Reserve Funds
& Long-Term Planning

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Learning Objectives

- What are reserves
- Purpose of reserves
- Benefits of reserves
- How to establish reserves
- Administration of reserves
- Common reserves
- Using reserves in long-term plans

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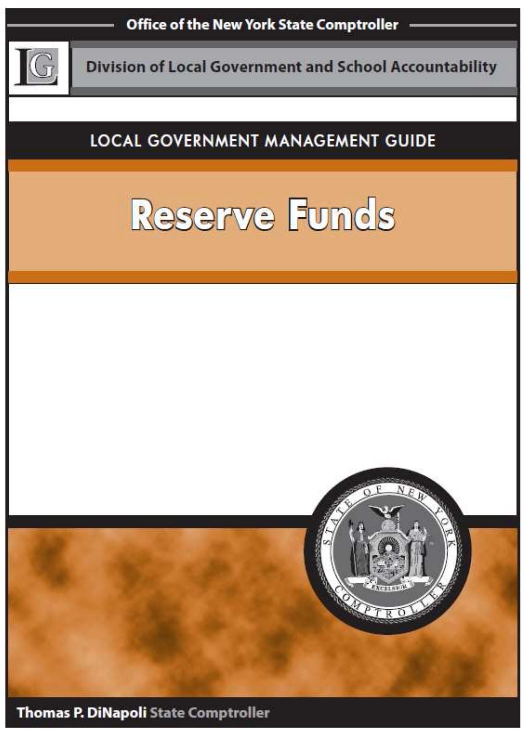
OSC LOCAL GOVERNMENT MANAGEMENT GUIDE

https://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf



What Are Reserve Funds?

- A mechanism for "legally" saving money to finance all or part of future infrastructure, equipment and other allowable purposes
- A portion of a local government's total fund balance that is classified as "restricted"
- Requires action by the governing board
  - Unlike accounting reserves which are restrictions of fund balance derived from specific revenues to provide accountability to agencies and grantors

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What is Fund Balance?

- Fund balance is the total accumulation of operating surpluses and deficits since the beginning of a local government's existence.
- Classified as either:
  - <u>Restricted</u> – the portion that Boards have "legally" set aside for future uses.
  - <u>Unrestricted</u> – the portion to be used for early cash flow and contingent purposes throughout the year.

Legally established reserve funds

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Evolution of Fund Balance

General Fund	Year 1	Year 2	Year 3	Year 4
Beginning Fund Balance	$0	$25	$35	$25
Revenues	$100	$90	$75	$90
Expenditures	$75	$80	$85	$80
Ending Fund Balance	$25	$35	$25	$35
Restricted	$0	$10	$10	$20
Unrestricted	$25	$25	$15	$15

Town Board established a Town Hall Capital Reserve and moved $10 into it.

An additional $10 is placed in Town Hall Capital Reserve.

Purpose of Reserve Funds

- Reserves should only be established with a clear intent or plan in mind regarding the future purpose and use
  - Governing boards should establish a reserve fund policy that provides transparency for their intentions
  - Reserves should not be used to hide or disguise surplus fund balances

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Benefits of Using Reserves

- Funding source for long-term planning
- Often reduces need to borrow
- Provides matching funds for grant opportunities
- Provides funds for future contingencies
- Stabilize effects from fluctuations in the economy
- Protects fund balance from unwarranted reductions for political or other reasons

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Municipalities in Jefferson, Lewis, Oneida and Oswego Counties

	JEFFERSON	*LEWIS*	*ONEIDA*	*OSWEGO*	TOTAL
Villages	19	8	16	9	52
Towns	22	17	26	22	87
Cities	1	0	2	1	4
Total	**42**	**25**	**44**	**32**	**143**

Reserves Reported For FY 2019

Towns, Village and Cities in Jefferson, Lewis, Oneida and Oswego County

Type of Unit	*Number of Units*	*# of Reserves*	*Total Amount*	*Percent of Total $*
Villages	31	84	$15,529,082	51%
Towns	20	56	$13,278,401	44%
Cities	2	7	$1,675,745	5%
Total	**53**	**147**	**$30,483,228**	**100%**

