FUNDING FACT SHEET

RESERVE BUDGETING

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WHAT IS RESERVE BUDGETING?

Reserve budgeting is setting aside a portion of financial resources into a dedicated, liquid account(s). Think of them as savings accounts or rainy day funds. Reserves ensure that a municipality has the necessary liquidity to navigate financial emergencies or to fund planned long-term investments without destabilizing the annual budget.

HOW DOES IT WORK?

RESERVE STRUCTURES

Reserves can be general (e.g., General Fund reserve or unrestricted funds balance) or specific to a category of spending (e.g. infrastructure improvements).

BUILDING THE RESERVE

Under 30-A M.R.S.A. § 5801, a Maine municipality may formally establish a reserve fund (consisting of one or more accounts) through two primary mechanisms: directly appropriating money in the budget, or by authorizing the transfer of surplus funds at the end of any fiscal year.

SPENDING THE RESERVE

Expenditures should not be made directly out of a reserve account. When an expense arises, money is formally transferred out of the reserve account and allocated into the operational budget for spending.

TYPES OF MUNICIPAL RESERVES

Reserve Type	Primary Purpose	Example
Capital Improvement Account	Financing the acquisition or reconstruction of specific, or a type of, capital improvement.	Road, pump station, culvert replacement
Capital Equipment Account	Financing the acquisition of a specific item or type of capital equipment.	Fire truck, snow plow
Credit Reserve Account	For periods of financial emergency to assist in continuing normal operations without increasing taxes.	Emergency fund following extreme storm damage
Resilience Reserve Account	Funding reserved specifically for climate adaptation, hazard mitigation, or other community resilience projects.	Elevating a town wharf, green infrastructure in flood-prone areas

TIPS FOR SUCCESS

- Have a **clear municipal policy** that establishes how much money should be reserved, where the contributions come from, and the conditions under which the reserve can be used. The policy should also explicitly dictate how funds are accessed (i.e. through a selectboard vote, special town meeting, etc.)
- Reserves should have a **"floor"** and a **"ceiling."** The floor is the minimum required to continue operations or pay for emergencies. The ceiling stops you from over-reserving, which can lead to pushback from residents who want to see their tax dollars actively working in the community.
- **Utilize "types" over projects**. Since 30-A M.R.S.A. § 5801 allows you to establish a reserve for a specific item or a "type of" capital improvement/equipment, you can set up broader reserve accounts (e.g., "Public Works Equipment Reserve" instead of "2026 Plow Truck Reserve"). This provides the town with flexibility if equipment procurement timelines change or needs shift.
- **Consider investing reserves**: Instead of keeping funds in a cash account, municipalities can choose to invest reserves, for example in a high yield savings account, money market account, or working with an investment partner. The investment approach depends on when and how quickly funds may need to be accessed. The aim is to earn a reasonable return that matches or beats inflation, while maintaining enough liquidity to cover anticipated expenses. Invested reserves necessitate an investment policy establishing how funds are managed, what investments are permitted, and who has authority over investment decisions.

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EXAMPLE PROJECTS

The Town of Rockport, ME's 2026-27 budget includes a ~$1 million Road Construction & Maintenance capital improvement reserve, as well as multiple capital equipment accounts including Emergency Medical Services ($14,000) and Harbor Boat Engine ($1,000) Reserves.

The Town of Vinalhaven, ME established a resilience reserve fund in 2025, to which they allocated $75,000 in the first year and $25,000 the second. So far, the funds have been used to quickly and easily supply match for resilience grants.

The Town of Gorham, ME is using an impact fee model from subdivisions and other development in town to create a reserve fund to purchase land to be used for recreation or open space.

FREQUENTLY ASKED QUESTIONS

What are some creative ways to build up a reserve beyond appropriating tax revenue?

There are a few ways to build up a reserve beyond tax revenue. One way is through the sale or rent of municipal property or equipment. Impact fees and user fees is another creative avenue. Gifts or donations can also be used to build a reserve fund. Unspent funds from the previous year's budget can be transferred into reserve funds as well. Once a fund is established, sinking funds are a way for a municipality to grow their reserve by investing.

Should we have one combined reserve fund or keep them separate?

Both methods are valid. A single combined account requires meticulous bookkeeping to track how much money belongs and is being spent on different targets. If tracking is difficult, establishing separate accounts is more manageable.

Is there a limit on how much money can be put into a reserve?

Maine law does not place a limit on the overall maximum balance a municipality can accumulate in a reserve or sinking fund account over time. The only statutory restriction is for annual budget contributions to a Credit Reserve Account (used to maintain normal operations in an emergency), which Maine law caps at 5% of the town's current annual tax commitment. However, state law does not place a percentage cap on annual appropriations to other accounts. It also does not limit total fund growth over time.

Who has the legal authority to withdraw money from the reserves?

Under Maine law, authority rests with the municipal legislative body or Town Manager. For a Credit Reserve Account, the law explicitly states that withdrawals may only be ordered when the municipal legislative body formally determines that a financial emergency exists. Town Administrators/Managers or Selectboards/Town Councils cannot unilaterally move these funds without that formal legislative action.

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