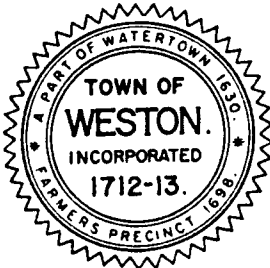


Town of Weston



Reserve Policy

Approved April 2017
(for implementation beginning FY2018)

TOWN OF WESTON

RESERVE POLICY

April 2017

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I. Introduction

Municipalities establish and maintain reserves in order to accommodate the usual variability and unpredictability in revenue and expenditure patterns, to provide budgetary flexibility for unexpected events and expenditures, to withstand financial emergencies, to meet ongoing cash flow needs and reduce the need for short-term borrowing, to provide for the maintenance and depreciation of facilities, equipment, and other assets, and to save for incurred or expected but unpaid liabilities. In addition to these direct objectives, maintaining appropriate and sufficient reserves is also an important factor in a municipality's credit rating. The Town of Weston seeks to maintain appropriate and sufficient reserves as described in this Reserve Policy, to meet the direct objectives described in this document and to preserve and maintain its high credit rating.

Reserves in this policy may be categorized along two dimensions: (i) unrestricted reserves versus restricted reserves and (ii) contingency reserves versus known liability reserves.

Unrestricted Reserves: Reserves that can be used for any purpose
Restricted Reserves: Reserves that are to be used for specified purposes

Contingency Reserves: Reserves for unpredictable/unforeseen events or expenditures
Known Liability Reserves: Reserves for known liabilities, incurred or expected

This policy shall ordinarily be reviewed and either affirmed or revised by the Board of Selectmen every five years, in consultation with the Town Manager and Finance Director. The Board of Selectmen is also encouraged to solicit input from the Finance Committee and other relevant parties. Based on this five-year timetable, the next review of this policy should occur during FY2022, in time for the affirmed or revised policy to be reflected in the FY2023 budget.

Spreadsheets and other supporting materials providing updated reserve balances and reserve target computations should be maintained and reviewed at least annually by the Board of Selectman, Town Manager, and Finance Director, in connection with the regular budget process.

II. Unrestricted Reserves

Unrestricted reserves are also (perhaps inherently) contingency reserves, and they provide most broadly and flexibly for unforeseen events and expenditures.

A. Aggregate Target for Unrestricted Reserves

The Government Finance Officers Association (GFOA) recommends that local governments maintain aggregate unrestricted reserves (unrestricted fund balances) of five to fifteen percent of general fund revenues, depending on the needs of the community. Based on the financial strength and other characteristics of Weston and its residents, along with the additional restricted reserves described elsewhere herein, this policy targets aggregate unrestricted reserves equal to five percent (5%) of the prior fiscal year's general operating budget amount excluding exempt debt service.

For purposes of this five percent (5%) target, unrestricted reserves shall be deemed to include the Finance Committee Reserve Fund, Free Cash, and the Stabilization Fund. These reserves differ in their means and thresholds of availability and utilization, as described below. These reserves are augmented by Unused Tax Levy Capacity, which is also described below but is not considered toward the five percent (5%) target.

B. Finance Committee Reserve Fund

Reserve Type: Unrestricted – Contingency
Statutory Reference: M.G.L. Ch. 40 § 6

Description and Use: This reserve is for extraordinary or unforeseen events or expenditures and may be utilized pursuant to a vote of the Finance Committee. This reserve is reestablished on an ongoing annual basis.

Reserve Target: Beginning with FY2019, the reserve target is 0.75% of the prior fiscal year's general fund operating budget amount excluding exempt debt service.

Notes re Status, Prior Policy, and/or Transition to New Policy: Prior to FY2018, the target for this reserve was 0.85% of an adjusted general fund operating budget amount from the prior fiscal year. In transitioning from the prior policy, the reserve amount for FY2018 will be a close approximation to the new target and \$50,000 less than the prior policy would have provided.

