

No. 8: ConVal Trust Funds

There are six separate Warrant Articles included on the March 9 ballot that are associated with increasing the balances of our District Trust Funds:

4. Appropriate to Special Education Reserve Trust Fund from Fund Balance
5. Appropriate to Building Capital Reserve Fund from Fund Balance
6. Appropriate to Energy Trust Fund from Fund Balance
7. Appropriate to Equipment Trust Fund from Fund Balance
8. Appropriate to Athletic Trust Fund from Fund Balance
9. Appropriate to Building Capital Reserve Fund from Fund Balance

All six of these Warrant Articles involve “Appropriations” from “Fund Balance”.

Budget Basics

Let's start with the basic concept of a “fund balance”.

$$\text{Revenues} - \text{Costs} = \text{Fund Balance}$$

Any budget includes estimates of revenues (income) and costs (or expenses) for a prescribed period of time. Our school budget covers the school year: July 1 through June 30.

For your home and business, it is generally good practice to develop a budget where revenue estimates exceed cost estimates (a surplus). Doing the opposite will result in a “deficit”. “Deficit spending” is a term commonly associated with our federal and state governments – not school districts.

Since many future costs can only be estimated when a budget is prepared, it is common practice to build a bit of margin into some of the various line items in the budget. At the end of budget period one can determine actual revenues and costs – and these will inevitably differ from the estimate. A surplus is the desired result - but the Goldilocks principle applies well here. If our budget is properly planned, the surplus will be “just right”.

General or Operating Fund - The School District has several different funds (or accounts) that are used, including: the “Operating Fund”, six (6) “Trust Funds” (described below) plus a few more not discussed here.

The Warrant Article for the school “budget” that voters approve each year determines the cost side of the Operating Fund budget. The revenues associated with the Operating Fund are not subject to voter approval since most of them are not within the District's authority to determine or manage.

Fund Balance Disposition

The following discussion pertains to the various options for “disposition” of any end of year “Fund Balance” (or surplus) for the Operating Fund. These include:

- **“Transfer”** (or “appropriate”) surplus \$\$ from the Operating Fund to one of more of the various “Trust Funds”
- **“Retention”** by the District for use during the following school year.
- **“Return”** the remaining surplus to the taxpayers in the various towns – not directly, but by reducing the amount of taxes that need to be collected for the following school year.

“Transfer” to District Trust Funds

ConVal District voters have previously approved the establishment and funding of six “Trust Funds”:

- Building Capital Reserve Fund
- Equipment Trust Fund
- Athletic Trust Fund
- Health Trust Fund
- Special Education Reserve Trust Fund
- Energy Trust Fund

There are two general purposes for these funds:

- Emergency or unanticipated expenses (e.g. replacement of failed equipment)
- Levelize the budget (e.g. accumulate funds over several year for high cost project)

Each fund has a specific purpose that prescribes how funds in each trust may be spent . The School Board has been given the authority to approve expenditures from these Trust funds. Public hearings are required for any expenditure.

Funding of the Trust Funds - There are two ways to fund these funds – both of which require voter approval (by simple majority)

- “Appropriating” funds from the end of year Operating Fund “Fund Balance” (aka transferring)
- Direct appropriation

Appropriating from Fund Balance - Once the “surplus” at the end of each year is determined, \$\$ can be transferred to the various Trust Funds listed above – provided that voters previously approved specific warrant articles that define: the sum to be transferred, the fund to be transferred to, and that “sum (is) to come from” the prior year fund balance.

Here’s a typical Warrant Article.

“Shall the Contoocook Valley School District vote to raise and appropriate the sum of \$25,000 to be added to the Equipment Trust Fund as previously established? This sum to come from June 30, 2021 fund balance available for transfer on July 1, 2021 *with no amount to be raised from taxation.*”

A separate Warrant Article is required for each Trust Fund to be funded.

Direct Appropriation - Note the inclusion of the highlighted clause in the above Warrant Article. If this was not included, then the warrant article would be considered a *direct appropriation* – and approval would mean additional taxes would have be raised.

As an example, last March, voters approved the following Warrant Article:

Article 06: Establish and Appropriate to an Expendable Trust Fund for Energy Projects and Efficiencies

Shall the Contoocook Valley School District **establish** an expendable trust fund under the provisions of RSA 198:20-c, to be known as the Energy Projects and Efficiency Fund, **for the purpose of funding alternative energy projects and energy efficiency projects**, including but not limited to, future buyouts in the event the District enters into power purchase agreements, as well as funding the design, construction and implementation of alternative energy projects and projects designed to conserve energy, **and shall it raise and appropriate the sum of \$70,000 to be placed in the fund**; further to **name the school board as agents to expend from this fund**.

