

**Financial Reserve
Policies and Procedures**

**Approved by:
Select Board &
Finance Committee
Effective: 9/4/19,
amended 12/5/23**

PURPOSE:

To formalize policies for the level of reserves and appropriate uses of the reserves in order to reduce risk in managing the town's short and long-term needs, to improve financial planning, and to help preserve the town's financial position.

AUTHORITY:

MGL Chapter 40 §5B

APPLICABILITY:

This policy applies to the short-and long-range budget decision-making duties of the Select Board, Town Administrator, and Finance Committee. It also applies to the related job duties of the Town Accountant and Town Treasurer. It pertains to free cash and the general stabilization fund.

POLICY:

The Town is committed to building and maintaining its reserves to have budgetary flexibility for unexpected events and to provide a source of available funds for future capital expenditures.

Free Cash

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it.

The Town will strive to realize year-to-year free cash certifications less than seven percent of the annual operating budget (approximately \$350,000). To achieve this, the Select Board, Town Administrator, and Finance Committee will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations. If the Town generates free cash consistently higher than seven percent of the annual operating budget (approximately \$350,000), the Select Board, Town Administrator, and Finance Committee will closely examine the situation to determine the cause, and make adjustments accordingly. If there is a specific and obvious explanation why free cash is significantly over the targeted amount on a one-time rather than recurring basis (sale of a valuable property, building, or vehicle, or other reason), that specific overage shall not be considered in evaluating the target.

As much as practicable, the Town will limit its use of free cash to building reserves, funding nonrecurring costs (i.e., one-time expenditures, such as capital projects, unforeseen and extraordinary deficits, and emergencies), and offsetting the Town's unfunded liabilities. The Town will avoid applying free cash to fund the operating budget. The Town will similarly avoid using free cash to reduce the tax rate on the annual tax rate recapitulation sheet, since this is essentially using it to fund recurring costs.

During the annual budget process, the Town should aim to leave free cash equaling one to two percent of the annual operating budget (approximately \$50,000 to \$100,000) in order to maintain a minimum

level of funds in free cash for the time period between Town Meeting and the end of the fiscal year, and to contribute toward the next year's free cash certification, without leaving too much unused money regularly in free cash.

General Stabilization Fund

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. The Town has established one general stabilization fund.

The Town will endeavor to achieve and maintain a minimum balance of twelve percent of the annual operating budget (approximately \$600,000) in its general stabilization fund. If the fund falls below the target minimum balance, the Town will annually appropriate to it an amount of at least two percent of the annual operating budget (approximately \$100,000), sourced either directly from the levy or by transfers from excess free cash, or other sources, in order to build the fund gradually to meet the target minimum balance.

The Town will endeavor to maintain a maximum balance of twenty percent of the annual operating budget (approximately \$1,000,000) in its general stabilization fund. If the fund is below the target maximum balance, the Town should consider appropriating to it a discretionary amount during the annual budget process, sourced either directly from the levy or by transfers from excess free cash, or other sources, in order to build the fund gradually, but not to exceed the target maximum balance.

Withdrawals from the general stabilization fund should be used to fund one-time capital expenditures, smooth out year-over-year budget differences, mitigate emergencies, or in response to other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the minimum target – twelve percent of the annual operating budget (approximately \$600,000). If any necessary withdrawal drives the balance below this minimum, the withdrawal should be limited to one-third of the fund's balance, and the Select Board, Town Administrator, and Finance Committee will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

PROCEDURES:

- Within 75 days of the close of the Fiscal Year, the Accountant shall report the balance in the General Stabilization Fund balance to the Treasurer, Town Administrator, and members of the Select Board and Finance Committee. Prior to and after any Annual or Special Town Meeting at which the General Stabilization Fund is impacted, the Town Administrator shall report the balance of the Fund to the Select Board and Finance Committee.
- Immediately after the certification of Free Cash, and prior to and after any Annual or Special Town Meeting at which Free Cash is used, the Town Administrator shall report the balance of Free Cash to the Select Board and Finance Committee.
- Any votes to expend from the Stabilization Fund shall require a two-thirds vote of the Town Meeting, consistent with the requirements of state law.