

CITY SCHOOL DISTRICT OF NEW ROCHELLE
DRAFT RESERVE PLAN

RESERVES DEFINED

The simplest way to describe reserve funds is that they are a kind of savings account for school districts. They are often informally referred to as "rainy day" funds. At the end of the school year, if a school district has excess funds (as a result of not spending its entire budget or receiving more revenue than anticipated) its options for using those funds are prescribed by the laws and regulations of New York State.

The amount of money the district may keep in fund balance without designating it for a specific purpose — consequently called an "unreserved" or "undesignated" fund balance — is now capped at four percent of the ensuing year's general fund budget.

All other funds must either be returned to the taxpayers by reducing the following year's tax levy, or appropriated in a reserve fund. Historically, the unreserved undesignated fund balance had been only two percent, but the state legislature realized that 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 Worker's Compensation Reserve Fund can only be used to pay for claims and expenses related to workers' compensation. Once money has been allocated to a fund, it cannot be transferred to another fund or withdrawn for any other purpose than the one designated for that particular fund.

The reason why districts have reserve funds is very much the same as the reason why individuals put some of their discretionary income into savings: to set money aside for a later time when it may not be available, or to avoid using regular income for special, non-recurring expenses. The difference is that school districts are required to specify which expenses are anticipated and to dedicate the funds for that purpose.

A reserve fund earns interest, much like a savings account.

THE "CONTROVERSY" ABOUT RESERVE FUNDS

Reserve funds have been in the news in the last few years. New York State Comptroller Thomas DiNapoli first reported in 2009 that, in his view, excessive amounts of money were being held in school district reserve funds across the state. The implication was that property taxes could be lower if school districts held less money in reserve. In 2011, Governor Cuomo had revived this debate by stating that school districts with reserve funds should use them to mitigate the effects of reductions in state education aid.

School districts have generally objected to this view of reserve funds for several reasons: (1) strong reserve funds are generally acknowledged as a sign of fiscal health. Note that the City School District of New Rochelle's (New Rochelle) improved reserve level was a factor in Moody's eliminating the negative outlook, in fact, our fiscal advisor has estimated that the District will be saving \$500,000 in interest cost as a result of the improvement in the rating. The improved rating has resulted in significant savings to taxpayers in the form of lower interest costs; (2) reserve funds may be beneficial in navigating through a severe economic downturn, but expending them all at once could severely damage a school district's long-term fiscal health; and (3) the State has changed its own long-held policy of encouraging school districts to build up their reserve funds. Because each school district has different needs and different ways of addressing them, how much is "too much" is clearly a variable and subjective judgment that, under state law, is left to the discretion of local school boards.

TYPES OF RESERVE FUNDS

State law authorizes schools to establish and maintain a limited variety of reserve funds. These laws are summarized in Table 1 and 2 on the following two pages.