Follow the highlighted language and note that this warrant article (1) established a new fund, (2) established the purpose of the fund, (3) raised and directly appropriated \$70,000 for the fund, and (4) gave the School Board authority to expend from the fund.

Proposed Trust Fund Warrant Articles

The following table is a summary of the “Trust Fund” Warrant Articles that have been approved by District voters for the past several years – along with the proposed transfers for this year.

Trust Fund Warrant Articles								
March 2019			March 2020			March 2021 Proposed		
No.	Fund	\$\$	No.	Fund	\$\$	No.	Fund	\$\$
6	Special Education	\$ 200,000	2	Building	\$ 550,000	4	Special Education	\$ 100,000
7	Building	\$ 250,000	3	Athletic	\$ 25,000	5	Building	\$ 300,000
8	Athletic	\$ 100,000	4	Health	\$ 25,000	6	Energy	\$ 25,000
9	Health	\$ 50,000	6	Energy*	\$ 70,000	7	Equipment	\$ 50,000
						8	Athletics	\$ 25,000
						9	Building	\$ 200,000
Total		\$ 600,000			\$ 670,000	Total		\$ 700,000
*Direct Appropriation								

Note that all of these proposed transfers from the year end fund balance are subject to:

- ✓ Voter approval and
- ✓ Availability of funds

At the end of any given year, there may not be sufficient “surplus” or “Operating Fund Balance” to cover all – or any – of these proposed transfers.

If there are funds available to cover some, but not all, then the monies are transferred to the Trust funds in the order they are listed on the ballot.

Since COVID19 has had such a significant impact on our current school year budget – which may result in a Fund Balance at the end of this year that is less than \$700,000, the Board included two separate Warrant Articles for the Building Capital Reserve Fund. If voters approve both and there is enough available, a total of \$500,000 would be transferred into that fund.

This funding sequence provides for a better chance of funding for the Energy, Equipment and Athletics funds.

Any remaining fund balance would then be either “retained” or “returned”

“Retention” – Retention of funds for use the following year is not currently an option except under extraordinary circumstances. This past year, the Governor did authorize a “one time” retention under Emergency Order 38 as part of the state’s Covid relief programs. The impact of this on the recent tax bills was discussed in Article 3 of this series. In the absence of this sort of authorization, the District cannot currently retain any \$\$ from the “operating fund” surplus.

State laws and regulations do provide for the establishment of a recurring “retention” option. There are towns in the District that have established that option. For ConVal, Warrant Article 12 would need to be approved – and the School Board would then establish a policy governing funding and use of this option.

The next piece in this series will address Warrant Article 12.

“Returns” - After all of the approved transfers (and retentions) are made, any remaining balance must be “returned” to the tax-payer/towns by reducing the District Assessment. Our proposed budget includes an estimate for this amount under “Local Revenue”, specifically as “Unreserved Fund Balance”.

We have included \$250,000 in estimated revenue for the past several years. The amounts that were actually returned are included in the table below. (Note that the amounts shown under each Budget year represent the Fund Balance the close of the previous fiscal year.)

Summary

At the end of each year (June 30), the amount of surplus is calculated and “distributed” to the following fiscal year Operating Budget in the following order:

- “Transfers to Trust Funds” - based on Warrant Articles approved that March
- “Retention” amounts – if allowed and as determined by the Board.
- Any remaining balance is “Returned” – which reduces the District Assessment.

The following table is a summary of these distributions for the past several years.

Budget Year	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
Transfers to Trust Funds	\$ 500,000	\$ 550,000	\$ 425,000	\$ 600,000	\$ 600,000
Funds Retained (Emergency Order)					\$ 320,836
Unreserved Fund Balance ("Returned")	\$ 1,066,833	\$ 1,372,508	\$ 851,339	\$ 1,294,739	\$ 250,000
Total	\$ 1,566,833	\$ 1,922,508	\$ 1,276,339	\$ 1,894,739	\$ 1,170,836
Direct Appropriation to Trust Fund					\$ 70,000

Note both the one-time use of fund “retention” and the “direct appropriation”.

In the future, “retention” of end-of-year surplus could be an option available to ConVal. We’ll discuss that (and Warrant Article 12) in the next article in this District Financial Series.