

## **Town of Braintree, Finance Department**

### **Financial Reserve Policies**

#### **1. 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, Braintree 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.

#### **2. Scope**

This policy pertains to short and long-range budget planning, where short term applies to the time period within the current fiscal year and long-range signify the next 12-month fiscal year or further "out-years".

#### **3. Objectives**

The Town 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 expense. The Town will strive to maintain overall General Fund and other reserves in the level of 10 percent of annual operating revenues. In recognition that this goal may take several years to accomplish, particularly given current reserve levels and various competing demands for Town revenues, annual benchmarking and reporting is essential. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues.

#### **4. Types of Reserves**

There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

##### **Free Cash:**

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpected 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 at five percent of the annual general fund revenues. To achieve this, the Finance Department will propose budgets with conservative revenue projections, and it will work with department heads to carefully manage their appropriations to avoid budgetary deficiencies and track fund reversions closely. Further, the Finance Department will avoid depleting the Towns' free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Department will limit proposing the use of free cash to funding one-time expenditures (such as capital projects, snow and ice deficits, or emergencies) and will appropriate any excess above five percent of the annual budget to build reserves or to offset unfunded liabilities.

### **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. Currently, Braintree has established a general stabilization fund or "rainy day" fund, a capital projects stabilization fund, and an override stabilization fund. Additionally, the Mayor has recently proposed establishing a special purpose special education stabilization trust as well.

### **General Stabilization:**

The Finance Department will endeavor to maintain a minimum balance of five percent of the current general fund operating budget in its general stabilization fund. 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 Department will develop a framework to build up the Fund balance based on the use of unanticipated resources.

### **Special Purpose Stabilization Funds:**

Braintree has established a school buildings-capital improvements fund, a Town-wide capital improvements fund, and an Override Stabilization Fund. The Town will annually review the need to appropriate to these funds, and any future special purpose stabilization funds, so that over time they achieve target balances sufficient to cover cash outlays for capital needs. If these funds are no longer needed, a subsequent filing with the Town Council to retire them shall be recommended by the Finance Department to the Mayor.

### **Health Insurance Trust Fund:**

The Health Insurance Trust Fund (or Medical Trust) typically opens the fiscal year with a positive balance, which serves as a reserve in any given fiscal year should Fund receipts or expenses be below or above, respectively, what is forecast in the Fund's annual pro-forma Fund projection. Establishing an annual metric for benchmarking these reserves, in this case the opening balance as a percent of projected annual health plan expenses, provides establishes a target amount for financial decisions (such as premium increases, appropriation levels, and plan design) going forward. For example, in FY2025 the Fund's opening balance of \$11.8 million was 54% of the projected annual costs of \$22.1 million. A reserve target range of 20%-25% is established, subject to annual review, to ensure that long-term Fund planning can continue based on this minimum funding level.

### **Retained Earnings:**

The Water and Sewer, Golf and Sewer Departments finances are managed under enterprise funds. By accounting for their revenues and expenditures in separate funds from the general fund, the Town can effectively identify the true delivery costs-direct, indirect-and capital-and set user fees at a level sufficient to recover them. Under this accounting, the Town may reserve a portion of each Fund's prior year's surplus. For the water and sewer enterprise funds, the Town will maintain a minimum reserve amount of 10-20% percent of the operation's total annual revenues, but the reserve target may be significantly higher if major infrastructure debt and improvements are necessary. (For example, currently Water and Sewer Fund has large retained earning balances due to funds being set aside for future Tri-Town Treatment Plan debt service.) The reserve will be used to provide rate stabilization and to fund major capital projects.

### **Overlay Surplus:**

The overlay is a reserve the Town uses to offset uncollected property taxes and other unrealized revenue resulting from property tax abatements and exemptions. At the conclusion of each fiscal year, the Board of Assessors may submit to the Town Assessor and Finance Director an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Board of Assessors may vote to declare those balances surplus and available for use for other Town purposes.

## **5. Monitoring and Reporting**

The Finance Department (or designated body) shall:

- Annually review and report on the Town's debt position and compliance with this policy.
- Update the debt affordability model based on latest financial forecasts and capital needs.
- Provide regular briefings to senior management and/or governing bodies.

## **6. Policy Review**

This policy shall be reviewed annually to account for any significant financial, economic, or regulatory changes that may occur.