

UNDERSTANDING RESERVE FUNDS

What is a reserve fund?

Reserve funds are allowed by the NYS Education Department to cover the cost of specific expenditures, such as Workers' Compensation and tax certioraris, and to cover unexpected expenditures, such as costs incurred for unanticipated increased enrollment or emergency building repairs.

- Restricted Fund Balance – consists of funds that are mandated for a specific purpose.
- Assigned Fund Balance – consists of funds that are set aside with the intent to be used for a specific purpose.
- Unassigned Fund Balance – consists of excess funds that have not been classified and are considered spendable resources.

How are reserve funds used?

Specific funds are used to help mitigate budget challenges in their respective categories in a given year. For example, if a district has an unusually high number of tax certioraris in one year, the tax cert reserve is used to address this unforeseen financial impact, rather than allow it to affect the district's budget.

Can the District use reserves for any purpose?

No. When money is put into a reserve fund, it can only be expended for the specific purpose of the fund. For example, money in a Workers' Compensation reserve fund can only be used to pay for claims and expenses related to Workers' Compensation.

What is the current status of District assigned and unassigned fund balance accounts?

The reserve accounts for Irvington UFSD currently total approximately \$5.1 million, of which nearly \$2.8 million is in accounts already assigned for certain expenditures:

- \$1,739,658.13 – Tax Certiorari Reserve (see last question for detailed explanation)
- \$ 854,353.90 – Liability-Employee Benefits Reserve
- \$190,000 – Workers' Compensation Reserve

All three reserves are set up in accordance with SED regulations and are outlined in our BOE policy as to their BOE mandated balances and funding. The \$2.3 million fund balance is the State allowable 4 percent of our total operating budget.

What happens if the District continues to use the fund balance to stay below the tax cap?

If the District continues to rely on the fund balance to offset taxes, the reserves could potentially be depleted by the 2018-19 school year.

What are the long-term ramifications of using our fund balance?

It is important to note that using the fund balance to consistently offset taxes is not a sustainable source to balance a budget. Any amount of fund balance that is not sustainable into the following year's budget will directly impact the tax levy. A district's bond rating would be negatively impacted, resulting in higher interest rates. Additionally, the District could receive a "Fiscal Stress" designation from New York State.

What is a tax certiorari and what effect does it have on my tax rate?

A tax certiorari is the legal process by which the courts review a real property assessment based upon a grievance made by the owner of the property. In other words, a taxpayer who believes their property is over-assessed, and therefore overtaxed, can petition the government to have the assessment lowered. If a tax certiorari is successful, the total assessed value of the community is lowered, which naturally raises the tax rate in the following year in order to generate the same amount of revenue. An ordinary residential tax certiorari doesn't have a meaningful impact on the tax rate, but a large commercial tax certiorari might noticeably increase the tax rate.

What is the status of the District's tax certiorari reserve?

The District maintains a tax certiorari reserve to mitigate most of the impact of large changes in the total assessed value based upon these tax certs. In the past, the District has had to incur debt in order to pay tax settlements. Currently, the District began the 2015-16 school year with a balance of approximately \$3 million in the tax certiorari reserve. By June 30, 2016, it is anticipated that the remaining balance will be \$199,000 due to tax settlement payments made from this reserve fund.