurricular programs that are currently offered.

Appropriation of Fund Balance – Reopening of Schools:

In response to the global pandemic and in accordance with Federal Center for Disease Control, State Executive Orders and Department Health, the District will be required, as part of its reopening plan, to purchase personal protective equipment, equipment and supplies for cleaning and disinfecting facilities, perform daily health checks, provide additional busing and reengineer classrooms in an effort to maintain social distancing.

As a result, instead of paying off the outstanding balance of its Energy Performance Capital Lease, as projected in its March 2020 Fund Balance Projections, the District will now use these savings, along with additional savings realized from the closure of schools since March 16, 2020, a total of \$4,500,000 to support these unbudgeted expenditures that are anticipated to be incurred in order to comply with the requirements of reopening schools.

The District will be seeking reimbursement of expenses incurred in 2019-20 and anticipated to be incurred in 2020-21 through the Federal Emergency Management Agency (FEMA) application process.

Appropriation of Retirement Contribution – Teachers’ Retirement Reserve:

For 2020-21, the contribution rate for Teachers’ Retirement Pension is increasing by 7.56%, which equates to approximately \$1 million. In an effort to support the 2020-21 Budget, the Reserve for Retirement Contributions will be appropriated and reflected as revenues to support the additional expense that will be incurred.

Reserve for Encumbrances

The Purchasing Agent for the district has been designated the authority to issue purchase orders on behalf of the district and these purchase orders are an assignment of fund balance.

UNASSIGNED FUND BALANCE (A917)

Unassigned Fund Balance represents the residual classification for school district's general fund and could report a surplus or deficit.

Authorized by: New York State Real Property Tax Law §1318

Creation – Retention of these funds are allowed by law.

Purpose – These funds are unrestricted and may be used for any valid purpose.

Funding Methods – These funds have been accumulated from excess fund balance.

Use of Funds – It is recommended that these funds not be used except for an emergent, unanticipated expense, or revenue shortfall, that cannot be handled either in the budget or with other available reserves.

Monitoring of Balance – These funds are monitored by the Assistant Superintendent for Business.

Funding Level – The maximum statutory limit is recommended (4% of the ensuing budget).

6/30/19 Actual Balance: \$9,063,540

Recommendation for 6/30/20: Maximum statutory limit, 4% of 2020-21 budget, or \$9,329,762

NONSPENDABLE FUND BALANCE (A806)

Nonspendable Fund Balance consist of assets that are inherently Nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale and principal of endowments.

Creation – This reserve stems from a 2006 pledge of \$1 million for the Loucks complex by Louis R. Cappelli Foundation, Inc. Based on a new agreement, the District is schedule to receive \$50,000 each year until the pledge is paid in full.

6/30/19 Actual Balance: \$255,685

Balance at 6/30/2020: \$209,520