



TOWN OF BECKET

FINANCIAL RESERVES POLICY

Applicability: Town and Enterprise Departments

I. Purpose

In an effort to improve and protect the Town's long-term financial health, the proper reserves should be in place to offset any unforeseen or extraordinary needs of an emergency nature. The purpose of this policy is to:

1. Ensure the Town maintains adequate reserves;
2. Ensure a source of funds availability for future capital expenditures;
3. Ensure the Town maintains and improves its bond rating;
4. Ensure the operating budget is not balanced using financial reserves.

The effectiveness of this policy will be reviewed each fiscal year at the beginning of the budgetary process and refined accordingly, if necessary.

II. Policy – Free Cash

Free cash is the term used for a community's funds that are available for appropriation. Specifically, free cash is generated when actual revenue collections are in excess of estimates, when expenditures are less than appropriations, or both. Free cash must be certified by the Director of the Bureau of Accounts as of July 1 of each fiscal year upon submission of a community's balance sheet and cannot be appropriated until certified. Once free cash is certified, it is available for appropriation at the annual or any special town meeting. Free cash may be used for any lawful municipal purpose and provides communities with the flexibility to fund additional appropriations after the tax rate has been set. The use of Free Cash must be approved by the voters at either a Special Town Meeting or the Annual Town Meeting. The Director's certification expires on June 30 at the end of the fiscal year.

The Town of Becket's Certified Free Cash should be used to fund the Stabilization Fund. Unforeseen and unbudgeted items can be funded from Free Cash up to 50% of the current Certified Free Cash. Exceptions to the free cash policy shall be made only under extraordinary circumstances and any such exception shall be explained to the voters in a statement written by the Board of Selectmen in the Annual Town Meeting or Special Town Meeting warrant if applicable.

III. Policy - Overlay Surplus

Abatements and exemptions funded from the overlay account ... for a particular fiscal year often vary from the actual amount in the account. When there is a balance in the overlay account, it may be transferred by the board of assessors to an account called overlay surplus. These funds may be appropriated by town meeting for any purpose for which a town may expend funds. At the close of the fiscal year, any balance in the overlay surplus account becomes part of the free cash calculation on July 1 of the following fiscal year.

The town may appropriate overlay surplus for any lawful purpose, including funding any known or anticipated overlay deficit for any fiscal year. Any amount not appropriated by June 30 closes to undesignated fund balance in the general fund. In the normal course of events, this will increase certified free cash.

To avoid having to raise significant overlay deficits in the tax levy, the Town will use excess overlay to fund potential overlay deficits in other fiscal years before making it available for operating or other spending purposes, i.e., analyzing all overlay balances to see whether they can reasonably cover their property tax receivables and abatement exposure for other years. This practice would maintain adequate overlay to cover potential deficits.

IV. Policy – Stabilization Fund

Towns may establish one or more stabilization funds (M.G.L. Ch. 40 Sec. 5B) for different purposes. A stabilization fund is a special reserve fund, into which monies may be appropriated, up to 10% of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property, and reserved for later appropriation for any lawful municipal purpose. Monies accumulated in a stabilization fund, not to exceed 10% of the equalized value of the town, carry forward from one fiscal year to another. Interest earned from the investment of monies in the stabilization fund remains with that fund. A two-thirds vote of town meeting is required to establish each fund, appropriate into and from a fund and amend the purpose of a fund. Stabilization funds allow a town to save money for future years or avoid borrowing for capital projects. For example, towns often fund such items as fire trucks or building repairs from these funds. Use of a fund avoids having to incur debt and saves the interest cost of borrowing.

The stabilization fund is designed to accumulate amounts for unforeseen and extraordinary events, Capital purchases and other future spending purposes, although it may be appropriated for any lawful purpose.

One town stabilization fund, with 2 components, shall be established as recommended by the Finance Committee, as follows:

Component #1 (unrestricted for unforeseen and extraordinary events) (Goal for component #1 Maximum fund balance to be 7 % of the Annual Operating Budget)

- This component will build through the addition of Free Cash on an annual basis.
- Additional funding through budget appropriation can be sought.

Component #2 (restricted for specific purposes, such as capital purchases, as approved at Town Meetings)

- Excess Stabilization Funding over the maximum 7 % in component #1 will accumulate in component #2

Stabilization Fund Component #1 may only be used to support the operating budget when revenue (net of Real Estate tax appropriations) increases less than 3% from the prior fiscal year. The amount withdrawn from the Fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year revenue to 3%, or 1% of prior year revenue, whichever is less. There will not be any additional withdrawals from the Stabilization Fund until the amount withdrawn is replenished. Funding to replenish the Stabilization Fund shall come from Free Cash or from appropriation. If Free Cash or appropriations are insufficient to replenish the Stabilization Fund in the immediately following fiscal year, the replenishment shall occur as soon as is available, and no further withdrawal shall occur until the fund has been replenished.

The accumulated Stabilization Fund goal is to be 15% of the previous year's operating budget.

There will also be a separate Stabilization Fund contained within the Ambulance Enterprise Fund that will accumulate from excess Free Cash and will be used for capital purchases. The use requires the same above mentioned votes from a Town Meeting.

V. Policy – Reserve Fund

The reserve fund exists to fund extraordinary and unforeseen expenses. It is disbursed through transfers approved by the finance committee. Annual funding is limited to 3% of the tax levy. However, if town meeting has rejected funding for a particular item, it cannot later be funded through the reserve fund. In general, extraordinary or unforeseen items such as an increased insurance premium or replacing a damaged police cruiser are acceptable. Salary increases are generally not an acceptable use of this reserve.

The Reserve Fund, as recommended by the Finance Committee, shall be used for unforeseen and extraordinary events. Annual funding not to exceed 1 percent of the prior year operating budget, exclusive of debt service.

Approved: Becket Board of Selectmen

_January 15, 2014_____

Date Approved: