

Triton Template

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. Financial rating agencies currently recommend that local governments maintain strong and varied financial reserves of as much as 15% of the total General Fund Operating & Capital Budget. **MERSD School Committee will strive to maintain reserves of 8% of the total General Fund Operating & Capital Budget.**

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) – Reserve Class: Operating and Capital

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. It is recommended by Auditors and Financial Advisors that we maintain at least a **3%** E&D balance to protect against unforeseen costs. The District will work towards maintaining an appropriate balance in our Excess and Deficiency, but not over the priorities of establishing and funding Stabilization.

General Stabilization Fund – Reserve Class: Operating and Capital

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. Generally speaking, stabilization funds may be used to finance capital activities as well as cover unanticipated one-time operating costs.

The District shall maintain a General Stabilization fund in accordance with MGL Chapter 71, Section 16G ½. Additionally, it is the intention of the District that the General Stabilization Fund be funded by certified available excess E&D above the 3% recommended balance, one-time revenues, and/or a line item in the District's General Fund Operating Budget.

In an effort to accumulate resources within the General Stabilization Fund, the District will include a line item within the General Fund Operating Budget for \$75,000 in FY2024, increasing to a \$150,000 appropriation in FY2025. Thereafter the District will not increase the line but will maintain this \$150,000 appropriation annually until the maximum limit is reached. It is the intention of the District that the General Stabilization fund may not exceed 10% of the District's prior year's Total General Fund appropriations.

Other Post-Employment Benefits (OPEB) – Reserve Class: Other Post Employment 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 in which the actuarially calculated OPEB liability is fully funded.*

LEGAL REFERENCES:

- [MGL 32B Section 20](#)
- [MGL Chapter 71, Section 16B ½](#)
- [MGL Chapter 71, Section 16G ½](#)

Manchester Essex Regional School District Reserve Policy

Policy Purposes and Scope

The Reserve policy is to provide guidance on the level of reserves to be maintained within each fiscal year. The School Committee's objective is to maintain adequate reserves to ensure operational stability, the District's ability to respond to unanticipated needs, and maintain good credit for the District. To achieve this, the School Committee shall seek to maintain a balance **of eight (8) percent of its annual operating and capital budget.**

Definition of Reserves

The District's Reserves include the Excess and Deficiency Fund (E&D Fund) and the General Stabilization Fund (collectively, "District Reserves").

E&D Fund

Every regional school district shall maintain an excess and deficiency fund on its books of account. At the end of every fiscal year, any surplus or deficit in the district's general fund shall be closed to the excess and deficiency fund. On or before October 31 of each year, every regional school district shall submit to the Department of Revenue the forms and schedules as the Department of Revenue requires for the purpose of reviewing and certifying the balance in the regional school district's excess and deficiency fund.

The annual certification of E&D shall serve as the standard mechanism for reporting the E&D Fund balance. If the certified balance exceeds (5) five percent of the proposed budget, the regional school committee shall use the amount in excess of five percent as a revenue source for its proposed budget.

Usage: The School Committee will prioritize the use of the E&D fund for capital or emergency needs, however, in extraordinary circumstances, the School Committee may consider using E&D Funds as additional revenue within a current fiscal year in order to cover unanticipated revenue shortfalls or to fund non-recurring or unforeseen operational expenditures. Use of the E&D fund requires two-thirds vote of the School Committee.

Stabilization Fund The Stabilization Fund was established, with the approval of Manchester and Essex Annual Town Meetings, in accordance with M.G.L. Chapter 71, Section 16G ½. The Stabilization Fund was created as a general-purpose Stabilization Fund.

Funds may be transferred into the Stabilization Fund by two-thirds vote of the School Committee through the annual budget process or by budget amendment.

Usage: The Stabilization Fund may be used for any purposes for which regional school districts may borrow money. In extraordinary circumstances, the Stabilization Fund may be considered as a funding source for operations. Stabilization funds shall be appropriated by a two-thirds vote of the School Committee.

In the event District Reserves exceed eight (8) percent, the School Committee may use Stabilization funds to offset the operating budget.

Through the Capital Planning Process, the School Committee may designate that a portion of the Stabilization Fund be used for large projects.

Legal References:

- M.G.L. 71:16B
- M.G.L. 71:16 B½
- M.G.L. 71:16 G½
- M.G.L. 40:5B
- 603 CMR 41.06
- 603 CMR 41.05

First Read – October 1, 2024

DRAFT



Book	Policy Manual
Section	Section D - Fiscal Management
Title	Financial Reserves
Code	DIB
Status	Active
Adopted	March 9, 2022
Last Revised	December 8, 2021

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. Financial rating agencies currently recommend that local governments maintain strong and varied financial reserves of as much as 15% of the total General Fund Operating Budget.

Financial reserve policies cover various classes of reserves. Operating reserves, which provide resources for unanticipated expenditures or unexpected revenue losses during the year; Capital Reserves, which provide resources for the repair, replacement, or construction of capital infrastructure; and OPEB Reserves which 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) – Reserve Class: Operating and Capital

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. It is recommended by Auditors and Financial Advisors that we maintain at least a 3% E&D balance to protect against unforeseen costs. The District will work towards maintaining an appropriate balance in our Excess and Deficiency, but not over the priorities of establishing and funding both Stabilization and OPEB funds as outlined below.

General Stabilization Fund – Reserve Class: Operating and Capital

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. Generally speaking, stabilization funds may be used to finance capital activities as well as cover unanticipated one-time operating costs.

The District shall maintain a General Stabilization fund in accordance with MGL Chapter 71, Section 16G ½. Additionally, it is the intention of the District that the General Stabilization Fund be funded by certified available excess E&D above the 3% recommended balance, one-time revenues, and/or a line item in the District's General Fund Operating Budget.

In an effort to accumulate resources within the General Stabilization Fund, the District will include a line item within the General Fund Operating Budget for \$75,000 in FY2024, increasing to a \$150,000 appropriation in FY2025. Thereafter the District will not increase the line but will maintain this \$150,000 appropriation annually until the maximum limit is reached. It is the intention of the District that the General Stabilization fund may not exceed 10% of the District's prior year's Total General Fund appropriations.

Other Post-Employment Benefits (OPEB) – Reserve Class: Other Post Employment 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. 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 in which the actuarially calculated OPEB liability is fully funded.

In an effort to accumulate resources within the OPEB Trust Fund, the District will include a \$75,000 line item within the FY2026 General Operating Budget for a transfer to the OPEB Trust Fund, increasing to a \$150,000 appropriation in FY2027. Thereafter the District will not increase the line but will maintain this \$150,000 appropriation annually.

In addition, at the point in time when the Essex Regional Retirement System (ERRS) is fully funded to provide resources for the District's non-teacher pension liability, the District shall redirect the savings from the "past service cost" portion of the annual appropriation to the OPEB Trust Fund. As of FY2022, the ERRS is scheduled to be fully funded in FY2035.

LEGAL REFERENCES:

- [MGL 32B Section 20](#)
- [MGL Chapter 71, Section 16B ½](#)
- [MGL Chapter 71, Section 16G ½](#)

HISTORICAL NOTES:

- This policy, adopted on March 9, 2022, expands on the original policy to include other financial reserves

CROSS REFERENCES:

- None