

Village of Round Lake  
New York

<p>Title:</p> <p style="text-align: center;"><b>RESERVE FUNDS</b></p> <p>Author: Treasurer</p>	<p>Policy No.</p> <hr/> <p>Adopted: 02 17 21</p> <p>Revisions:</p>
<p>Policy Owner: Village of Round Lake Board of Trustees</p>	
<p>Distribution:</p> <p>Village Board, Village Attorney, Office Administration, Staff, Policy File</p>	

**Policy Statement:** The purpose of this policy is to establish guidelines for the Village in consideration of opening and maintaining Reserve funds. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure and equipment, and provide a degree of financial stability by reducing reliance on indebtedness in financing capital projects and acquisitions. Reserve funds have a specific intended purpose and are governed by requirements set forth by Article 2 of the General Municipal Law (GML) and New York State Statutes.

**Definitions:**

Capital Improvement: Any physical improvement and any related preliminary studies and surveys; lands or rights in land, any furnishings, equipment, machinery, or apparatus for any physical improvement acquired at the time when machinery, or apparatus, for any physical improvement acquired at the time when such improvement is constructed, reconstructed, or acquired.

Equipment: Any equipment, machinery, or apparatus not included in the definition of capital improvement and for which a period of probable usefulness has been provided by law.

**Reserves Authorized By General Municipal Law**

GML Sections 6-c, 6-g establishes two types of reserve funds for counties, cities, villages, towns, fire districts and town or county sewer and water improvement districts. The two categories for reserves are **Specific** and **Type**. The table below gives examples, based on the needs of the Village of Round Lake, of the capital improvements and equipment that can be financed through each respective reserve.

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Reserve Fund	Capital Improvement	Equipment
Specific	DPW Garage Firehouse Off-street Parking Lot	Bulldozer; Snowplow Pumper Truck
Type	Land Buildings ( <i>Municipal Bldg.; Auditorium</i> ) Building Alterations	Snow Removal Equipment Street Cleaning Equipment Highway Equipment Fire Apparatus

**Guidelines**

A reserve fund is to be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds from the reserve. The governing Board of the Village should be involved from the point of consideration of opening a reserve account.

**Board Direction and Oversight**

To ensure reserve funds are being properly established for an authorized and needed purpose, and balances in existing reserve funds are not accumulated excessively or unnecessarily, governing boards should consider the following:

- Legal counsel provided guidance on the authority to establish new reserve funds
- The reserve fits within, or compliments the long range financial or capital plans of the Village
- There is a written reserve fund plan or policy in place that addresses replenishing depleted reserve balances
- Cash is being accumulated for the purchase of major equipment, or to help finance other major capital outlays
- Cash is being sequestered to help mitigate the impact of other large, nonrecurring expenditures
- Are there risks that need to be protected against
- Trustees are provided with periodic financial reports on reserve fund activity
- A limit has been established on the dollar amount to be accumulated for each reserve
- The reserve is serving the purpose for which it was established
- The best interests of the taxpayers are being met

# Village of Round Lake New York

## **Creating Reserves**

### Creating a **Specific** Capital Reserve

1. Board Resolution is required. A governing Board's Resolution must establish a specific improvement or equipment for a capital reserve, and must state the estimated maximum cost of the item(s) of equipment or improvement. (See Appendix A)
2. There are no referendum requirements for Villages for expenditures made from a specific capital reserve fund, *unless* an authorization exists to issue indebtedness for the same improvement or equipment is subject to either a permissive or mandatory referendum.

### Creating a **Type** Capital Reserve

1. Board Resolution is required. A governing Board's Resolution must establish the type of improvement or equipment; *however*, there is no requirement to state an estimated maximum cost in the Resolution. (See Appendix B)
2. There are no referendum requirements for Villages when establishing a type capital reserve fund.

## **Permissive and Mandatory Referendum Requirements**

There are two types of referendums that apply to the establishment of, **or** expenditure of capital reserve funds; Permissive and Mandatory referendums are described below:

Permissive Referendum: An action subject to permissive referendum requires the municipality to publish and post a legal notice informing taxpayers of the board's planned action, for example, the establishment of a specific capital reserve. The legal notice also informs eligible voters of their right to file a petition to require the matter to be subjected to voter approval.

Mandatory Referendum: For a mandatory referendum, no petition is filed and in all cases eligible voters of the municipality must approve the proposed action or question before the action can take place.

Permissive and mandatory referendum requirements for capital reserves are associated with the referendum requirements for bond issues.

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The Chart below summarizes the referendum requirements for the establishment and expenditure of *specific* and *type* reserve funds for Villages.

Referendum Requirements for Bond Issue	Referendum Requirements for Capital Reserves	
	Specific Reserves	Type Reserves
Bond resolutions are subject to permissive referendum unless the proposed maturity of bonds is five years or less, or unless the bonds are issued to finance judgments and claims, sewers and capital improvements finance by benefit assessments, certain street and highway improvements, and incinerators and refuse disposal facilities. Bond resolutions may also be submitted to referendum by motion of the board.	<sup>1</sup> With certain exceptions, generally a permissive referendum is required upon establishment, <i>unless</i> the period of probable usefulness of the specific capital improvement or equipment is <i>less</i> than five years.  No referendum requirements for <i>expenditures</i> .	With certain exceptions, generally a permissive referendum is required prior to expenditure, unless the period of probable usefulness of the type capital improvement or equipment is <i>less</i> than five years.  No referendum requirements for <i>establishment</i> .

**Source of Funds**

Capital reserve funds may generally be funded with:

1. Budgetary appropriations
2. Revenues not required by law to be paid into any other fund or account, for example, transfers from unexpended balances of existing appropriations and surplus moneys.