Only 37% of 143 municipalities

Reserves Reported For FY 2019

Towns, Villages and Cities in Jefferson, Lewis, Oneida and Oswego County

Type of Reserve	*Number of Units*	*# of Reserves*	*Total Amount*	*Percent of Total $*
Capital	46	85	$18,737,590	61%
Repair	17	27	$7,092,957	23%
Debt	8	11	$1,441,129	5%
Tax Stabilization	1	1	$817,000	3%
Insurance	2	2	$790,575	3%
Retirement	7	7	$236,779	1%
Workers Comp	1	1	$235,265	1%
Other	12	13	$1,131,933	3%
Total		**147**	**$30,483,228**	**100%**

Reserves Reported For FY 2019

Towns, Villages and Cities in Jefferson, Lewis, Oneida and Oswego County

Fund	*Number of Units*	*# of Reserves*	*Total Amount*	*Percent of Total $*
General (A, B)	41	58	$12,055,222	40%
Highway (DA, DB)	16	20	$5,103,888	17%
Water (FX)	22	28	$5,007,936	16%
Sewer (G)	15	19	$4,689,079	15%
Capital Projects (H)	6	6	$1,836,252	6%
Special District (S_)	8	11	$1,647,163	5%
Debt Service (V)	5	5	$143,488	1%
Total		**147**	**$30,483,228**	**100%**

How to Establish Reserve Funds

- Requires Board resolution
  - Often subject to public notice and referendum requirements
- Established pursuant to Law
  - General Municipal Law (GML) §§ 6-c through 6-t
  - Town Law section §§ 55, 55-a, 55-b
  - County Law §372

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Reserve Fund Policy

- Should clearly state the Board's intentions:
  - Purpose of each reserve
  - How to fund
  - Maximum amount
  - When to expend from each reserve
  - How and when to replenish
  - Use of residual balances
- Should be linked to long-term plans

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Administration of Reserves

- Need adequate records to account for investments, earnings and uses
- Separate accounts are needed
  - Cash – 230 and 231
  - Equity – 800 code series
  - Reserve activities are closed to restricted fund balance at year-end
- Governing board members are trustees of reserves and can be held personally responsible

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Investment of Reserve Fund Moneys

- Moneys must be invested in accordance with GML § 11
- In accordance with the municipality's investment policy
- Reserve moneys may be commingled with other municipal moneys for investment purposes
- Interest earned becomes part of the reserve fund

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OSC Reserve Fund Audit Issues

- Were reserves established pursuant to the Law and the Board's reserve policy?
- Are adequate accounting records maintained?
- Are balances reasonable?
- Was reserve activity authorized by the Board?
  - Decreases and increases
- Were unexpended balances transferred in compliance with the Law and Board direction?

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Common Reserves

- Capital Reserve (GML §6-c)
- Repair Reserve (GML §6-d)
- Retirement Reserve (GML §6-r)
- Employee Benefit Accrued Liability Reserve (GML §6-p)
- Mandatory Reserve (GML §6-i)

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Capital Reserves

(GML 6-c)

- To finance all or part of the cost of construction, reconstruction or acquisition of a capital improvement or equipment
- Most common type of reserve
- Does not apply to:
  - Fire Districts (GML §6-g)
  - School Districts (Ed Law §3651 [1])

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Capital Reserves

- Accounted for in the fund that is providing financing
  - 878 equity account and 230 or 231 cash account
  - Often transferred to the Capital Projects Fund (using the 9950.9 account) to assist with cost of a capital purchase or improvement
- Can be established for general capital object or purpose (referred to as a "Type")
- Can be established for a specific object or purpose (referred to as a "Specific")

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Public Notice & Referendum Requirements

- Towns & Villages: Generally, a public notice and permissive referendum is required
  - If authorization to issue obligations for the same purpose would be subject to referendum (a proposed maturity of more than 5 years)
- Cities & Counties: Generally not required
- Fire Districts: Public notice and mandatory Referendum
- School Districts: Public notice and mandatory Referendum

