

No. 9: Fund Balance Retention

The previous article in this series on District Finances discussed the three options for disposition of the remaining Fund Balance at the end of any given fiscal year:

- Appropriations to Trust Funds (“Transfer”)
- Retention of unassigned funds (“Retain”)
- Returned to the taxpayers when they are utilized by the Department of Revenue Administration in calculating the local education tax rate (reduction of District Tax Assessment) for following fiscal year (“Return”).

Article 3 of this series discussed NH Emergency Order 38 which allowed the District to “retain” a portion of the FY19-20 unused funds to meet the unanticipated costs associated with COVID. That was a helpful albeit temporary solution.

This article will discuss proposed Warrant Article 12 – “Fund Balance Retention” which would establish a contingency fund that could be used – indefinitely – to meet the costs of unanticipated expenses that arise during the year.

Although state regulations had previously allowed the district to establish a contingency fund, ConVal does not currently have one established. The combination of lessons learned during COVID and recent changes to contingency fund regulations has led to the Board’s decision to request voter approval to establish this contingency fund.

RSA 198:4-b Contingency Fund is the state regulation that allows a school district to “establish a contingency fund to meet the cost of unanticipated expenses that may arise during the year”. The regulation was modified, effective Sept. 27, 2020 to:

- increase the portion of unassigned funds that could be retained (from up to 2.5% to up to 5%)
- remove prior restrictions on how a district could spend this money.
- provide School Boards with more autonomy regarding the use of the funds by removing the requirement that the Commissioner of Education approve expenditures and
- establish requirements for approving and reporting of such expenditures.

Why would the school district want to retain a portion of the unassigned fund balance? Like a savings or balance in a checking account for a family, an unassigned fund balance is essential to be able to:

- Respond to an emergency or other unforeseen event such as an unexpected building repair, equipment replacement, or uninsured loss.
- Cover unexpected revenue shortfalls which would keep the district running in the event of late or lower than expected state subsidies.
- Maintain good credit ratings which will reduce the cost of borrowing or issuing debt.
- Stabilize cash flow
- Potentially generate investment revenue which can be used to offset tax increases

Warrant Article 12 - Here is the actual language in the proposed Warrant Article - followed by an explanation of what it means.

Article 12: Fund Balance Retention

“Beginning in fiscal year 2022/2023, shall the School District by this vote authorize, indefinitely until rescinded, it to retain year-end unassigned general funds in an amount, in any fiscal year, not to exceed 5 percent of the current fiscal year’s net assessment, in accordance with RSA 198:4-b, II. Such fund balance retained may only be expended after conducting a public hearing by the governing body in accordance with RSA 198:4-b. (Majority vote required)”.

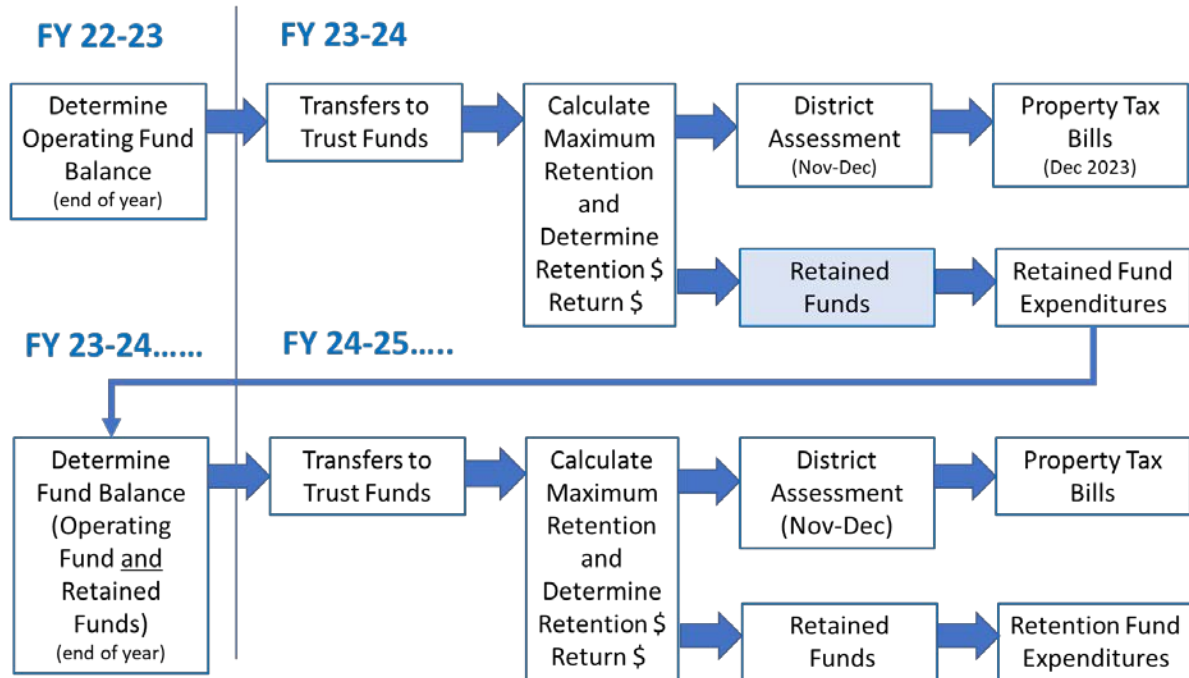
In the event this Warrant Article is approved, the School Board will develop and adopt a policy that will govern the fund. That Policy would allow the District to:

