

Emergency Reserve Guidance: Maximum Balance and Withdrawals

General

Pursuant to N.J.S.A. 18A:7F-41 a board of education or board of school estimate may establish a current expense emergency reserve account by board resolution. A board of education may appropriate funds to establish or supplement the reserve account in the district's annual budget or through a transfer by board resolution at year end. Pursuant to N.J.A.C. 6A:23A-14.4(a), a year end transfer into a board adopted emergency reserve account may be made no earlier than June 1 and no later than June 30 of the respective year. Any interest earned from the monies on hand in the emergency reserve account shall become part of the reserve fund balance. A separate bank account is not required to be maintained, but if a separate bank account is not used, interest earnings, if applicable, must be allocated to the emergency reserve account.

Commissioner approval is required for a district to withdraw funds from an established emergency reserve account. Withdrawals may only be made for "unanticipated general fund current expense". A district must submit a request to withdraw funds to the executive county superintendent. The ECS will review the information to determine whether the withdrawal is needed for T&E or if other options are available. The ECS will forward his/her recommendation to the Commissioner and a decision will be made on an expedited basis. The only exception where Commissioner approval is not required is for a withdrawal that is necessary to meet an increase in total health care costs in excess of four percent and the district did not receive an automatic adjustment for health care costs pursuant to N.J.A.C. 6A:23A-11.4. Commissioner approvals will only be granted for withdrawals necessary to finance unanticipated general fund current expenditures necessary to provide a thorough and efficient (T&E) education.

An unanticipated general fund expenditure would be for an appropriation (1) not included in the original budget certified for taxes or would not have been known at the time the budget was prepared, and (2) outside of the control of the school district. An example of this might include the cost of tuition for a mid-year special education placement. An unanticipated general fund expenditure would not include negotiated contractual agreements since this type of appropriation would be considered within the control of the district. Additional compensation of benefits upon termination or retirement also would not be considered an unanticipated emergency. Also, facilities related projects are not an allowable withdrawal; districts are permitted to use capital reserve for such projects. In all cases, the burden is on the district to justify the need for the withdrawal.

Maximum Emergency Reserve Account Balance

The emergency reserve account balance may not exceed \$250,000 or one percent of the district's general fund budget up to a maximum of \$1,000,000, whichever is greater. The district's original budget certified for taxes is used to calculate the maximum permitted balance. A district that has a year end emergency reserve balance that exceeds the maximum amount must reserve and designate the excess in the next applicable budget certified for taxes. When preparing the budget statement for county office review, the budget software application will calculate the maximum permitted balance and include an edit prohibiting a

district from exceeding their limit. At year end the public school accountant/auditor will perform the calculation as part of the excess surplus calculation. Any amount exceeding the maximum limit, whether when developing the subsequent year's budget or at June 30 of the current year, will be required to be budgeted in the district's original budget certified for taxes (at budget time) or reserved (at year end) and designated in the subsequent year's budget. As a reminder, interest earnings should be considered when making a deposit at year end, since the recording of earned interest at year end will increase the balance.

Illustrated Calculation of Maximum Permitted Balance:

Example A1:	(1) Original general fund budget for that year (line 84060)	\$23,000,000
	(2) 1% of the general fund budget	230,000
	Greater of (2) or \$250,000 = Max Balance	
	Maximum Emergency Reserve Balance	250,000
Example B1:	(1) Original general fund budget for that year (line 84060)	\$93,000,000
	(2) 1% of the general fund budget	930,000
	Greater of (2) or \$250,000 = Max Balance	
	Maximum Emergency Reserve Balance	930,000
Example C1:	(1) Original general fund budget for that year (line 84060)	\$110,000,000
	(2) 1% of the general fund budget	1,100,000
	> of (2) or \$250,000, not to exceed \$1 million= Max Balance	
	Maximum Emergency Reserve Balance	1,000,000

Withdrawals: Board of Education Action

To obtain approval for a withdrawal from the emergency reserve account, the chief school administrator must submit a written application on district letterhead stating the amount and the purpose of the proposed withdrawal. A board of education resolution authorizing the withdrawal must be submitted with the application. The district should also attach documentation of the emergency, the anticipated expenditure and bid documentation if applicable, and the most recent board secretary's report. The request for Commissioner approval should be submitted to the county office for their review and recommendation to the Commissioner. The district should retain copies of all documentation submitted and any written correspondence/approval received by the Commissioner.

Withdrawals: Department of Education Action

The executive county superintendent (ECS) will review the district's documentation and the most recent board secretary's report to determine the rationale for the unanticipated expenditure, whether the expenditure is necessary for T&E, and if other sources of revenue or unencumbered appropriations are available. In the review of the emergency circumstances and need for withdrawal, the ECS may discuss possible alternatives with the district. The ECS will forward the recommendation to the Commissioner. The Commissioner decision to either approve or deny the district's request to withdraw funds from the emergency reserve account will take into consideration the ECS recommendation. Final approval/denial will be in writing from the Commissioner.