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Permissive Referendum

- Town Law §90- §94:
  - Generally requires a petition filed by at least 5% of the electorate qualified to vote in the last governor election
- Village Law §9-900 - §9-916:
  - Generally requires a petition filed by at least 20% of the electorate qualified to vote in the last village election
- Resolution becomes effective after 30 days of adoption or after affirmative vote of electorate

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Examples of Capital Reserves

	Improvements	*Equipment*
“Specific”	Town Hall Highway Garage Fire House Sewage Disposal Plant Off-Street Parking Lot	Pumper Truck Sanitation Truck Bulldozer Snow Plow Fire Engine
“Type”	Land Buildings Building Alterations	Snow Removal Equip. Street Cleaning Equip Highway Equipment Fire Apparatus

Capital Reserves

Specific:

- Comply with public notice and permissive referendum requirements when created
- Maximum cost set forth
- Expend upon authorization of governing board

Sample Board resolution in Appendix C of OSC's Local Government Management Guide on Reserves

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Capital Reserves

Type:

- No referendum requirements when created
- No maximum amount required
- Comply with public notice and referendum requirements before expenditures are to be made

Sample Board resolution in Appendix D of OSC's Local Government Management Guide on Reserves

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Special Provisions

- If a town is located wholly or partly in the Adirondack Park and has State lands subject to taxation assessed at more than 30% of the total taxable assessed valuation in a town, the State Comptroller's Office must consent to the establishment of, and expenditures or transfers from, a capital reserve fund in the town.
  - Check with Town Assessor to determine the portion of taxable State Lands

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Unexpended Balances
After Completion or Acquisition

Type

Transfer to another capital reserve (with same tax base) without referendum.

Specific

Transfer to another capital reserve (with same tax base) without referendum.

OR

Use it for an object or purpose for which bonds can be issued

OR

With limited exceptions, the payment of interest and principal on debt

Unexpended Balances

Never Utilized

Specific

May be transferred to another capital reserve with same tax base subject to permissive referendum

OR

Subject to a public hearing with 15 day notice, transferred to a Retirement Contribution Reserve

Legal counsel should be consulted regarding the application of these options

Repair Reserves GML §6-d

- To pay for the cost of certain repairs of capital improvements or equipment of a type “not recurring annually or at shorter intervals”
  - 882 equity account and 230 or 231 cash account
- No public notice or referendum requirement to establish
- Public hearing needed before reserve is appropriated and spent
- Can expend without public hearing in true emergency but must replenish 50% next year and remainder the next year

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Use of Unexpended Balances

- In general, all or any part of a Repair Reserve Fund may be transferred to a capital reserve fund or to a Contingency and Tax Stabilization Reserve fund.
- Also, can be transferred to a Retirement Contribution Reserve (GML §6-r) subject to a public hearing with 15 days notice.

Retirement Contribution Reserve
GML 6-r

- For the payment of retirement contributions to the NYS Local Employee and the NYS Police & Fire retirement system
  - 827 equity account and 230 or 231 cash account
- Established by board resolution
- Expend by board resolution
- No referendum requirements
- May transfer into from certain other reserves after public hearing

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Employee Benefit Accrued Liability Reserve (EBALR)

GML §6-p

- The cash payment of the monetary value of accumulated or accrued and unused leave time and benefits due to an employee upon termination of employment.
  - 867 equity account and 230 or 231 cash account
- Board resolution to establish
- Board resolution to expend
- No public notice or referendum

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Contingency and Tax Stabilization Reserve, GML §6-e

- To finance unanticipated revenue losses or unanticipated expenditures or prevent projected increases in excess of 2 ½% needed to finance the eligible portion of the annual budget
  - 880 equity account and 230 or 231 cash account
- Board resolution subject to public notice and permissive referendum requirements
- Balance cannot exceed 10% of eligible portion of the annual budget
- Certain limitations on use of the money

Mandatory Reserve Funds (GML §6-l)

- Restricts the use of:
  - Proceeds of cash sale of capital improvements with debt still outstanding
  - Receipt of State and/or Federal aid after debt has been issued for a capital project
  - 884 equity account and 230 or 231 cash account
- Generally must be used to retire outstanding debt used to finance such an improvement

