



STATE OF VERMONT

MEMORANDUM

To: All House Chairs
From: Michael J. Chernick- Legislative Council
Date: February 10, 2010
Subject: Brief Narrative Synopsis of Budget Reserve Funds – Revised Version

You have posed two inquiries related to the various budget reserves. First, was there a statutory budget reserve mechanism prior to 1987? The answer to that question is no. Second, you requested a brief synopsis of the statutory provisions for budget reserves. This summary does not purport to report the current balance in any of the reserves or to address any fiscally related matters. It is my understanding that JFO is preparing a separate synopsis with detailed financial data.

32 V.S.A. § 308 – General fund budget stabilization reserve; creation and purpose

This is the original budget reserve law enacted in 1987. It was subsequently amended in 1991, 1993, and most recently in 1997. This section establishes a general fund budget stabilization reserve under the management of the commissioner of finance and management. It is to include the undesignated general fund surplus existing at the close of a fiscal year, provided that the maximum amount does not exceed 5% of the prior fiscal year's general fund appropriations. But, the statutory section also provides that this reserve may contain "any additional amounts as may be authorized." Remaining amounts of revenue stay with the general fund and may be appropriated in the next legislative session for (i) general fund bond reduction, (ii) reduction of revenues, or (iii) other purposes. The commissioner of finance and management, in accordance with this statutory section, is to use this reserve "to offset the undesignated fund deficit" in accordance with generally accepted accounting principles. The commissioner determines the level of the undesignated general surplus or deficit in any fiscal year for the purposes of this statutory section.

32 V.S.A § 308a – Transportation fund budget stabilization reserve

Enacted in 1993, and amended in 1997 and 2005, this reserve follows the same organizational and administrative guidance as the original general fund reserve. Starting in FY 2007, interest in the reserve is credited to the transportation fund.

32 V.S.A. 308b – Human services caseload reserve

Enacted in 1998, and amended in 2000, 2006, 2007, and most recently in 2009, this reserve was established as a unit of the general fund. Any expenditures must be formally appropriated or may be expended upon emergency board approval. All expenditures shall be related to human services activities (primarily DCF, health, mental health, aging, independent living, disabilities, and OHVA). The Secretary of Administration is authorized to transfer to the reserve “general fund carry-forward directly attributable to aid to needy families with children (ANFC), caseload reductions and the effective management of related federal receipts.” The commissioner is directed to submit to the joint fiscal committee an annual report at its first meeting following September 1 detailing the transfers.

32 V.S.A. § 308c – General fund and transportation fund surplus reserves

Enacted in 2005, and amended in 2007 and 2009, this section creates general and transportation surplus reserves. State dollars are deposited into these surplus reserves only after the aforementioned reserve requirements of sections 308 and 308a, and after any other reserve requirements are met. For the general fund surplus reserve, any remaining unreserved and undesignated money not exceeding 1% of the prior year’s general fund appropriations go into the surplus reserve. It remains available for appropriation on the legislature’s part. There is not a similar 1% limit for the transportation surplus reserve.

32 V.S.A. § 308d Revenue shortfall reserve; creation and purpose

This newest reserve was enacted in 2008 and amended in 2009. This reserve fund is intended for times of economic stress. It addresses unreserved and undesignated general funds at the close of a fiscal year that are not placed in either the section 308 or 308c general fund reserves or otherwise legislatively appropriated. It remains available if the legislature finds there is insufficient money to fund state government at a level it finds prudent and required. The general assembly is authorized to appropriate from the reserve shortfall reserve “to compensate for a reduction of revenues or fund such needs as the general assembly may determine.” The commissioner of finance and management is to report to the joint fiscal committee at its first meeting following September 1 on the financial status of the fund.

16 V.S.A. § 4026 Education fund budget stabilization reserve; creation and purpose

This reserve was enacted as part of Act 60 of 1997 that established the current education finance system. It was subsequently amended in Act 71 of 1998 and later amendments were added in 2001, 2002, and 2003. The balance of the reserve is not to exceed 5% of the prior fiscal year’s education fund appropriations minus the funds that towns distribute directly to school districts in accordance with 32 V.S.A § 5402(c). Once the reserve has reached the authorized level, any additional education fund surplus remains in the education fund, and the next general assembly may appropriate from this additional balance for education related purposes. In any fiscal year, if the education fund has a deficit, the commissioner of finance and management may transfer the required amount from the reserves to the education fund based on generally accepted accounting principles. Should the reserve dip below 3.5% of the prior fiscal year’s appropriation

from the education fund then the joint fiscal committee shall review the matter and report to the general assembly options for increase the reserve's financial balance.

The commissioner shall oversee the reserve and the determination of surplus and deficit amounts accounting for all tax related matters that can affect the education fund. These determinations are in concert with the commissioner's setting of the education tax rate pursuant to 32 V.S.A. § 5402b.