



**To:** Committee for House Ways and Means

**From:** Elizabeth Jennings and Heather Bushey, President and Past President of VASBO

**Re:** School District Best Practice on Reserves

**Date:** January 29, 2026

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## **Introduction**

Thank you for the opportunity to testify today on behalf of VASBO, the Vermont Association of School Business Officials. Our association represents the finance professionals responsible for stewarding public education dollars across Vermont's supervisory unions and school districts. We are here today to speak about best practices for school district fund balance reserves, why they matter, and why Vermont would benefit from clearer statewide guidance on what constitutes an appropriate reserve level.

## **The Purpose of Fund Balance in School Districts**

Fund balance is often misunderstood as excess or unused money. In practice, it functions as working capital and financial insurance, allowing school districts to manage cash flow, respond to unforeseen events, and maintain stable educational services in the face of volatility.

According to national best practices published by the Government Finance Officers Association (GFOA), maintaining adequate unrestricted fund balance is essential to mitigate revenue shortfalls, address unanticipated expenditures, and avoid sudden program reductions or tax increases. These risks are especially relevant for school districts, which operate within fixed fiscal years and have limited flexibility once budgets are approved by voters.

The ASBO professional community consistently frames fund balance not as "surplus," but as working capital necessary to avoid short-term borrowing, ensure program continuity, and manage timing differences between revenues and expenditures.

## **National Best Practices and Benchmarks**

GFOA recommends that, at a minimum, general-purpose governments maintain unrestricted fund balance equal to no less than two months of regular general fund operating revenues or expenditures. Importantly, GFOA emphasizes that this minimum is not a target or ceiling; rather, it is a floor that

should be adjusted upward based on each entity's risk profile, revenue volatility, exposure to one-time costs, and cash flow timing.

Additional GFOA guidance cautions against evaluating reserves in isolation or using a single rigid metric. Instead, reserve levels should be considered within a broader framework of risk analysis, long-term forecasting, and financial transparency. Reserves function best when they are governed by a formal policy that clearly defines:

- The purpose of reserves
- Conditions for their use
- Expectations for replenishment when reserves are drawn down

This policy-based approach helps communities understand that reserves are not hoarded funds, but a deliberate and necessary financial management tool.

### **Why This Matters in Vermont**

Vermont school districts face unique challenges that heighten the importance of prudent reserves:

- Reliance on education funding mechanisms that are sensitive to enrollment shifts and State economic conditions
- Exposure to one-time cost pressures, including special education placements and facilities emergencies
- Limited authority to adjust spending mid-year without voter approval

Despite these realities, Vermont currently lacks clear, consistent guidance on what constitutes an appropriate level of general fund reserve for school districts. As a result, districts receive mixed signals. Some are criticized for having "too much" fund balance, while others struggle to create any reserve balances, often without a shared framework to explain those decisions to taxpayers or policymakers.

Many Vermont school districts and supervisory unions do not currently have a formally adopted fund balance or reserve policy approved by their governing boards. While some entities follow informal practices or internal procedures, the absence of a formally established policy creates inconsistency and financial vulnerability. Independent audit firms have recommended that districts adopt formal fund balance and reserve policies to address the risks associated.

Across the state, the existence and level of reserves vary widely. Some school districts and supervisory unions have established reserves, while others have none. Where reserves do exist, they are most commonly restricted to capital improvements or facilities-related purposes. Fewer districts maintain operational or education stabilization reserves, and only a small number have established health insurance reserves.

To our knowledge, no Vermont school district or supervisory union currently maintains reserves sufficient to cover approximately two months of operating expenditures. In any public or private

enterprise, operating without a reasonable level of reserves would be considered unsound financial management and exposes the organization to unnecessary fiscal risk.

### **Request to the Committee**

VASBO respectfully requests that the Vermont Legislature direct the Agency of Education to partner with VASBO to deliver guidance as directed by Section 7 of Act 183 (H.887) from 2024. The work should include identifying and communicating a recommended range for general fund reserves for Vermont school districts, grounded in nationally recognized best practices such as those established by GFOA.

We are not advocating for a statutory mandate or a one-size-fits-all requirement. Rather, we believe AOE guidance could:

- Establish a baseline range or minimum benchmark, such as the GFOA two-month standard, or a percentage of the operating budget
- Encourage districts to adopt formal fund balance policies
- Promote transparency and consistency in how reserve levels are explained to voters, boards, and the Legislature
- Reduce confusion and misinterpretation when fund balance levels fluctuate year to year

Such guidance would strengthen local governance while respecting Vermont's tradition of local control.

### **Closing**

Sound financial management is not about accumulating excess resources; it is about ensuring stability, predictability, and continuity in public education. Fund balance reserves are a critical part of that stability. Clear guidance from the Agency of Education, aligned with national best practices, would help school districts make prudent decisions while maintaining public trust.

On behalf of the Vermont Association of School Business Officials, thank you for your time and for your continued commitment to responsible stewardship of education funding. We would be happy to answer any questions.