

Is there a difference between a dedicated or designated fund and a reserve fund?

Yes, both legally and in how these terms are used in the world of municipal finance. As a matter of law, in Vermont a reserve fund is a fund created by the voters at Town Meeting or at a special meeting for the purpose of funding a specific item or project. 24 V.S.A. § 2804. For example, a reserve fund may be created for improvements to the town offices, or for constructing a playground or purchasing a piece of equipment for the town.

The reason for creating a reserve fund is twofold. First, it ensures that money appropriated by the voters will only be used for the stated purpose of the reserve fund. In this sense, the money in a reserve is “dedicated” for a particular purpose. Perhaps this is why reserve funds are sometimes confused with dedicated funds. Once created, the funds can be disbursed by the selectboard without further voter approval.

Second, a reserve fund allows the selectboard to roll over money that is placed in the fund and not spent from year to year. This is contrary to the general rule of budgeting under Vermont law, which is that money not spent in a budget year must be re-allocated the following year as part of the budget approval process at town meeting. An exception to this rule is highway money, which may only be spent on highway purposes and does carry over from year to year if a surplus exists. See the VLCT *Highway Handbook* for a detailed discussion on handling highway budgeting.

The bottom line is that a reserve fund does not exist unless the voters have approved it at Town Meeting. In fact, under Vermont law reserve funds only cease to exist if the voters vote to rescind the fund. Accordingly if you’re not sure if you have a bonafide reserve fund, check the town or special meeting minutes to see if a record of the voters creating the fund exists. If no such record exists, neither does the fund.

From a fund accounting/auditing/financial reporting perspective, there is also a difference between a reserve fund and a designated fund. In financial terms, a reserve fund is a fund that has been legally set aside for a specific purpose by the taxpayers. If you have been following this article closely, you will know that this financial definition of a reserve fund is the same as the legal definition described above.

A designated fund in financial terms is money set aside by management (the selectboard, city council, trustees etc.) for some specific purpose and without any legal basis. For example, in its budget the selectboard may designate certain money for use by the recreation committee. However, if a legal “reserve fund” has not been created they are authorized to spend these designated funds for another purpose if the need or desire arises. See the December 2001 Ask the League for an in-depth discussion of the authority of the municipal legislative body to move money around within the budget.

VLCT News, February 2002