

I.BACKGROUND

The Government Financial Officers Association of the United States of America and Canada (GFOA) recommends governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for budgetary purposes. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

In 2012, the Select Board (Board) set out a policy for determining the appropriate level and use of Financial Reserves (Reserves) as part of its annual financial planning process. Reserves have been used over the years to accomplish several objectives, including to prepare for and resolve emergencies; to fund one-time, non-recurring expenses; to establish special purpose reserves; and to provide long-term funding for purposes such as capital expenditures. At times, Reserves have also been used to balance the operating budget.

The GFOA recommends maintaining the balances of Reserves in the amount of 5 to 15% of Budgeted Operating Revenues.

To determine the appropriate level of Reserves, the Board must evaluate the Town's overall financial picture, including an assessment of volatility in income streams, vulnerability to natural disasters, and the Town's ongoing plan for meeting current obligations such as other post employment benefits (OPEB) and pension funding. Maintenance of the proper level of Reserves will be part of the annual budget process and will be included in the Town-Wide Financial Plan.

Good financial policy articulates and continues to reevaluate the appropriate levels and uses of Reserves to achieve the Town's long-range goals.

II. POLICY

The Town of Wellesley hereby adopts a policy on Reserves as follows:

- 1. Composition of Reserves:** For the purposes of this policy, Reserves comprise Free Cash and the General Purpose Stabilization Fund only.
- 2. Reserves goals:** Reserves shall be maintained at a sufficient level to provide the required financial resources for the following purposes:
 - a. Maintaining top tier Moody's (Aaa) bond rating,
 - b. Ensuring short-term cash availability when revenue is unavailable, or when there are unanticipated expenditures or emergency cash needs,
 - c. Providing for stable tax rates, and

- d. Enhancing contingencies and long-term planning.
- 3. **Reserve levels:** Reserves as measured at the close of the prior fiscal year shall be maintained in a range of 8 to 12% of the current period's Budgeted Operating Revenue.
 - a. Reserves in excess of 8% and less than 12% may be utilized for the following purposes:
 - i. Stabilizing tax rates or fluctuations in cash flow requirements,
 - ii. Meeting anticipated capital needs, and
 - iii. Avoiding or deferring an override or debt exclusion.
 - b. Reserves in excess of 12% may be used in accordance with the Town-Wide Financial Plan and can be proposed for appropriation at Town Meeting.
- 4. **Emergency reserve drawdown:** Reserves may be drawn below 8% for one or more extraordinary or unforeseen expenditures which are one-time and non-recurring.
- 5. **Reserve recovery practice:** In any year in which the Town's Reserves as of June 30th fall below the 8% threshold, the Executive Director and the Chief Financial Officer shall develop a plan to bring Reserves back to 8%, submit the plan to the Select Board for approval, and communicate any approved plan in the Town-Wide Financial Plan.
- 6. **Emergency reserve buildup:** During periods of global, national, or local crisis (including but not limited to pandemics, natural disasters, financial shocks, war, or cyber-attacks), the Board may determine a short-term policy to build up reserves in excess of the 8 to 12% Reserves range as part of a strategic response. For example, the Board took such action during 2020-2023 in response to the COVID-19 pandemic. In such cases, the Board will set out the rationale for any such measures, and a plan for when reserves will return to normalized policy levels. Discussion of the Reserves and the Board's reserve policy will be included in the Town-Wide Financial Plan.
- 7. **Use of Free Cash:**
 - a. **Operating budgets** – Free Cash is generated from surplus revenues and from spending less than originally budgeted. Free Cash is considered a one-time source that may vary from year to year. One-time sources of funds should be applied to one-time uses rather than applied to continuing operating expenses. Free Cash may be applied to the operating budget, if needed, by a vote of the Select Board. As the Town approaches full funding of long-term obligations such as OPEB, excess capacity in operating budgets should be used to diminish or eliminate use of Free Cash to balance the annual operating budget.
 - b. **Non-recurring expenses** – Free Cash may be utilized for one-off or non-recurring expenses, including but not limited to the following:
 - i. Funding requests driven by unforeseen disasters or emergencies,
 - ii. Supplemental departmental requests,
 - iii. Establishing or bolstering special reserve funds,

- iv. Selected smoothing of cash capital needs (including avoiding borrowing),
- v. Project study or associated costs,
- vi. Land takings and associated costs,
- vii. Capital construction and related costs,
- viii. Contract settlements in excess of the budgeted provision, and
- ix. Subsidizing funds that are intended to be self-supporting.

III. REFERENCE

Free Cash: As defined by Department of Revenue Division of Local Services, Free Cash is a revenue source that results from the calculation, as of July 1, of a community's remaining unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended Free Cash from the previous year.

General Purpose Stabilization Fund: This reserve fund is created to provide for any lawful purpose pursuant to M.G.L c.40, section 5B. The Town may appropriate into this fund in any year an amount no more than 10% of the prior year's tax levy. The outstanding balance in the account cannot exceed 10% of the Town's equalized valuation. Creation of, and appropriation to and from, the General Purpose Stabilization Fund requires a two-thirds vote by Town Meeting.

Budgeted Operating Revenue: For purposes of this policy, Budgeted Operating Revenue comprise taxes and state and local receipts used for the operating budget. Self-supporting items such as the traffic and parking receipts reserved for appropriation, Community Preservation Act funds, enterprise funds, and excluded items (exempt debt and funding exclusions, if any) are not included in the Budgeted Operating Revenue total.

Reserves: Free Cash and the General Purpose Stabilization Fund compose the Reserves.

APPROVED BY THE SELECT BOARD ON:

Original date: DECEMBER 10, 2012

Terri Tsagaris (Chair), Ellen F. Gibbs (Vice Chair), Barbara D. Searle (Secretary), Katherine L. Babson Jr. Donald S. McCauley

Revised dates: DECEMBER 19, 2023

Thomas H. Ulfelder (Chair), Colette E. Aufranc (Vice Chair), Elizabeth Sullivan Woods (Secretary), Lise M. Olney, Ann-Mara S. Lanza