In addition, Local Finance Law §165 requires any unneeded money borrowed for capital improvements to be restricted to retire outstanding debt from which it was issued

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Other Reserves

(*Refer to OSC's Local Management Guide on Reserves)*

- Snow and Ice Removal and Road Repair (GML §6-f)
- Solid Waste Management Facility (GML §6-o)
- Worker's Compensation (GML §6-j)
- Unemployment (GML §6-m)
- Insurance (GML §6-n)
- Reserve for Bonded Indebtedness (GML §6-h)

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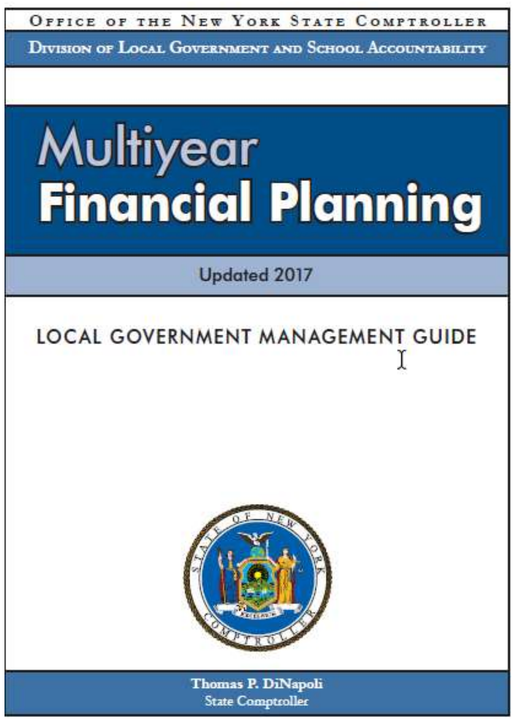
Long-Term Planning

- Projects revenues and expenditures for several years into the future and illustrates given economic assumptions and the impact it will have on a government's ability to pay for and provide services
- Projections help Boards to assess the risk associated with expenditure commitments and the affordability of new services and capital investments
- Plans demonstrate to Boards how the use of available reserve funds are used to endure short-run fiscal pressures such as revenue shortfalls or unanticipated expenditures

