Lackawanna

City School District

Long-Range Financial Plan

November 2018

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Introduction

Historically, the Lackawanna City School District has developed and operated under "tight" general fund budgets. The realization of annual operating deficits was not uncommon. As a result, the equity position of the district, as compared with other school districts, has historically been strained. As of June 30, 2018, the district's total general fund reserves equaled $300K. However, over the past several years, the financial condition of the general fund has improved, as evidenced by healthy levels of annual operating surplus.

The district seeks to strategically manage its long-term finances in a manner that maximizes educational resources while minimizing the local property tax burden. In addition, the district seeks to establish and maintain compliance with all applicable state and federal laws and regulations related to the management of district finances. With these goals in mind, specific recommendations are noted within the following areas:

Section 1: Unassigned Fund Balance

Unassigned fund balance represents district monies in excess of assets over liabilities which have not been characterized as another form of fund balance. These funds are unrestricted and may be used for any valid purpose.

Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than four percent of the subsequent year's budgetary appropriations. The following table and graph summarize historical data related to the district's unassigned fund balance:

June 30:	Unassigned F.B.	Budget	% of Bud.
2015	$1,901,684	$45,204,642	4.2%
2016	$1,243,610	$47,352,824	2.6%
2017	$1,644,221	$50,731,024	3.2%
2018	$2,807,509	$53,275,029	5.3%

As of June 30, 2018, the district maintains an unassigned fund balance of $2,807,509, an increase of approximately $1.16M as compared to the June 30, 2017 level. As per Real Property Tax Law §1318, the district is permitted to carry $2,131,001 of unassigned fund balance at 2017-18 year end. This figure represents four percent of the approved 2018-19 general fund budget.

The district intends to reduce unassigned fund balance during the 2018-19 school year to the four percent level permitted by law. The district will seek to transfer approximately $676K of excess fund balance from the general fund to the capital fund via an interfund transfer. This expenditure to the general fund will be utilized to fill a shortfall in borrowing associated with the current $27.3M capital project. By utilizing district funds, significant costs, including interest, legal fees and other expenses associated with the initiation of fifteen-year bonds are avoided. This move also provides fifteen years of budget relief via a positive net building aid to debt service ratio.

If the district accumulates excess fund balance during the 2018-19 school year (as of June 30, 2019), it will be dealt with in one of the two following ways. The excess fund balance will either be transferred to the capital fund in order to finance approved capital projects or the funds will be moved to the Employee Benefit Accrued Liability reserve discussed in Section 3 of this report.

Section 2: Appropriated (Assigned) Fund Balance

Appropriated fund balance are funds used to balance the revenue side of the district's budget, thus reducing the need to increase the property tax levy. Excessive appropriation of fund balance should be avoided. If consumed, these funds can lead to structurally unbalanced budgets, whereby the district expenditures exceed true revenue, thus causing a reduction in district equity.

The following table and graph summarize historical data related to the district's appropriated fund balance:

June 30:	Appropriated F.B.	Budget	% of Bud.
2015	$700,000	$45,204,642	1.5%
2016	$1,700,000	$47,352,824	3.6%
2017	$1,947,498	$50,731,024	3.8%
2018	$1,935,595	$53,275,029	3.6%

Used appropriately, assigned fund balance is an effective budgetary mechanism used to avoid wide fluctuations in the tax levy. However, the district should use caution in order to avoid an over-reliance upon the appropriation of fund balance. The district seeks to maintain appropriated fund balance of between 2.5 – 3.5% of the general fund budget.

Section 3: Reserves

Reserve funds are equity accounts established in order to fund specific anticipated or unanticipated expenses. The establishment, funding and expenditure of reserve funds are dictated by guidelines established by the State of New York.

The following table and graph summarize historical data related to the district's reserve funds:

June 30:	Reserved F.B.	Budget	% of Bud.
2015	$300,000	$45,204,642	0.7%
2016	$300,000	$47,352,824	0.6%
2017	$300,000	$50,731,024	0.6%
2018	$300,000	$53,275,029	0.6%

The district will adhere to reserve funding guidelines, as dictated by state and auditing entities. The district's audit/finance committee shall review funding levels on an annual basis. The Assistant Superintendent will review all recommendations regarding the formation, management and use of district reserve funds with the audit/finance committee.

The district established an Employee Benefit Accrued Liability Reserve (EBALR) during the 2006-07 school year. The reserve is used to pay accrued leave time contractually due to employees upon termination of service. This reserve can be utilized when an employee separates from the district and a payment of accumulated sick time is required via the employee's contract.

The EBALR was initially funded at $100,000 during the 2006-07 fiscal year. Records indicated that the maximum funding level of $350,000 was attained during the 2007-08 school year. Since June 30, 2012, the district has maintained $300,000 in the EBALR reserve.

