




TOWN OF ERVING

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Policy

FINANCIAL RESERVE POLICY

Approved: _____


Selectboard Chair, Scott Bastarache

Date: _____

4/8/19

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.01 Issue Date / Effective Date

This policy is issued and effective on April 08, 2019.

.02 Purpose

To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, Erving can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

.03 Applicability

This policy pertains to short-range and long-range budget decision making and applies to the Board of Selectmen, Town Administrator, and Finance Committee in those duties. It also applies to the related job duties of the Town Accountant and Board of Assessors.

.04 Free Cash

The Massachusetts Department of Revenue, Division of Local Services (DLS) must certify the Town's free cash before it can be appropriated. DLS defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line items."

The Town shall set a year-to-year goal of maintaining its free cash of approximately five percent of the annual budget. To achieve this, the Town Accountant will assist the Town Administrator in proposing budgets with conservative revenue projections, and Department Heads will carefully manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects, snow and ice deficits, emergencies, or other unanticipated expenditures) and will appropriate any excess above (5%) five percent of the annual budget to build reserves or offset unfunded liabilities.

.05 Stabilization

- a. **General Stabilization:** The Town will endeavor to maintain a minimum balance of (50%) fifty percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to fund capital projects in lieu of borrowing or mitigate emergencies or 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 (50%) fifty percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to (1/3) one-third of the general stabilization fund balance. Further, the Town Administrator will work toward developing a detailed plan to replenish the fund to the minimum level within the next (3) three fiscal years.
- b. **Capital Stabilization:** The Town will appropriate annually to the capital stabilization fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for anticipated annual capital needs for 10 years. This target should minimally equate to the total annual asset depreciation the Town Accountant calculates under the requirements of the Government Accounting Standards Board's Statement 34. Sustaining funding in this reserve enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs.

.06 Retained Earnings

The Water and Wastewater Departments' finances are managed under separate enterprise funds. By accounting for Sewer and Water revenues and expenditures in funds separate from the general fund, the Town can effectively identify its true service delivery costs—direct, indirect, and capital—and set user fees at a level sufficient to recover them. Under this accounting, the Town may reserve each operation's generated surplus (referred to as retained earnings) rather than closing the amount out to the general fund at year-end.

For the Sewer and Water enterprise funds, the Town will endeavor to maintain a reserve amount at (200%) two hundred percent of the operation's total budget, at minimum, but any reserve may be significantly higher

if major infrastructure improvements are necessary or anticipated. These reserves will be used to provide rate stabilization and to fund major, future capital projects.

.07 Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Administrator and the Town Accountant an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare those balances surplus and available for appropriation. Overlay surplus not appropriated by June 30 closes to undesignated fund balance in the General Fund.