



## **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, Holland 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 and Finance Board in those duties. It also applies to the related job duties of the Town Accountant and Board of Assessors.

### **POLICY**

The Town of Holland 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 eight to ten percent of the annual operating budget. 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 free cash, stabilization funds, and overlay surplus.

#### **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 shall set a year-to-year goal of maintaining its free cash in the range of three to five percent of the annual budget. To achieve this, the Finance Board 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 funding one-time expenditures.

#### **B. Stabilization Funds**

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. Prior to the adoption of this policy, the Town established five stabilization funds as detailed below.

**General Stabilization:** The Town will endeavor to maintain a minimum balance of [five] percent of the current operating budget in its general stabilization fund. The Town will annually appropriate a minimum of [one] percent of general fund operating revenues to the general stabilization fund until the target minimum balance is met. 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 Accountant with the Board of Selectmen and Finance Board will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

**Special Purpose Stabilization Funds:** Holland has four special purpose stabilization funds: capital, road improvement, dam, and cyclic. The Town will appropriate annually to these funds so that over time they achieve target balances sufficient to cover cash outlays for capital needs, with a minimum of [one] percent of general fund operating revenues directed to the road improvement stabilization fund. Doing so enables Holland to pay outright for moderate-range capital and other maintenance expenditures and thereby preserve 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. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements, exemptions and uncollected taxes. Holland officials will prudently manage the overlay in accordance with Division of Local Service policy to avoid the need to raise overlay deficits in the tax levy.

Annually, the Principal Assessor and Town Accountant will conduct an analysis to see if there is any excess in the overlay account balance by factoring the following:

- Current balance in the overlay account after reconciling with the Town Accountant's records
- Balance of the property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
- Estimated amount of potential abatements, including any cases subject to ATB hearings or other litigation

Upon determining any excess in the overlay account, the Principal Assessor will present the analysis to the Board of Assessors for its review and will also notify the Board of Selectmen. If there is an excess balance in the overlay account, the Board of Assessors will formally vote in an open meeting to certify an amount to transfer to overlay surplus and will notify the Board of Selectmen and Town Accountant in writing of its vote. If the Board of Selectmen makes a written request for a determination of overlay surplus, the Board of Assessors will vote on the matter within the next 10 days and notify the Board of Selectmen of the result in writing.

After being certified, the Board of Selectmen may appropriate overlay surplus for any lawful purpose until the end of the fiscal year. However, the appropriation should be as prescribed in the Town's Forecasting policy (re: treatment of one-time revenues) and Its Financial Reserves policy (re: overlay surplus). Overlay surplus not appropriated by year-end closes to the general fund's undesignated fund balance.

## REFERENCES

M.G.L. c. 40, § 5B

M.G.L. c. 59, § 25

M.G.L. c. 44, § 53F½

DLS Best Practices: Free Cash, Reserve Policies, Special Purpose Stabilization Funds

DLS Informational Guideline Releases 17-23: Overlay and Overlay Surplus and 17-20: Stabilization Funds

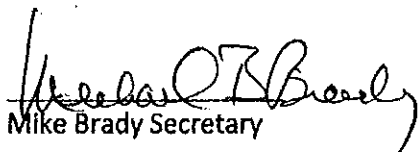
Government Finance Officers Association Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund

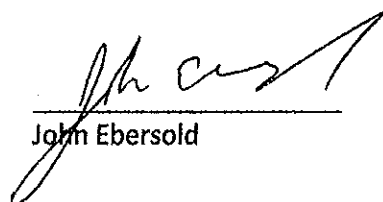
## EFFECTIVE DATE

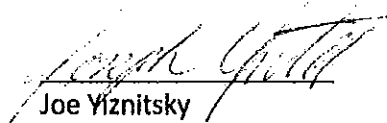
This policy was adopted on 11/01/2017.

  
Ernest Fancy Chairman

  
Donald Laing Vice Chairman

  
Mike Brady Secretary

  
John Ebersold

  
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