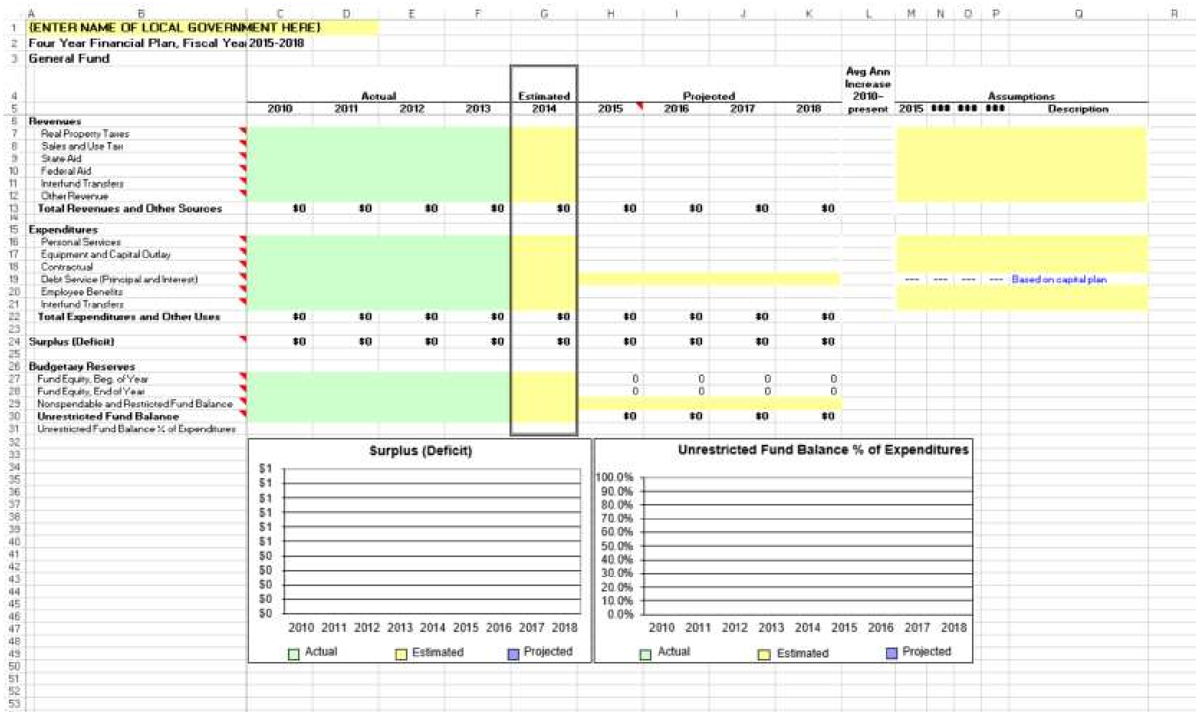
OSC Local Government Management Guide

https://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf



OSC Multi-Year Planning Template

On line Tutorial and template are available at:
https://www.osc.state.ny.us/localgov/planbudget/index.htm



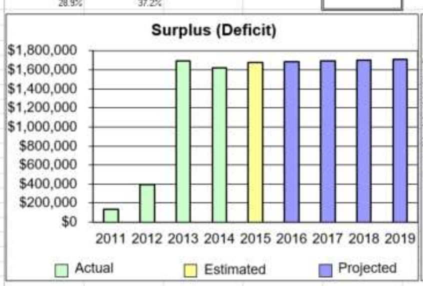
(ENTER NAME OF LOCAL GOVERNMENT HERE)
Four Year Financial Plan, Fiscal Year 2015-2018
General Fund

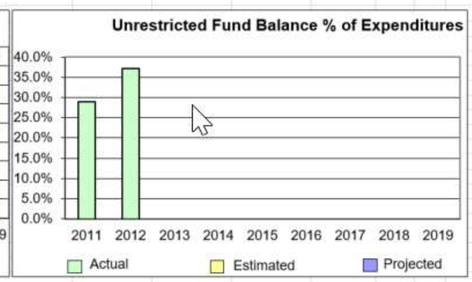
	Actual				Estimated	Projected				Avg Ann Increase 2010–present	Assumptions				
	2010	2011	2012	2013	2014	2015	2016	2017	2018		2015	###	###	###	Description
Revenues															
Real Property Taxes															
Sales and Use Tax															
State Aid															
Federal Aid															
Interfund Transfers															
Other Revenue															
Total Revenues and Other Sources	$0	$0	$0	$0	$0	$0	$0	$0	$0						
Expenditures															
Personal Services															
Equipment and Capital Outlay															
Contractual															
Debt Service (Principal and Interest)											---	---	---	---	Based on capital plan
Employee Benefits															
Interfund Transfers															
Total Expenditures and Other Uses	$0	$0	$0	$0	$0	$0	$0	$0	$0						
Surplus (Deficit)	$0	$0	$0	$0	$0	$0	$0	$0	$0						
Budgetary Reserves															
Fund Equity, Beg. of Year						0	0	0	0						
Fund Equity, End of Year						0	0	0	0						
Nonspendable and Restricted Fund Balance															
Unrestricted Fund Balance						$0	$0	$0	$0						
Unrestricted Fund Balance % of Expenditures															

