

Town of Danvers Reserve Policy

Date Adopted: March 3, 2016

Date Revised: July 15, 2017

Introduction

The Town maintains reserves to stabilize its financial operations. These reserve funds may be utilized when necessary for operational reasons and as a source of funds to address future liabilities.

Annual evaluations of immediate and future needs are conducted, in conjunction with studies performed by specialists, like actuaries, in order to properly set appropriation levels to accommodate the balance that must be struck between funding current operations and mitigating future liabilities.

Reserves shall be replenished as soon as practical to achieve the goals indicated below.

Free Cash

Free Cash is certified by the Massachusetts Department of Revenue's Division of Local Services on an annual basis. Free cash and the General Stabilization Fund (see below) are components of the unassigned fund balance (see Fund Balance Policy). A Free Cash balance shall be maintained to provide the Town with financial flexibility and stability for the future.

- The desirable remaining balance for Free Cash, after appropriation by Town Meeting, is no less than one percent (1%) of the annual Operating Budget.

Example: If the Certified Free Cash at the time of Annual Town Meeting is \$4 million, and the annual Operating Budget being recommended to Town Meeting is \$90 million, \$3.1 million could be appropriated from Free Cash at Town Meetings in that fiscal year, leaving 1% (\$900,000) of the \$90 million Operating Budget remaining in Free Cash after Town Meeting appropriations.

Stabilization Funds

The Town maintains multiple stabilization funds:

Education Stabilization Fund – Created by special legislation, *An Act Authorizing the Town of Danvers to Establish an Educational Reserve Fund*, the fund's purpose is to provide a source for school related emergency and/or extraordinary expenditures. This policy does not address the Education Stabilization Fund.

General Stabilization Fund – The Stabilization Fund may be utilized to protect against a reduction of service levels, to manage a temporary revenue shortfall and unpredicted one-time expenditures (balance as of 6/30/17: \$1.1 million).

The General Stabilization Fund balance can be found in the Town's "unassigned" General Fund balance.

School Construction Stabilization Fund – Formerly named the High School/Middle School Stabilization Fund, this fund is actively managed in anticipation of large school building projects which require borrowing (balance as of 6/30/17: \$4.2 million). The fund is used to mitigate the impact of debt service from these projects during peak debt years.

- The desirable funding level for the School Construction Stabilization Fund is fluid based on the timing of school building projects. The Town's goal is to allow for large school building projects, approved by Town Meeting, to be financed without an override of Proposition 2 ½ (i.e. a debt exclusion).

The School Construction Stabilization Fund balance can be found in the Town's "committed" General Fund balance.

Other Post Employment Benefits (OPEB)

Other Post Employment Benefits Trust Fund – The Town has taken a layered approach to addressing the liability associated with health and life insurance costs for current and future retirees:

- From FY 2007 to FY 2016 the Town set aside an average of \$266,525 per year into an OPEB Stabilization Fund which was invested in an interest bearing money market account through MMDT.
- The Town adopted MGL Chapter 32B, Section 18 which requires all eligible retirees to enroll in Medicare Part B. This has allowed the Town to shift a significant portion of its retiree health care costs to the federal Medicare program. The retiree sees no loss in benefits received.
- The Town has engaged an actuarial firm every two years to evaluate its unfunded OPEB liability. The actuarial values in the report are calculated consistent with Governmental Accounting Standards Board (GASB) Statement No. 45.
- The Town adopted MGL Chapter 32B, Section 20 which establishes an OPEB Trust Fund and transferred the balance of the OPEB Stabilization Fund to the newly established Trust Fund. This allows the Town to invest under the “prudent investor rule” in order to generate greater returns on investment.

The balance of the OPEB Trust Fund, as of 6/30/17, was \$4.57 million.

Finance Committee Reserve

In accordance with M.G.L. Chapter 40, Section 6, at a Special or Annual Town Meeting the Town may transfer or appropriate a sum of money not exceeding 5% of the prior year’s levy for extraordinary or unforeseen expenditures. By a vote of the Finance Committee, money may be transferred from the fund to a General Government department. Most transfers are requested when the extraordinary or unforeseen event occurs after the Annual Town Meeting or when no Special Town Meeting is scheduled.

Example: In FY2017, the Operating Budget included \$100,000 for the Finance Committee Reserve. After Annual Town Meeting, the Town’s Employee Benefits budget ran into a shortfall of \$70,650 (less than 1% of the budget) due to increasing health care premiums and Medicare costs. The Finance Committee voted on June 30, 2017 to transfer that amount to the Employee Benefits budget to cover the shortfall. The remaining balance of the Finance Committee Reserve (\$29,350) was returned to the General Fund at the close of the fiscal year.