- “Retain year-end unassigned general funds”
 - after the approved Trust Funds are funded and
 - before any funds are “returned”
- The amount to be retained shall not “exceed 5% of the current fiscal year’s net assessment”.
 - The School Board will develop a District Policy that will set the percentage of net assessment that may be retained (e.g. 2.5% vs 5%)
 - Refer to “Retention Fund Maximum” on page 3 below for Net Assessment calculations.
 - The School Board determines the actual amount to be retained each year. Any fund balance not retained is “returned”.
- Expenditure of retained funds
 - Permissible uses of these funds will be defined by District Policy. There will be restrictions. The fund would not be used to offset the Operating Budget.
 - Any expenditure would require a **Public Hearing** followed by a **Board vote** to approve said expenditure.
 - A report on any expenditures will be included in the annual report
- “Beginning in Fiscal Year 2022-23” means that this retention process would not start until the Operating Fund Balance at the end of the FY22-23 school year was determined. The “retained funds” would be available for approved expenditure in the FY23-24 school year.
- The balance of any unexpended retained funds remaining at the end of each subsequent year would be subject to the Fund Balance disposition/allocation process described below.

Approval of this proposed Warrant Article and adoption of the corresponding District Policy to govern use of the Retained funds would provide a level of financial flexibility to react to emergencies or other significant unforeseen circumstances. It is considered to be a best practice in financial management that is currently used by many towns in the District and across the state.

Fund Balance Disposition Process

The flow diagram below depicts the process that would be followed to determine the allocation of the Operating Fund Balance in the first and subsequent years of Retention Fund existence.



Initial Operating Fund Balance Disposition

FY22-23 would be the first year of the District Retention Fund operation. The only source of funding would be the Operating Fund Balance at the end of FY22-23. Any appropriations to Trust Funds from the Fund Balance approved by voters in March 2023 would be the first priority.

The School Board would then determine how to split any remaining balance between “retained” and “returned” (by reducing the District Assessment used in calculating Dec 2023 property tax bills). The amount retained would be subject to the maximum limit stated in the associated District Policy.

In subsequent years, the Operating Fund Balance and the Retention Fund balance at year end would be “combined” and the total \$\$ would then follow the same allocation process as the first year.

Retention Fund Maximum

The maximum limit for the Retention fund stated in Warrant Article is 5% of the Net Assessment. It is likely that the School Board will establish a lower limit in the associated District Policy.

The calculations for two max limit scenarios is included below:

- District Assessment (the amount towns had to raise through taxes) for this past December: \$35,327,666
- Maximum allowable retention: $5\% \times \$35,327,666 = \$1,766,383$
- Policy allowable retention: $2.5\% \times \$35,327,666 = \$883,192$

The District Assessment changes every year and so will the allowable retention. It will likely take several years of transfers to reach the prescribed limit.

Summary

The proposed Contingency Fund would provide the District with flexibility and the ability to deal with emergent issues... a capability that most towns in the District have already established.

The final article in this series on District finances will cover the proposed Budget (Warrant Article 01).