

June 4, 2019 Finance Committee Meeting Minutes

Attendees: Kristin Cacal (BoE), Karyn Bridges (absent) Eric Larca (absent) Scott Seaman (absent), Valerie Henning-Piedmonte, Victor Karlsson, Michele Gosh, Susan Morgan, Elena Nash-Graham (absent)

Presenters: James Nytko, Assistant Vice President, Capital Markets Advisors, LLC

Meeting began at 9:07am.

Victor Karlsson reviewed the prior year's Finance Committee meeting minutes. He described the purpose of the meeting, which is to review the year-end fund balance projection and make recommendations for reserve balances to the Board of Education as outlined in BoE Policy #5512: Fund Balance & Reserves. Additionally, the long-term financing plan for the 2014 District-wide capital project bond will be reviewed.

James Nytko reviewed the District's long-term financing plan. He reminded the committee that bonds require fixed payments, while Bond Anticipation Notes offer more flexibility in payment options. James indicated that the goal of a bond issuance is to best align Building Aid revenue with the bond payment expense. However, he added that it is often difficult because of the timing differences in Building Aid amortizations. Since the various projects conclude in different years, the Building Aid revenue is not uniform, which is a challenge when attempting to structure bond amortization payments. Victor agreed and reminded the committee that the CV Starr addition project concluded two years before the JFK addition project, which will create a two-year variance in Building Aid revenue in 13 years at the conclusion of the two revenue streams.

James noted that the conclusion of the JFK addition project will better allow Capital Markets Advisors to structure the upcoming bond issuance, since they have been relying on Building Aid estimates for the past several years. He indicated that the first bond payments would be due in the 2020-21 fiscal year to coincide with the expiration of debt from an older project, which coupled with new Building Aid, will alleviate the impact on the Tax Levy.

Victor reviewed the 2018-19 Fund Balance projection along with reserve estimates for the committee's consideration. He reiterated that fund balance can fluctuate from year-to-year depending on many variables, but he was pleased that the District is positioned for a surplus in 2018-19. Victor cautioned that there are still many variables that are unknown at this point in time, such as a balloon payments for 10-month employees (June) and final State Aid (August). Victor reminded the committee that each year, the budget is constructed to break-even, but rarely can one predict the outcome of a fiscal year 15-months in advance of its completion.

There was a discussion about the reserves the District utilizes, including their purposes and estimated balances at year end. For the Employees' Retirement System (ERS) Reserve, the Employer Contribution Rate has declined over the past several years. However actuaries have cautioned not to expect this trend to continue. Victor reminded the committee that recent legislation was passed which allows for the establishment of a Teachers' Retirement System (TRS) Reserve, which benefits school districts since TRS expenses are roughly double those of ERS. He indicated that the TRS Reserve would be funded up to the extent permitted by law, to mitigate anticipated increases in TRS in the coming years. Both reserves are funded in order to mitigate significant increases in employer contributions, which will allow for the budget to gradually absorb the increase over several years.

The next largest reserve is the Employee Benefits Accrued Liability Reserve (EBALR), which was established to fund retirement payouts for accumulated sick leave for district employees, in accordance with the provisions included in their respective collective bargaining agreements. Victor noted that this reserve is utilized when the payouts exceed the budgeted amount. The EBALR represents approximately 55% of the total accumulated sick leave liability based on the District's 2017-18 financial statements, which are the latest available at the time.

The Reserve for Tax Certioraris are used to refund petitioners who successfully challenge their assessment with the Town, resulting in a reduction to their assessment and tax bill. The amount reserved is based on 30% of the petitioners' demands, which is typically the percentage at which challenges are settled. The list of challenges is provided to the District on a monthly basis by each Town's Assessor. Victor commended the Towns for aggressively defending these challenges, limiting the amount that the District (and Towns and County) must refund the petitioners.

The Reserve for Encumbrances represents orders which were placed before year-end, but were not received or paid for until the subsequent year. The Reserve for Prepaid represents prepayment of certain insurance premiums in order to avoid potential lapses in coverage. The Unemployment Benefits Reserve was discussed next, which represents approximately one year's worth of unemployment claims.

Finally, the amount Unassigned represents approximately 4% of the ensuing year's budget, which is the maximum amount allowable per NYS General Municipal Law. Board Policy #5512: "Fund Balance & Reserves" outlines the Board's goal of maintaining Unassigned Fund Balance of 4% in order to provide fiscal stability. Victor added that there is flexibility in the use of Unassigned Fund Balance, which is available for unanticipated expenditures, such as emergency repairs.

The committee agreed with the reserve balances, which will be recommended to the Board of Education at the June 25th meeting.

Next, Victor reminded the committee of Proposition #3, in which the community approved a transfer of up to \$2M to fund an HVAC installation project at JFK. Valerie Henning-Piedmonte acknowledged the importance of showing the community that surplus funding is being reinvested into the school buildings. She further stressed the importance of constantly evaluating capital needs.

Victor informed the committee that the District would transfer the funds into the Capital Fund on a "progress funding" basis to spread the impact on the General Fund over the duration of the HVAC installation project. This strategy should reduce any negative outlook that could be perceived by bond rating agencies in advance of our upcoming bond issuance in 2020.

Valerie reminded the committee that the design plans and even certain preliminary ductwork has already been completed, which should help expedite the project timeline. Kristin questioned whether the work would be completed this summer to which Victor responded that the architects have not yet prepared the bid documents for selecting a contractor. He cautioned against rushing the timeline, which may result in a low quality contractor being awarded the contract as the lowest bidder. Victor reminded the committee that the equipment has a "long lead time", so it may take several months for fabrication and delivery. The architects indicated the same sentiment this past winter/spring when discussing the potential installation at a BoE meeting.

The next Finance Committee meeting is scheduled for Tuesday, August 20th at 8am to review the Tax Warrant for 2019-20 for Board of Education adoption on 8/20/2019.

Meeting ended at 9:47am.

Respectfully submitted,

Susan Morgan