At the close of each fiscal year, a detailed calculation of the district's total liability associated with accumulated employee leave days is computed. As of June 30, 2017, the full liability was calculated at $1,543,100. The year-end reserve level ($300,000) represents a 19.4% level of funding.

The utilization of this reserve will be dependent upon timing of employee retirements along with budgetary considerations. The district seeks to establish and maintain an EBALR balance of between 50-75% of the district's full liability associated with payouts for compensated absences.

If deemed overfunded, the district will selectively utilize EBALR funds for cash payouts of accrued leave time while avoiding any additional transfers into the reserve, thus allowing the level of EBALR funding to come into line with the established funding target range. If funding falls below the target range, the district may elect to transfer future excess fund balance amounts into the reserve.

The district's total reserve funds ($300,000 as of June 30, 2018) are low when compared with similar-sized NYS school districts. On June 21, 2018 Moody's Investor services (bond rating agency) revised its outlook on the district's bond rating from "negative" to "positive". However, the bond rating of Baa1 was maintained. A Baa1 rating is considered "medium-grade", subject to moderate credit risk. Within the credit analysis, it was noted that the positive outlook "reflects a multi-year trend of surplus operations reflecting sustainably balanced financial operations." *Increasing reserves* was cited as a factor that could lead to a credit rating upgrade. The district intends to increase its funding of reserves over time in order to strengthen the long-term financial health of the district.

New York State legally permits a variety of different reserves, each defined for a specific purpose. The eventual establishment of the following reserves (following legal review) may be worthy of consideration:

Workers' Compensation Reserve
The purpose of this reserve fund is to pay for Workers' Compensation benefits, related medical/hospital expenses, and self-insurance administrative costs as authorized by Article 2 of the Workers' Compensation Law.

Capital Reserve
The Capital Reserve is used to pay the cost of any object or purpose for which bonds may be issued. Proposition(s) put before voters must specify purpose(s), ultimate dollar amount(s) to be deposited into reserve(s), probable term(s) or life/lives, and source(s) of funds. Voter approval is required to spend from these reserve(s).

Retirement Contribution Reserve Fund
The purpose of this account is to fund employer contributions to the New York State and Local Employees' Retirement System (ERS). Retirement Contribution Reserve funds cannot be used to pay employer contributions to the Teachers Retirement System (TRS).

Unemployment Insurance Reserve
This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants.

Property Loss Reserve
The purpose of this reserve fund is to pay for property loss claims incurred. Separate funds for property loss and liability (see Liability Reserve below) claims are required.

Liability Reserve
These funds are used to establish and maintain a program of reserves to cover liability claims incurred. Separate funds for property loss (see Property Loss Reserve above) and liability claims are required.

Section 4: Total General Fund Equity

The Assistant Superintendent will monitor and review the status of the district's unassigned fund balance (see Section 1), appropriated fund balance (see Section 2) and reserves (see Section 3) on an ongoing basis. In addition, the Assistant Superintendent will share updated figures with the Board of Education's Audit/Finance Committee annually during the process of reviewing and updating the District's Long-Range Financial Plan.

The following table and graph summarize historical data regarding the district's overall, general fund equity:

June 30:	UFB	AFB	RESERVES	TOTAL
2015	$1,901,684	$700,000	$300,000	$2,901,684
2016	$1,243,610	$1,700,000	$300,000	$3,243,610
2017	$1,644,221	$1,947,498	$300,000	$3,891,719
2018	$2,807,509	$1,935,595	$300,000	$5,043,104

Section 5: Capital Project Financing and Associated Debt Service

The district's building aid ratio is currently 98%, which significantly minimizes the impact of the cost of capital projects on the local property tax levy. The district's most recent Building Condition Survey identifies significant capital improvements needed throughout the district. The district intends to actively pursue capital work in order to maximize student safety, operational efficiency and instructional opportunities.

The district is currently completing the final phase of an $27.3M voter-authorized Capital Improvement Project. The project's completion is estimated for December 2019.

The school district is in the preliminary planning phases of another large-scale capital project tentatively scheduled for voter referendum in December 2019. The debt limit of a small-city school district is calculated as five percent of the five-year average actual property value of the district. Small-city districts cannot deduct anticipated aid as part of the calculation. These conditions lead to a restrictive debt limit for small-city schools. The proposed project will exceed the district's statutory debt limit, thus requiring a supermajority approval of sixty percent. The ultimate scope of the project is undetermined at this point; however, various items are under consideration.

Section 6: Plan Revision

The Assistant Superintendent will prepare an annual update to the Long-Range Financial Plan. The plan will be brought to the Board of Education annually in order to review, revise and approve. Ideally, the meeting will occur within two months of the presentation of the prior-year external audit report and prior to the commencement of the following year's budget planning process.