

---

## MEMORANDUM

TO: House Committee on Ways and Means  
FROM: Kelly Murphy, Director of Education Finance  
Cassandra Ryan, Chief Financial Officer  
Ted Gates, Senior Fiscal Analyst  
SUBJECT: Reserve Guidance – Draft Language Review  
DATE: February 24, 2026

---

The Agency of Education is committed to initiating rulemaking per 2024 Act 183, Sec. 7 for recommended reserve fund accounting standard. The Agency recognizes the importance of this guidance and appreciates the opportunity to provide input and key considerations on specifics provided in draft language.

First, the proposed timeline, December 31, 2026, effectively abbreviates the period available to complete a rulemaking process. As written, the timeline compresses those components into a relatively short window. If the Legislature intends for the Agency to complete final rule adoption by that date, the schedule may limit the depth of consultation and policy development necessary for durable guidance. Clarifying expectations around the scope and pacing of this work would support a more deliberate and well-sequenced process.

Second, the scope of the term “reserve fund” warrants definition. The draft directs the Agency to prescribe minimum and maximum balance levels for a reserve fund, yet Vermont statutes address surplus, construction reserves, and other designated funds in different contexts. Capital reserves established under 24 V.S.A. § 2804(a), for example, are voter-authorized and purpose-specific, while surplus under 16 V.S.A. § 567 operates differently from formally designated operating reserves. It would be helpful to clarify whether the Legislature intends these standards to apply solely to operating stabilization reserves, to all designated reserves, or to total accumulated fund balance. The answer materially affects rule design and statutory alignment.

Third, the directive to “prescribe minimum and maximum balance levels” raises an important question regarding prescriptiveness. The term “prescribe” suggests binding thresholds. If the legislative intent is instead to establish advisory benchmarks or recommended ranges, that distinction should be made explicit. Binding caps would implicate enforcement mechanisms, District Quality Standards compliance reporting, and potential corrective action. Furthermore, is the



expectation that the Agency would engage in some sort of oversight on an annual basis or would this a data collection requirement? Advisory benchmarks, by contrast, would emphasize transparency and governance discipline without creating automatic compliance consequences.

The draft contemplates revenue predictability, expenditure volatility, exposure to significant one-time expenses, and credit rating impacts. These factors vary considerably across districts depending on size, enrollment trends, geographic context, and structural cost drivers. Any resulting standards should preserve flexibility to account for this variability and avoid unintentionally disadvantaging districts with inherently higher volatility.

Similarly, the provisions directing specification of acceptable conditions for use and replenishment timelines are conceptually sound. Clear guidance regarding appropriate use of reserves and structured replenishment planning will strengthen fiscal discipline and public understanding. However, implementation should allow for multi-year stabilization strategies, particularly during continued implementation of Act 73 reforms.

Finally, the requirement to identify conditions that justify deviation from broadly applicable standards is an important safeguard. Clarification would be helpful regarding whether deviation requires Agency approval, written documentation only, or triggers formal corrective action. A clearly articulated deviation framework will ensure consistent administration and avoid ambiguity in District Quality Standards review.

In light of these considerations and previous testimony on this matter, it is important to keep GFOA best practice guidance (no less than 2 months operating general fund as fund balance) in mind as well as purpose, timeline, and financial conditions. From the Agency's perspective, Initial efforts should focus on establishing standardized definitions, model board policy guidance, and improved statewide data consistency. Reliable, comparable data across districts will provide the foundation necessary to determine if benchmarks are sufficient. A phased approach reduces the risk of unintended fiscal disruption and ensures that reserve standards are evidence-based and aligned with Vermont's broader education finance system.

The Agency remains prepared to proceed with rulemaking and looks forward to continued collaboration to ensure that the final framework reflects clear legislative intent, sound fiscal policy, and practical implementation capacity.