Model Reserve Fund Policy

+ Guidance

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A reserve fund is a separate, dedicated financial account that is created to fund a specific municipal purpose whose balance is carried over from year to year. 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 selectboard.

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.

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. 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.

The bottom line is that a reserve fund does not exist unless the voters have approved it at an annual or special town meeting. In fact, under Vermont law reserve funds only cease to exist if the voters vote to rescind the fund. Accordingly, if you are not sure if you have a bona fide 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.

Reserve Funds. Twenty-four V.S.A. § 2804 allows municipalities to establish a reserve fund under the control and direction of the selectboard. Money in the reserve fund can be expended by the selectboard for such purposes for which the reserve fund

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was established or for other purposes when authorized by a majority of the voters at an annual or special meeting. Creation of a reserve fund requires voter approval of warned articles similar to these:

Shall the voters establish a reserve fund to be called the [insert name of reserve fund] to be used for [insert purpose of reserve fund], in accordance with 24 V.S.A. § 2804?

Shall the town [insert funding mechanism such as "raise and appropriate the sum of $X," or "deposit $X from the general fund surplus"] to fund the [insert name] reserve fund?

Note: If the town votes from the floor, the creation of the reserve fund and the funding of the reserve fund may be accomplished in two separate articles. However, if the town votes by Australian ballot, the creation and funding of the reserve fund must be combined into one article. Regardless of the voting method, any funding mechanism that is approved by the voters is only in effect for the ensuing year.

A reserve fund policy can assist the selectboard in administering such a reserve fund by guiding decisions about how money will be set aside in the reserve fund and the circumstances under which money in it will be spent.

Use of Funds. The model policy provides that the selectboard will only use the reserve fund for the purpose for which it was created or for other purposes when authorized by a majority of the voters at an annual or special meeting.

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