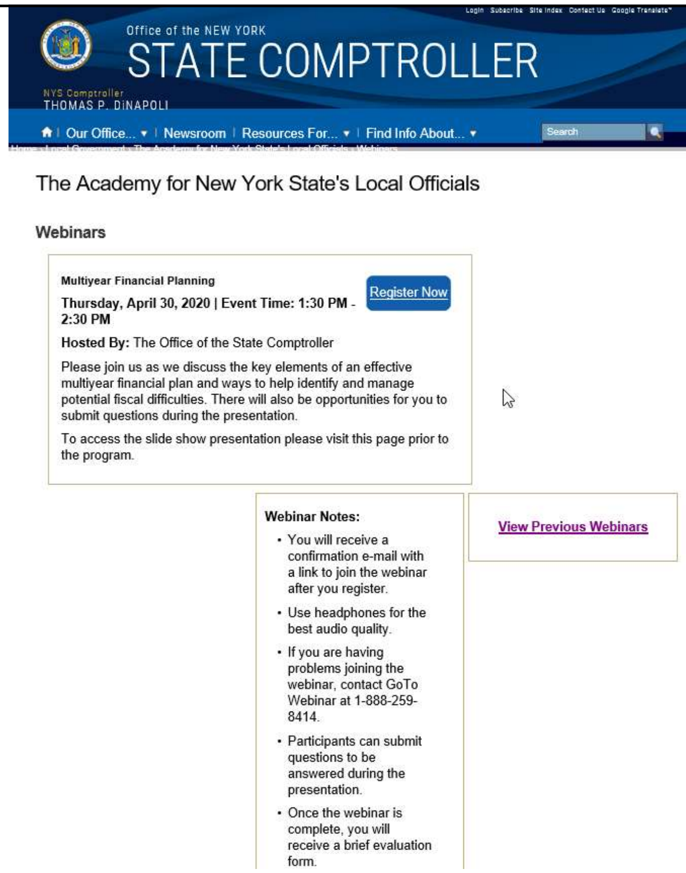
As data is input into the “Actual” and “Assumption” areas the “Projected” area will become populated and the results will be graphed below

our Year Financial Plan, Fiscal Years 2016-2019
ieneral Fund

	Actual				Estimated	Projected				Avg Ann Increase 2011-present	Assumptions				
	2011	2012	2013	2014	2015	2016	2017	2018	2019		2016	2017	2018	2019	Description
urplus (Deficit)	**$131,290**	**$397,558**	**$1,693,263**	**$1,621,499**	**$1,675,900**	**$1,685,121**	**$1,694,393**	**$1,703,716**	**$1,713,090**						
udgetary Reserves															
Fund Equity, Beg. of Year	1,266,566	1,407,503				0	1,685,121	3,379,514	5,083,230						
Fund Equity, End of Year	1,349,506	1,745,213				1,685,121	3,379,514	5,083,230	6,796,321						
Nonspendable and Restricted Fund Balance	712,522	800,031													
Unrestricted Fund Balance	**$636,984**	**$945,182**				**$1,685,121**	**$3,379,514**	**$5,083,230**	**$6,796,321**						
Unrestricted Fund Balance % of Expenditures	28.9%	37.2%													







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- Use headphones for the best audio quality.
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- Participants can submit questions to be answered during the presentation.
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Questions?

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Thank You

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Financing Reserve Funds

Use the 962 - *Budgetary Provisions for Other Purposes* account which is added to total appropriations and provides the financing source.

<u>For Example</u>: The government wants to raise $20,000 in their budget to put in a recently established capital reserve. The budget entry to record this in their budget would be as follows:

	Db	Cr
510 Estimated Revenues	980,000	
599 Appropriated Fund Balance	10,000	
960 Appropriations		970,000
962 Budgetary Provisions for Other Purposes		20,000

Closing Entries for Reserves

At the end of the year you need to close all Revenues (980) to restricted fund balance.

The entry to close the $20,000 real property tax revenue raised for the capital reserve for garage equipment would be as follows:

	Db	Cr
980 Revenues	20,000	
1001 Real Property Taxes		
878 Capital Reserve		20,000

Budgeting for Use of Reserve Moneys

For example: a government wishes to use some of a capital reserve at budget time to purchase a $18,000 piece of garage equipment:

	Db	Cr
510 Estimated Revenues	878,000	
599 Appropriated Fund Balance	10,000	
511 Appropriated Reserves	18,000	
960 Appropriations		906,000

Expending From Reserves

The entry to expend the $18,000 for the garage equipment out of capital reserve fund money:

	Db	Cr
522 Expenditures 1640.2 Central Garage, Equip	18,000	
230 Cash, Special Reserves		18,000

Closing Entries for Reserves

At the end of the year you need to close all Expenditures (522) to restricted fund balance.

The entry to close the $18,000 expenditure for garage equipment to the capital reserve:

	Db	Cr
878 Capital Reserve	18,000	
522 Expenditures		18,000
1640.2 Central Garage, Equip		