C. Free Cash

Reserve Type: Unrestricted – Contingency
Statutory Reference: None

Description and Use: A consistent amount of recurring free cash will be used to support the general fund operating budget each year. Non-recurring free cash above the target may be used to fund one-time cash capital needs or for other non-recurring purposes. In addition, functioning as a reserve, free cash may be utilized pursuant to a majority vote of Town Meeting and is often used to cover unforeseen expenses, such as snow and ice removal in excess of the budget, as such expenses may be ascertainable by the time of the relevant Town Meeting.

Reserve Target: Beginning with FY2019, the reserve target is 0.75% of the prior fiscal year's general fund operating budget amount excluding exempt debt service. However, if projected free cash remaining at the end of a fiscal year is substantially below this target but reestablishing the target amount solely in the subsequent fiscal year would be unnecessarily onerous, given projected cash flows, the target amount may be achieved gradually over the two or three subsequent fiscal years, as determined by the Board of Selectmen in consultation with the Town Manager and Finance Director.

Notes re Status, Prior Policy, and/or Transition to New Policy: Prior to FY2018, free cash was not included in the reserve policy, nor has a target amount of free cash been incorporated into the general fund operating budget as a reserve, including in FY2018. However, as a

practical matter, free cash has often met or exceeded the target level now being prescribed as a reserve, and this is expected to remain the case for FY2018.

D. Stabilization Fund

Reserve Type: Unrestricted – Contingency
Statutory Reference: M.G.L. Ch. 40 § 5B

Description and Use: Of the town’s reserves, the Stabilization Fund is perhaps most akin to a “rainy day fund”, and a two-thirds (2/3) vote of Town Meeting is required for any appropriation out of the Stabilization Fund. While this reserve is unrestricted, appropriations may only be requested from the Stabilization Fund as follows:

1. An appropriation from the Stabilization Fund may be requested if state aid receipts are reduced from estimates after the budget is voted by Town Meeting.
2. An appropriation from the Stabilization Fund may be requested if net state aid (meaning receipts – excluding those from the School Building Authority – less assessments) is less than the average of the two prior fiscal years.
3. An appropriation from the Stabilization Fund may be requested if local receipts are projected to be less than the average of the three prior fiscal years, in which case the request from the Stabilization Fund would be in an amount to offset that three-year local receipts reduction.
4. An appropriation from the Stabilization Fund may be requested for catastrophic or emergency events if the financial impact of the event is in excess of an amount which the Finance Committee Reserve Fund can cover.

Reserve Target: Beginning with FY2018, the reserve target is 3.50% of the prior fiscal year’s general fund operating budget amount excluding exempt debt service. However, funds used from this reserve may be replenished (if and to the extent such replenishment is necessary to reestablish the target amount) gradually over the five subsequent fiscal years, as determined by the Board of Selectmen in consultation with the Town Manager and Finance Director.

Notes re Status, Prior Policy, and/or Transition to New Policy: Consistent with its status as the Town’s “rainy day fund”, no appropriations have been made from the Stabilization Fund to date. Prior to FY2018, the reserve target was a flat \$2,000,000, but some appropriations were made to the reserve even after that target was reached. For FY2018, the starting reserve balance exceeds the new target, so no additional appropriation will be made.

E. Unused Tax Levy Capacity

Reserve Type: Unrestricted – Contingency (but see Description and Use below)
Statutory Reference: M.G.L. Ch. 59 § 21C

Description and Use: Unused tax levy capacity is cumulative, and it arises from the Town’s practice of not appropriating at Annual Town Meeting anticipated new growth in the tax base (from new construction) in order to maintain unused levy capacity for the uses stated below. It is

also more generally the result of not using the entire, allowable 2.5% increase in the tax levy to support annual appropriations. While not a true reserve, unused tax levy capacity would be considered an unrestricted revenue source, though it ceases to be available for a given fiscal year once the tax rate is determined for such fiscal year (typically in December). Subject to that constraint, unused tax levy capacity may be used as follows:

1. Unused levy capacity will generally be used to offset any snow and ice deficits remaining from the prior fiscal year.
2. Prior to Annual Town Meeting, some unused levy capacity may be used in revenue estimates if local receipts are estimated to be less than the average of the three prior fiscal years. Unused levy capacity may also be used to offset any estimated local receipt shortfall in making the tax rate setting calculation.
3. Unused levy capacity may be used prior to appropriating from the Stabilization Fund as outlined above.
4. Prior to Annual Town Meeting, some unused levy capacity may be used in revenue estimates after taking into consideration the other uses described above.

Reserve Target: The Town will continue its practice of not appropriating new growth in the tax base (from new construction) in order to maintain unused levy capacity as described above.

Notes re Status, Prior Policy, and/or Transition to New Policy: The foregoing reflects no change from the prior policy.

II. Restricted Reserves: Contingency

Restricted reserves are established for specified purposes, and the restricted reserves in this section are also contingency reserves, providing for unforeseen events and expenditures.

A. Property and Liability Insurance Reserve (for Self-Insurance and Uninsured Losses)

Reserve Type: Restricted – Contingency
Statutory Reference: None

Description and Use: This reserve is for uninsured losses and policy deductibles, in each case with respect to property and liability coverage.

Reserve Target: Beginning with FY2018, the reserve target is \$100,000.

Notes re Status, Prior Policy, and/or Transition to New Policy: Prior to FY2018, the target for this reserve was \$150,000, but annual use in recent years only ranged from approximately \$1,000 to \$16,000, with the Town's deductibles at \$5,000 for property insurance and \$10,000 for public officer liability insurance. For FY2018, the starting reserve balance exceeds the new target, so no additional appropriation will be made.

B. Workers' Compensation Reserve (for Police and Fire)

Reserve Type: Restricted – Contingency
Statutory Reference: M.G.L. Ch. 40 §§ 13A, 13C; Ch. 41 § 111F, Ch. 41 § 100

Description and Use: This reserve is for the payment of medical bills of Police and Fire personnel injured on duty. The Town is self-insured for Police and Fire injuries on the job; the workers' compensation insurance policy for all other employees does not cover these employees.

Reserve Target: The reserve target is \$50,000.

Notes re Status, Prior Policy, and/or Transition to New Policy: The foregoing reflects no change from the prior policy. Also, based on prior claims experience, the Town has determined that stop-loss insurance is not needed to supplement or mitigate the use of this reserve for the foreseeable future.

C. Overlay Reserve for Abatements

Reserve Type: Restricted – Contingency
Statutory Reference: M.G.L. Ch. 59 §§ 25, 70A

Description and Use: This reserve is to fund the overlay account beyond typical amounts and to fund overlay deficits. The overlay is an amount raised every year from which abatements of tax bills are granted by the Board of Assessors. If the amount of the abatements exceeds the amount of the overlay, a deficit will occur.

Reserve Target: The reserve target is \$200,000.

Notes re Status, Prior Policy, and/or Transition to New Policy: The foregoing reflects no change from the prior policy.

II. Restricted Reserves: Known Liabilities

Restricted reserves are established for specified purposes, and the restricted reserves in this section are for known expenses and liabilities that are incurred or expected but not yet paid.

A. Facilities Maintenance Reserve

Reserve Type: Restricted – Known Liability
Statutory Reference: None

Description and Use: This reserve is for the replacement and repair of buildings and equipment, based on a five-year "cash capital" plan recommended by Facilities Director and approved by the Permanent Building Committee. This reserve is a continuing balance account, so unexpended balances carry forward to subsequent years.

Reserve Target: The long-term target is for this reserve to equal at least 1% of the Town's total insured building value. As of the date of this policy, the reserve balance is substantially below this target (at approximately 0.27%), so the policy calls for the long-term target to be reached over a 15-year period. Accordingly, beginning with FY2019, the target appropriation to this reserve each fiscal year will be 6% greater than the prior fiscal year's.

Notes re Status, Prior Policy, and/or Transition to New Policy: Prior to and including FY2018, the annual appropriations to this reserve have increased by 5% each year. Prior to the next review of this policy in FY2022, the Facilities Director and Permanent Building Committee should develop updated expense and cash capital projections, and the Town's total insured building values should be updated, to reassess whether the approach described above will result in reaching the long-term target in FY2032 or whether the approach (and/or the long-term target) should be revised.

B. Other Post-Employment Benefits (OPEB) Trust Fund

Reserve Type: Restricted – Known Liability
Statutory Reference: M.G.L. Ch. 32B § 20

Description and Use: This reserve is to fund future post-employment health benefits that are owed to retired town employees. It is structured as a trust fund.

Reserve Target: The reserve target is for the Town to fund, to the extent possible, the Annual Required Contribution (ARC) as specified in the funding schedule from the periodic actuarial reports provided every two years.

Notes re Status, Prior Policy, and/or Transition to New Policy: The foregoing reflects no change from the prior policy.

C. Pension Obligation Stabilization Fund

Reserve Type: Restricted – Known Liability
Statutory Reference: M.G.L. Ch. 40 § 5D

Description and Use: This reserve is to hold funds that may be used to smooth any future sharp increases in the pension obligation assessment from Middlesex Retirement System (MRS).

Reserve Target: The reserve target is \$400,000.

Notes re Status, Prior Policy, and/or Transition to New Policy: The foregoing reflects no change from the prior policy. As of the date of this policy, the MRS pension obligation assessments are intended to result in the Town's pension obligation being fully funded by 2035, though the Town may provide for early or additional funding if it chooses.

D. Compensated Absence Reserve (for Sick Leave Buyback)

Reserve Type: Restricted – Known Liability
Statutory Reference: None

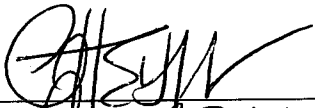
Description and Use: This reserve is for future compensated absence (*i.e.*, sick leave buyback) payments that are due to certain town employees at retirement. This reserve is currently a continuing balance account, so unexpended balances carry forward to subsequent years. Note that vacation pay buyback is covered not from this reserve but from the operating budget on a current basis.

Reserve Target: The long-term target is for this reserve to equal the outstanding compensated absence (sick leave buyback) liability as of the given fiscal year, as determined by the auditors. As of the date of this policy, the reserve balance is substantially below this target, so the policy calls for the long-term target to be reached over a 10-year period. Accordingly, for FY2018, the appropriation to this reserve will be \$60,000 greater than the prior fiscal year's (that is, \$50,000 greater than it would have been under the prior policy), and beginning with FY2019, the target appropriation to this reserve each fiscal year will be \$20,000 greater than the prior fiscal year's.

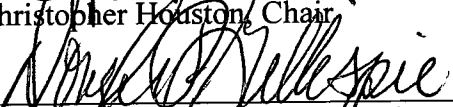
Notes re Status, Prior Policy, and/or Transition to New Policy: Prior to FY2018, the annual appropriations to this reserve increased by \$10,000 each year; this was generally enough to meet sick leave buyback payments in each current year but not enough to build the reserve for potentially higher payments that may be due in coming years, as baby boomers retire. Given that the Town is seeking to reduce this benefit going forward, the Town Manager should develop updated projections in connection with the next review of this policy in FY2022, to reassess whether the approach described above will result in reaching the long-term target in FY2027 or whether the approach (and/or the long-term target) should be revised.

Approved: April 5, 2017

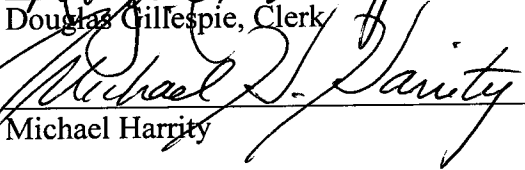
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