



POLICY No.: F-6
DATE ADOPTED: OCTOBER 3, 2018

TOWN OF WEST BOYLSTON BOARD OF SELECTMEN POLICY

Town Of West Boylston, Massachusetts

FINANCIAL RESERVES

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, West Boylston 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.

APPLICABILITY

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

POLICY

The Town of West Boylston 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 ten percent of the annual operating budget. The Town considers a balance of less than 5% to be cause for concern and will work to restore the balance above that level as soon as possible. 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 stabilization funds, overlay surplus and retained earnings.

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.

The Town Administrator shall propose budgets with conservative revenue projections, and department heads shall be responsible to operate their departments within the approved budget without expectation of any additional funding. Any budget excesses shall be turned back at the end of the fiscal year. 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. Except in extraordinary circumstances, unassigned fund balance should not be used to fund more than 1% of the ongoing and routine year-to-year operating expenditures of the Town. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (such as capital projects or emergencies and other unanticipated expenditures) and will appropriate any excess to build reserves or to offset unfunded liabilities.

B. Stabilization Funds

General Stabilization: The Town will endeavor to maintain a minimum balance of five 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 Administrator shall develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Capital Investment Fund: The Town maintains a Capital Investment Fund created specifically by the Massachusetts Legislature for the Town of West Boylston. It is the policy of the Town that annually, upon completing any transfer from Free Cash to the Stabilization Fund, the Town Administrator may recommend that the Town Meeting make transfers from Free Cash into the Capital Investment Fund. The Town will make on going appropriations to this fund so that it maintains the ability to cover the Town’s cash outlay for capital. Sustaining funding in this special fund enables the Town to pay outright for moderate-range capital expenditures and thereby preserve the 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 Sewer Department’s finances are managed under an enterprise fund. By accounting for its revenues and expenditures in a fund separate from the general fund, the Town can effectively identify the utilities costs-direct, indirect, and capital, and set user fees at a level sufficient to recover them. Under this accounting, the Town may reserve the sewer operation’s generated surplus (referred to as retained earnings) rather than closing the amount out to the general fund at year-end.

D. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from uncollected property tax, abatements and exemptions. Town 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.

E. Other Reserve Funds

Overlay Reserve: At the conclusion of each fiscal year, the Board of Assessors shall submit to 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 a portion of the surplus balance available for use in the Town's capital improvement plan, for any other one-time expense, or for any lawful purpose.

Other Funds: Other trust funds or reserve funds do exist. These include the annually funded Finance Committee's Reserve fund which is listed in their line item in the annual operating budget, the Unemployment Trust Fund, and the Wachusett Trust Fund, various school funds for special education and other purposes, and various reserves for appropriations such as the Ambulance Receipts Reserved for Appropriations, and the Public Access TV Receipts Reserved for Appropriations; which are established to help cover the specific departmental costs as needed.

REFERENCES

[M.G.L. c. 40 §5B](#)

[M.G.L. c. 59 §25](#)

[M.G.L. c. 44 S53F1/2](#)

West Boylston Overlay Policy

DLS Best Practices:

[*Free Cash*](#)

[*Special Purpose Stabilization Funds*](#)

DLS Informational Guideline Release 16-104: [*Overlay and Overlay Surplus*](#)

Government Finance Officers Association: [*Fund Balance Guidelines for the General Fund and Working Capital Targets for Enterprise Funds*](#)