

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. Part of well-planned sustainability plan, the Town can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances (e.g. weak economy), to serve as a revenue source 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.

APPLICABILITY

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

POLICY

The Town of Upton commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall reserves in the level of twelve (12) to fifteen (15) percent of the annual General Fund operating budget. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus. In the event that circumstances do not permit adhering to this policy, such policy can be altered by a majority vote of the Board of Selectmen and Finance Committee.

A. 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.

By October 15th each year, the Town Accountant will submit to DLS a year-end balance sheet, free cash checklist, and year-end reporting checklist. Once DLS certifies free cash, the Town Accountant will review any reduction to the certified balance and provide the Town Manager a detailed explanation and subsequent year remediation plan.

The Town will set a year-to-year goal of maintaining its free cash in the range of four (4)– six (6) percent of the annual budget. To achieve this, the Town Accountant will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs.

The Town will endeavor to transfer a minimum of ten (10) percent of the certified free cash to the general stabilization fund until the stabilization account reaches the ten (10) percent goal of the

operating budget. As much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) of which sixty (60) percent of the Town's free cash will be appropriated for such expenditures. Finally, budget decision makers should reserve the remaining thirty (30) percent of the annual free cash to avoid full depletion so that the succeeding year's calculation can begin with a positive balance.

B. Stabilization Funds

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. Prior to the adoption of this policy, the Town established and appropriated to a general stabilization fund.

General Stabilization: The Town will endeavor to maintain a minimum balance of 10 percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to 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 [five] percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to [one-third] of the general stabilization fund balance. Further, the Town Accountant will develop a detailed plan to replenish the fund to the minimum level within the next [two] fiscal years.

Capital Stabilization: The Town will establish and 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 capital. Doing so 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.

C. Retained Earnings

The Town has separate enterprise funds to provide water and wastewater utilities. By accounting for each utility's revenues and expenditures in individual funds segregated from the general fund, the Town can identify the true costs of each service—direct, indirect, and capital—and recover these through user fees and other fees. Under this accounting, the Town may reserve each operation's generated surplus (referred to as retained earnings or, alternatively, as net assets unrestricted) rather than closing the amount out to the general fund at year-end.

For each enterprise fund, the Town will maintain a reserve amount level between 15 to 20 percent of the Enterprise total budget, at minimum, but any reserve may be significantly higher if major infrastructure improvements are necessary. These reserves shall be used to provide rate stabilization and to fund major, future capital projects. To maintain the target reserve levels for each enterprise requires the Water and Wastewater departments to periodically review, and when necessary, adjust user rates.

D. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements and exemptions. Upton officials will prudently manage the overlay in accordance with the Town's Overlay policy to avoid the need to raise overlay deficits in the tax levy.

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Manager 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 available for use in the Town's capital improvement plan or for any other one-time expense. If the declared overlay surplus is not appropriated by June 30th each year, the overlay surplus will close to undesignated fund balance and part of Free Cash.

REFERENCES

M.G.L. c. 40, §5B

M.G.L. c. 59, §25

M.G.L. c. 44, §53F½

DLS Best Practice: Free Cash

DLS Best Practice: Reserve Policies

DLS Best Practice: Special Purpose Stabilization Funds

DLS Informational Guideline Release 08-101: Enterprise Funds

DLS Informational Guideline Release 16-104: Overlay and Overlay Surplus

DLS Informational Guideline Release 04-201: Creation of Multiple Stabilization Funds

Government Finance Officers Association Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund

**Administrative
Policy and
Procedure
Policy**

**Board of Selectmen
FINANCIAL RESERVES
Approved July 14, 2020**

APPROVED BY:

Board of Selectmen, Chair: Brett Simas



Board of Selectmen: Maureen Dwinnell



Board of Selectmen: Stephen Matellian

Original date: July 14, 2020

Revised dates: