

Town of Cohasset Reserve Policies

Approved by the Advisory Committee by a vote of 8-0 on February 24, 2016
Approved by the Board of Selectmen by a vote of 4-0 on May 9, 2016

General Reserve Fund

Objective: To have resources to respond to extraordinary, unforeseen, or emergency circumstances.

Financial Goal: To fund a minimum Advisory Reserve Fund balance of 1% of the prior year's property tax levy as per the Tax Recap filed with the DOR less debt and capital exclusions.

(MGL Chapter 40, Section 6 limits this Reserve balance to five percent (5%) or less of the prior year's property tax levy in a town)

Transfers In:

- Advisory Reserves are to be funded as a line item in the annual budget.
- The minimum reserve should be \$200,000, with a goal of 1% of the prior year's property tax levy to be reached within five years, recommended as follows:
- FY '17: 0.6%; FY '18: 0.7%; FY '19: 0.8%; FY'20: 0.9%; FY '21: 1.0%
- The maximum is 5% of the prior year's property tax levy

Transfers Out:

- Require a majority vote of the Advisory Board.
- Are to be used for extraordinary, unforeseen, or emergency circumstances
- Cannot be used to by-pass or reverse town meeting decisions
- Any balance at the end of the fiscal year closes to Undesignated Fund Balance (free cash)

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Stabilization Fund

Stabilization Funds are special reserve accounts allowed by Massachusetts General Law (MGL) to allow savings to be set aside and available for any lawful purpose. In the case of an emergency expenditure a community with a Stabilization Fund balance may use the available balance rather than spiking its property tax rate. The tax rate may therefore be “stabilized”. Bond rating agencies grade municipalities more highly if they maintain a healthy reserve balance in this and other reserve accounts.

The Town can also establish Stabilization Funds for specific purposes, such as capital needs.

Objective: To smooth uneven cash flows created by low growth, expected and unexpected events over a period of several years and to minimize borrowing for capital projects or other lawful spending purposes.

Financial Goal: To achieve and maintain a minimum combined Stabilization Fund balance of 15% of the prior year’s property tax levy as per the Tax Recap filed with the DOR, less debt and capital exclusions. This total would include both the General Stabilization and Capital Stabilization funds. It does not include either sewer or water stabilization funds, or dedicated accounts such as the OPEB trust.

(MGL Ch. 40§5B limits annual appropriations to all Stabilization Funds to ten percent (10%) or less of the prior year’s property tax levy without the Director of Accounts approval. Furthermore, it limits the Total Stabilization Fund balance to less than ten percent 10% of the Town’s Equalized Valuation EQV)

Transfers In: The Stabilization Fund is to be funded from

- Interest from all existing Stabilization Fund account balances
- One-time revenues
- Undesignated Fund Balance (Free Cash) above financial goal
- Line item in the Annual Budget

Transfers Out: Transfers out require a 2/3 vote of town meeting. Funds are to be used for:

- Extraordinary, unforeseen, or emergency circumstances in excess of General Reserve Fund balances
- Capital improvements
- Capital purchases
- Liabilities (lawsuits)
- Supplement operating budget if and only to the extent that revenue growth (Levy, New Growth, local receipts) is less than 3%. This drawdown must be replaced the following year as first priority with any and all Undesignated Fund Balance (Free Cash).
- Debt Stabilization

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Undesignated Fund Balance (Free Cash)

The accumulation and use of “Free Cash” now referred to in MA Accounting Statutes as the Undesignated Fund Balance (UFB) of the General Fund, is an important component of the Town’s overall financial management. The available amount is calculated and certified each year by the MA DOR using data submitted by the Town.

Undesignated Fund Balance (Free Cash) is comprised of year-end revenues in excess of projections and year-end expenditures less than appropriations. Undesignated Fund Balance (Free Cash) is also impacted by the resolution of contingencies or deficits since Undesignated Fund Balance (Free Cash) is reduced in order to cover any deficits at year-end. It is vital that the Town build and manage its operating budget to provide a reserve for unexpected financial crisis during the year.

Objective: To provide a repository for various sources of cash from general revenue surplus, appropriation turn backs, one-time transactions, and unexpected events. It is reduced by illegal deficits, overdrawn grant accounts and deficits in other funds. It provides a financial cushion to guard against economic downturn or to meet unforeseen expenses.

Financial Goal: To achieve and maintain an Undesignated Fund Balance (Free Cash) of 3%-4% of the annual operating budget excluding enterprise funds, at the end of each fiscal year.

(DOR Best practices recommends a goal of 3%-5% of the annual operating budget)

Transfers In: Undesignated Fund Balance (Free Cash) is to be funded from any and all:

- Expenditures that fall under appropriations (department turn backs)
- Receipts in excess of estimates
- Unspent Undesignated Fund Balance (Free Cash) from prior year
- One-time revenues such as sale of assets
- Unexpected revenues
- **MINUS** receipts that fall short of estimates
- **MINUS** property tax receivables

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Transfers Out: Require a majority vote of town meeting. Funds are to be dispersed after they are certified in the following priority order

1. Unforeseen, extraordinary, and emergency events. (This could include operating expenses limited to not more than 75% of remaining balance after higher priorities are met.); Capital improvements and purchases; One-time expenses;
2. Replenish Stabilization Funds used for operating expenses in the prior year
3. Stabilization Funds, including OPEB Trust, to target level for current Fiscal Year

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Unassigned Fund Balance

Unassigned Fund Balance under Generally Accepted Accounting Principles (GAAP) represents amounts that are not constrained in any way, not even by an intention to use them for a specific purpose. The Assigned Fund Balance represents amounts that are intended for a specific purpose but are not restricted or committed. The sum of these roughly translates to the sum of the Undesignated Fund Balance (Free Cash) and Stabilization Funds as described earlier.

Objective: To provide budget flexibility and funding for expected and unexpected needs of the Town.

Financial Goal: To achieve and maintain the equivalent of a minimum Unassigned plus Assigned Fund balance of 15% of the Town's expenditures, through the implementation of Undesignated Fund Balance (Free Cash) and Stabilization Fund policies.

(S&P requires a minimum Unassigned plus Assigned Fund Balance of 15% of Expenditures to receive the highest Budget Flexibility score.)