

What is a reserve fund and what can it be used for?

A reserve fund is a separate, dedicated financial account that is created to fund a specific municipal purpose. Reserve funds are created by approval from a majority of voters at an annual or special town meeting. 24 V.S.A. § 2804. A reserve fund can be created for any legitimate municipal purpose. Once created, it falls under the control and direction of the legislative branch of the municipality.

An example of a legitimate municipal purpose is a “road maintenance equipment fund,” by which the voters have determined that items such as graders, plows, or dump trucks will become a necessity, in the near future, for the town to purchase. Approval of this fund requires a majority vote regarding the purpose and amount of money to be set aside to create this fund. Once created, the selectboard has the authority to spend the money only for the special purpose for which the fund was created. The money set aside for this fund and any monies accruing from investing it are used for the original purpose of the reserve fund. If it is determined that the money allocated to a reserve fund would best serve an alternative purpose, this money can be so designated at an annual or special town meeting where the majority of voters approve of this reallocation.

Frequently towns create a catch-all fund, which many refer to as a “rainy day” fund or “emergency” fund. The concept of this fund is to establish a cash reserve for unanticipated expenses and emergencies that may arise over the course of the year. The creation of this fund allows the town to tap into this account, as opposed to seeking a bank loan or running a deficit, when an unanticipated expense arises. Although no statutory authority speaks to the creation of this fund and no specific cases have come before the Vermont courts, it may be considered a legitimate special purpose. For additional information on these types of undesignated funds, see Michael Gilbar’s article on “Proactive Budgeting” on Page One.

- Daniel S. Phillips, VLCT MAC Law Clerk

(Editor’s Note: For more information on reserve funds, please see the January 1996, Page 8, and February 2002, Page 6, issues of the VLCT News.)

VLCT News, November 2003