

# Reserve Funds:

## Saving for the Future

A **reserve fund** acts as a savings account, allowing school districts in New York state to set aside money for use in the future. There are 12 different types of school district reserve funds. Some are used for short-term needs or to balance a school budget, while others help districts finance long-term projects and expenses.



### Reasons to Create Reserves

By establishing a reserve fund, districts plan ahead and save incrementally for the future. This helps mitigate the financial impact of major, non-recurring or unforeseen expenditures on a school district's annual operating budget. It also can reduce or even eliminate a district's need to raise taxes and/or cut staff, programs and services in response to certain financial obligations such as legal judgements or emergency repairs.

The status of a district's reserve funds can also affect its bond rating. Generally, having a healthier fund balance\* and reserve funds lead to a higher bond rating. The higher a bond rating, the less it costs a district to borrow money for things such as capital projects.

### Reserved for a Purpose



A school district must follow strict legal requirements, under Education Law or General Municipal Law, to create, fund, dissolve or draw money from school district reserve funds. Not all school districts chose to, or in some cases, are eligible to utilize all 12 reserve funds.

### Benefits of Reserve Funds

- ✓ Save for future needs
- ✓ Maintain a stable operating budget
- ✓ Maintain a stable tax levy
- ✓ Boost district's overall fiscal strength
- ✓ Supplement the limitations of fund balance\*

**\* Fund balance** is money left at the end of the fiscal year due to underspending or taking in additional revenue. An "unassigned" fund balance provides cash flow that can be used for a variety of needs, unlike reserve funds, which are targeted for specific purposes. While the financial industry recommends organizations have unassigned fund balances of between 5 and 10 percent of their total annual budget, New York state limits school districts' fund balances to 4 percent. Generally, a 4 percent fund balance could cover a district's operating costs for about two weeks.

## EMPLOYEE-RELATED RESERVES

*Education is a people business. In fact, salaries and benefits for teachers and support staff typically make up more than 70 percent of a district's annual budget. Employee-related reserve funds help guard against fluctuations in these costs.*

- ✔ **Retirement Contribution Reserve Fund** – Allows districts to save money to meet future pension obligations for staff who are members of the New York State and Local Employees Retirement System (ERS). Pension contributions for school districts can vary dramatically from year to year. This reserve helps provide stability for districts when budgeting for retirement costs.
- ✔ **Employee Benefits Accrued Liability Reserve (EBALR) Fund** – Reimbursement for unused sick leave, personal leave, holiday leave and vacation time is often owed to employees who leave their jobs. This reserve fund helps districts meet these financial obligations.
- ✔ **Workers Compensation Reserve Fund** – Districts that qualify as a self-insurer may establish this reserve to pay for Workers Compensation and benefits, including related medical/hospital expenses for employees injured on the job.
- ✔ **Unemployment Insurance Payment Reserve Fund** – School districts are obligated to pay 100 percent of all unemployment claims granted by the New York State Department of Labor. This reserve can help qualified districts cover the costs of paying benefits to former employees.

## PROPERTY-RELATED RESERVES

*School property, including buildings and the land they sit on, is one of the most significant investments taxpayers make in their communities. Property-related reserve funds help districts plan for and provide healthy, safe and energy-efficient learning facilities in a more cost-effective manner. They also help districts guard against cost fluctuations when unexpected issues arise.*

- ✔ **Capital Reserve Fund** – This reserve is used to pay for future capital improvements to district facilities and sites. Voter approval is required to establish, fund and use these reserves. A proposition to use these funds must be specific to a set of projects and dollar amounts.
- ✔ **Repair Reserve Fund** – This reserve is used to pay for repairs and maintenance expenses that are not usual, or regularly occurring, maintenance expenses.
- ✔ **Mandatory Debt Service Reserve Fund** – When a district sells real property such as a building or land, this reserve allows it to meet its obligation to pay any outstanding debt on bonds originally issued to finance past work on the property.
- ✔ **Tax Reduction Reserve Fund** – Funds from the sale of real property that are not required to be used to pay outstanding debt can be placed in this reserve and used for tax reduction purposes for a period of up to 10 years.
- ✔ **Insurance Reserve Fund, Property Loss and Liability Reserve Fund** – These reserves are used to pay for costs related to liability claims and other types of losses.

## OTHER RESERVES

- ✔ **Tax Certiorari Reserve Fund** – Taxpayers can challenge their school property tax assessments. This reserve helps districts pay claims that exceed the budgeted appropriations for tax refunds or those claims that result in unusually large settlements.
- ✔ **Uncollected Taxes Reserve Fund** – This reserve allows only small city school districts to set aside money to cover uncollected real property taxes that are due.
- ✔ **Reserve for Excess Tax Levy** – If a district collects more taxes than allowed under its calculated maximum allowable tax levy, or tax cap, those excess funds must be placed in reserve and used the following school year to offset any tax increase. *This is not a traditional reserve fund.*

Most reserve funds can be created by a resolution approved by a school district's Board of Education. A capital reserve, however, must be approved by voters in the district.

