

MERSD Financial Reserves Policy – Second Read Draft 1.14.25

A financial reserve policy is a means of ensuring the long-term financial health and flexibility of the District, as well as a tool to aid the District in various financial decision-making processes. MERSD School Committee will strive to maintain reserves of 8% of the total General Fund Operating & Capital Budget excluding OPEB.

Financial reserve policies cover various classes of reserves:

- Operating reserves provide resources for unanticipated expenditures or unexpected revenue losses during the year.
- Capital Reserves provide resources for the repair, replacement, or construction of capital infrastructure.
- OPEB Reserves provide for funding of the other post-employment benefit liability.

The District is committed to establishing and maintaining varied reserves that provide for stability and predictability in our financial planning. The District will maintain the following reserve funds and contribute and maintain funds as outlined below.

Excess & Deficiency (E&D): Usage - Operating and Capital Costs

The available E&D balance is calculated and certified each year by the Massachusetts Department of Revenue, Division of Local Services, using data submitted by the District. Increases to the E&D balance on an annual basis consist of revenues exceeding budgeted amounts, as well as unspent appropriations. While the allowable use of E&D, by statute, is largely unrestricted, sound financial practice suggests that this reserve provides for the financing of unforeseen emergency needs such as unanticipated operating or capital costs. Current legislation limits the District's E&D balance to a maximum of 5% of the District's total General Fund Operating Budget.

General Stabilization Fund: Usage - Operating and Capital Costs

A general Stabilization Fund is a reserve allowable by Massachusetts General Laws (MGL) Chapter 71, Section 16G ½ to provide the District with the ability to accumulate resources for any purpose in which the District could otherwise borrow funds, as well as any other lawful purpose upon approval of the Massachusetts Department of Revenue, Division of Local Services. Stabilization funds may be used to finance capital activities as well as cover unanticipated one-time operating costs. The District will work towards maintaining an appropriate balance in General Stabilization.

Other Post-Employment Benefits (OPEB): Usage – Retiree Health Insurance Benefits

The District currently maintains an irrevocable Other Post-Employment Benefits Trust Fund in accordance with MGL 32B Section 20, for the purpose of accumulating resources to provide legally required retiree health insurance benefits. OPEB is funded through the operating budget by a formula established in the Collective Bargaining agreement. The objective of the OPEB Trust fund is to accumulate assets to fully fund the actuarially calculated liability of providing these future health insurance benefits. It is in the best financial interest of the District that the OPEB Trust Fund balance not be withdrawn until the point in time at which the actuarially calculated OPEB liability is fully funded.

LEGAL REFERENCES:

- [MGL 32B Section 20](#)
- [MGL Chapter 71, Section 16B½](#)
- [MGL Chapter 71, Section 16G½](#)