**Use of Unexpended Balances**

Generally, unexpended balances in a capital reserve fund may be transferred to another capital reserve having the same tax base.

1. Capital Reserve Balance Remaining After Completion or Acquisition: if there is an unexpended (residual) balance remaining in a specific or type capital reserve after the capital improvement or item of equipment has been completed or acquired, the governing board may appropriate all or any part of such remaining balance to another capital reserve fund without referendum. An amount sufficient to satisfy all outstanding claims arising from the construction, reconstruction, or acquisition of the improvement or the

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<sup>1</sup> Local Finance Law § 36.00(a)(1) provides that bond resolutions in villages are not subject to referendum when bonds have a proposed maturity of not more than five (5) years.

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acquisition of the improvement or the acquisition of the equipment should remain designated for such claims until they are satisfied.

Additionally, in a municipality, all or part of the unexpended balance of a capital reserve established for a specific improvement or item of equipment that has been completed or acquired (less amounts required to satisfy all outstanding claims related to such I improvement or equipment) may be appropriated for:

- a. An object or purpose for which bonds may be issued
  - b. The payment of interest on, and principal of indebtedness (*except indebtedness for assessable improvements and certain indebtedness excludable from constitutional debt limits*)( §6-c[9-a]).
2. Capital Reserve Balances Never Utilized: Where a specific capital reserve has been established, and the improvement or item of equipment (*has not been acquired or completed*), any transfer is subject to permissive referendum if the authorization for the creation of the reserve was subject to permissive referendum. While subject to a public hearing with 15 day's notice, unexpended balances may also be transferred to a Retirement Contribution Reserve Fund.

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**Regulations:** General Municipal Law (GML) Sections 6-c, 6-g

ATTACHMENTS:

Appendix A: Resolution Establishing a Capital Reserve Fund to Finance a **Specific** Capital Improvement or Item(s) of Equipment

Appendix B: Resolution Establish a Capital Reserve Fund to Finance a **Type** of Capital Improvement or Equipment.

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**Appendix A**

**RESOLVED**, that pursuant to Section 6-c of the General Municipal Law, as amended, there is hereby established a capital reserve fund to be known as the “\_\_\_\_\_ Reserve Fund” (hereafter “Reserve Fund”). The purpose of this Reserve Fund is to accumulate moneys to finance the cost of a specific [capital improvement] [item(s) of equipment]. The [capital improvement] [item(s) of equipment] to be financed from the Reserve Fund [is] [are] the [construction] [reconstruction] [acquisition] of \_\_\_\_\_ . The estimated maximum cost of such [capital improvement] [item(s) of equipment] is \_\_\_\_\_ .

The chief fiscal officer is hereby directed to deposit and secure the moneys of this Reserve Fund in the manner provided by Section 10 of the General Municipal Law. [The governing Board] [chief fiscal officer] may invest the moneys in the reserve fund in a manner provided by Section 11 of the General Municipal Law, and consistent with the investment policy of the Village of Round Lake. Any interest earned or capital gains realized on the moneys so deposited or invested shall accrue to and become part of the Reserve Fund. The chief fiscal officer shall account for the Reserve Fund in a manner which maintains the separate identity of the Reserve Fund and shows the date and amount of each sum paid into the fund, interest earned by the fund, capital gains or losses resulting from the sale of investments of the fund, the amount and date of each withdrawal from the fund and the total assets of the fund, showing cash balance and a schedule of investments, and shall, at the end of each fiscal year, render to the Board a detailed report of the operation and condition of the Reserve Fund.

Except as otherwise provide by law, expenditures from this Reserve Fund shall be made only for the purpose for which the Reserve Fund is established. No expenditure shall be made from this Reserve Fun without the approval of this governing board and such additional actions or proceeding as may be required by Section 6-c of the General Municipal Law and any other law.

This Resolution is subject to (permissive / mandatory) referendum pursuant to subdivision 4 of Section 6-c of the General Municipal Law.

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**Appendix B**

**RESOLVED**, that pursuant to Section 6-c of the General Municipal Law, as amended, there is hereby established a capital reserve fund to be known as the “\_\_\_\_\_ Reserve Fund” (hereafter “Reserve Fund”). The purpose of this Reserve Fund is to accumulate moneys to finance the cost of a type of [capital improvement] [equipment]. The type of [capital improvement] [equipment] to be financed from the Reserve Fund is the [construction] [reconstruction] [acquisition] of \_\_\_\_\_ . The estimated maximum cost of such [capital improvement] [item(s) of equipment] is \_\_\_\_\_ .

The chief fiscal officer is hereby directed to deposit and secure the moneys of this Reserve Fund in the manner provided by Section 10 of the General Municipal Law. [The governing Board] [chief fiscal officer] may invest the moneys in the reserve fund in a manner provided by Section 11 of the General Municipal Law, and consistent with the investment policy of the Village of Round Lake. Any interest earned or capital gains realized on the moneys so deposited or invested shall accrue to and become part of the Reserve Fund. The chief fiscal officer shall account for the Reserve Fund in a manner which maintains the separate identity of the Reserve Fund and shows the date and amount of each sum paid into the fund, interest earned by the fund, capital gains or losses resulting from the sale of investments of the fund, the amount and date of each withdrawal from the fund and the total assets of the fund, showing cash balance and a schedule of investments, and shall, at the end of each fiscal year, render to the Board a detailed report of the operation and condition of the Reserve Fund.

Except as otherwise provide by law, expenditures from this Reserve Fund shall be made only for the purpose for which the Reserve Fund is established. No expenditure shall be made from this Reserve Fun without the approval of this governing board and such additional actions or proceeding as may be required by Section 6-c of the General Municipal Law and any other law, including permissive referendum if required by subdivision 4 of Section 6-c.