FINANCIAL RESERVES POLICY

Applies to:	Select Board, Finance Committee, Capital Planning Committee, and School Committee budget decision-making role
Scope:	Goals for and appropriate use of general fund reserves, including free cash and stabilization funds
Effective:	Adopted by the Select Board on **05/13/2026**

PURPOSE

To help assure the Town's ability to stabilize finances during difficult economic periods so that operations can be maintained and to provide a cash funding source for capital plan items not suitable for bonding, this policy establishes prudent practices for appropriating to and expending from reserve funds. With well-planned sustainability, the Town can use its reserves to finance emergencies and other unforeseen needs, to hold money for 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 borrowing costs.

POLICY

The Town is committed 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. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. In total, for the general fund reserves under this policy, the Town will strive to maintain a minimum funding level of [20 %] of its prior year general fund budget.

POLICY SUMMARY

General Fund Reserve Name	Funding Target	Appropriate Usage
Free cash	[5-10 %] Prior year general fund budget	▪ One-time expenditures (capital projects, snow & ice, emergencies) ▪ Replace reductions in state aid ▪ Build stabilization funds to achieve target levels

General Stabilization Fund (Long-term reserve)	[7-10 %] Current year GF budget	▪ Emergencies and unexpected events
		▪ Usage generally limited to times when:
		  o State aid decreases more than avg, and/or
		  o Recurring local receipts increase < 3%

Capital Stabilization Fund	[5-7%] Current year GF budget	▪ Cash capital expenditures ▪ Funding source for debt service

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.

General Stabilization: The Town will endeavor to achieve and maintain a minimum balance of [7-10%] of current year budget in its general stabilization fund. The general stabilization fund should only be used in the following circumstances:

- To pay expenditures related to a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations.
- When net state aid (receipts less assessments) is reduced by an amount that is less than the average of the prior two years.
- When local receipts (excluding nonrecurring receipts) are projected to be below a 3% increase of the prior two years' actual receipts, as reported on Page 3 of the Tax Rate Recapitulation Sheet submitted to the Division of Local Services (DLS).

When possible, withdrawals of funds should be limited to the amount available above the minimum target. Further, the Select Board and the Finance Committee will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Fiscal Year	**FY1**	**FY2**	**FY3**	**FY4**
Current Year General Fund Budget	-	-	-	-
General Stabilization Fund Target Range:				
5%	-	-	-	-
10%	-	-	-	-
General Stabilization Fund Balance	-	-	-	-
Percentage to GF Budget	0.0%	0.0%	0.0%	0.0%

Capital Stabilization Fund:

As approved at Town Meeting dated June 24, 2026, the purpose of this fund is to:

- *To support the Capital Investment Plan (CIP)*
- *Promote sound financial planning practices*
- *The Town will appropriate annually to the fund so that over time it achieves a minimum target balance in the range of [5-7 %] of the Town's current year general fund budget.*
- *By sustaining funding in this reserve, the Town can balance debt with pay-as-you-go and cash capital funding costs consistent with the Capital Planning policy.*
- *Appropriation or transfer from any general fund source, including taxation and free cash*
- *Transfers of unexpended funds from previously approved capital projects ('capital close outs') at the close of each project*
- *Other designated revenue(s)*

Acceptable Uses:

- *Providing for general fund "pay-as-you-go" capital appropriations*
- *Additional funding to support the Town's CIP for previously approved projects*

Other special Stabilization Funds		▪

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 prior year." DLS must certify free cash before the Town can appropriate it.

The Town will strive to realize year-to-year free cash certifications equal to [5-10 %] of the prior year's annual general fund budget. To achieve this, the fiscal team noted above 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 limit its use of free cash to building reserves, funding non-recurring costs (i.e., one-time expenditures, such as capital projects, snow and ice deficits, and emergencies), and offsetting the Town's unfunded liabilities. Unless compelled by urgent circumstances, the Town will leave at least [50%] of the certified free cash amount unappropriated to provide a starting balance for next year's free cash certification.

The Town will appropriate the remaining free cash as follows:

- *Apply at least [20%] but no more than [30%]to the capital stabilization fund.*
- *Use up o [10%] for noncapital special articles (e.g., snow and ice deficit, building maintenance, etc.).*
- *Appropriate up to [10%] to the Town's general stabilization to achieve this policy's target balances.*

Fiscal Year	**FY1**	**FY2**	**FY3**	**FY4**	**FY5**
Prior Year General Fund Budget	-	-	-	-	-
Free Cash Target Range:					
7%	-	-	-	-	-
10%	-	-	-	-	-
Certified Free Cash	-	-	-	-	-
Percentage to GF Budget	0.0%	0.0%	0.0%	0.0%	0.0%

B. Stabilization Funds

- *Unanticipated capital projects resulting rom a catastrophic or emergency event if the financial burden of the event is in excess of an amount which the Finance Committee Reserve Fund can cover*
- *The Town's share of matching grants*

Fiscal Year	FY1	FY2	FY3	FY4
Current Year General Fund Budget	-	-	-	-
Capital Stabilization Fund Target Range:				
5%	-	-	-	-
7%	-	-	-	-
Capital Stabilization Fund Balance	-	-	-	-
Percentage to GF Budget	0.0%	0.0%	0.0%	0.0%