

Fiscal Reserves

A financial reserve policy is a means of ensuring the long-term financial health and flexibility of the North Middlesex Regional School District. The District is committed to establishing and maintaining varied reserves that provide for stability and predictability in our financial planning. This policy serves as a framework for the maintenance and use of the District's fiscal reserves.

The NMRSD School Committee believes that fiscal reserves are not intended to substitute for prudent budget development. Annual operating budgets shall be constructed to fund all reasonably anticipated expenditures, with reserves preserved for unanticipated, non-recurring, or extraordinary circumstances. The District's fiscal reserve strategy is intended to:

- Provide sufficient liquidity to address unforeseen operating or capital expenditures.
- Stabilize District finances during periods of revenue volatility or enrollment fluctuation.
- Reduce reliance on short-term borrowing and mitigate financial risk.
- Support long-range capital planning and infrastructure sustainability.
- Address long-term post-employment benefit liabilities.
- Maintain favorable bond ratings and fiscal credibility with member municipalities.

Financial rating agencies currently recommend that local governments maintain strong and varied financial reserves of up to 8% of the total General Fund Operating Budget (excluding the OPEB fund).

If the projected end-of-year (EOY) unassigned balance in the operating budget exceeds \$500,000, the Superintendent shall provide an analysis to the School Committee Finance Subcommittee, identifying the source(s) of the variance and potential corrective actions, which may include expenditure adjustments or reduced assessments to the member towns, consistent with M.G.L. c. 71, and DOR guidance.

Financial reserve policies cover various classes of reserve funds intended to provide for unanticipated expenses (contingency funds) and to supplement the General Fund Operating Budget.

- 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.

- OPEB Reserves, which provide for funding of the other post-employment benefit liability.

The Superintendent and Business Manager shall:

- Monitor reserve balances throughout the fiscal year.
- Report reserve status to the School Committee as part of regular financial updates.
- Incorporate reserve planning into multi-year financial forecasts.

The District will maintain the following reserve funds and contribute to and maintain these 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 and unspent appropriations.

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 that we maintain a 3-4% E&D balance to protect against unforeseen costs. The School Committee may consider budgeting anything in excess of the 3% for:

- Additional investment in the Stabilization or OPEB reserve accounts.
- One-time purchases,
- Payment toward town debt principal.
- Applied as funding toward the current year's budget
- Applied as a funding source for the following year's budget
- Other needed use.

The use of E&D as a recurring revenue source for annual budget development is discouraged and should not be considered standard practice. E&D shall primarily be reserved for unforeseen, emergency, or extraordinary operating or capital needs. The NMRSD School Committee, on occasion, may approve by a two-thirds vote the use of existing 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 expenditures that are deemed as either extraordinary or unavoidable by District Administration and the School Committee. Any vote to increase the current year Budget through the use of E&D Funds is considered an increase to the district budget and shall be submitted to all member Towns for approval in accordance with DESE regulations.

Capital Stabilization Fund – Reserve Class: Capital

A Capital 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.

Capital stabilization funds are intended to:

- Accumulate resources for major capital repair, replacement, or construction projects
- Cover unanticipated one-time Capital needs.
- Reduce reliance on debt issuance and smooth capital spending over time

Additionally, it is the intention of the District that the Capital Stabilization Fund may be funded by:

- Certified available excess E&D above the 3% recommended minimum balance.
- One-time revenues
- A line item in the District's General Fund Operating Budget.

It is the intention of the School Committee that the Capital Stabilization shall be funded from the General Budget until the target of 10% of the District's prior year's total General Fund appropriations. It shall not be common practice to include contingency capital expenses within general operating budget lines except for planned capital projects.

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.
- Improve long-term fiscal sustainability.
- Demonstrate responsible stewardship of future benefit obligations.

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.

To accumulate resources in the OPEB Trust Fund, the School Committee may include an annual contribution to the OPEB Trust in the general fund budget until the Fund is fully funded.

LEGAL REFERENCES: MGL Chapter 32B Section 20
MGL Chapter 71, Section 16B ½
MGL Chapter 71, Section 16G ½

CROSS REFERENCES: None

Adopted by the School Committee:

Policy Subcommittee Review: 10/21/2025

NMRSD First Vote: 1/13/2026

NMRSD Adoption: 1/29/2026
