

TOWN OF NORWELL RESERVE POLICY

Amended 9/4/13

The establishment and maintenance of adequate financial reserves is essential in providing the Town of Norwell with financial flexibility and security and can be used to finance unforeseen or emergency needs, to hold money for specific purposes, or in some cases, to serve as a revenue source for the annual budget. Levels of reserved fund balance and unrestricted fund balance in the general fund are monitored by credit rating agencies in evaluating creditworthiness that impacts the Town of Norwell's credit rating and consequently, its long term cost to fund major capital projects.

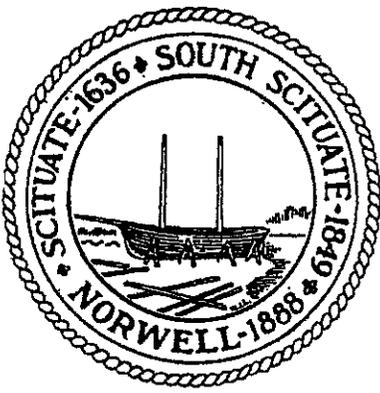
The Town shall establish the following prudent financial goals and reserve policies for funding and maintaining reserves:

- **Reserve Fund** – to provide for extraordinary and unforeseen expenditures, a reserve fund shall be established under the provisions of MGL Chapter 40, Section 6. It shall be the goal of the Town to provide a funding level of between .50% and .75% of annual General Fund 1 expenditures. Any unexpended balance at the end of the fiscal year must revert back to the General Fund toward the calculation of free cash.

- **Unassigned Fund Balance/Stabilization Fund** – It shall be the goal of the Town to maintain a level of unassigned fund balance plus unrestricted stabilization fund balance, as defined in the Town's audited financial statements, equivalent to no less than 5% of annual general fund expenditures with a goal of 10%-15%.

- 1) **Stabilization Fund** – The stabilization fund shall be established under the provisions of MGL Chapter 40, Section 5B.

- a) The Town will maintain the stabilization fund as its main financial reserve in the event of an emergency or extraordinary need. It shall be the goal of the Town to achieve and maintain a balance in the stabilization fund equivalent to 3% to 5% of the Town's general fund operating budget.
- b) The use of the stabilization fund shall be restricted to non-recurring and/or capital expenditures no greater than 20% in the aggregate of the unrestricted stabilization fund balance in any fiscal year. Non-recurring or one-time expenditures include capital improvements, capital equipment and extraordinary snow and ice removal expenses. New operating costs associated with capital projects should be funded through the operating budget but reflected in the capital improvement plan.

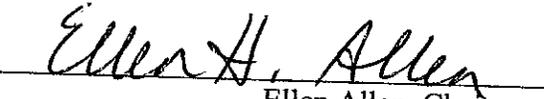


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c) It shall be the goal of the Town to replenish any amount appropriated from the stabilization fund in the prior fiscal year in the subsequent fiscal year. Said funding shall come from free cash.

2) **Free Cash** - Free Cash shall be used for funding the stabilization fund and used primarily as outlay for non-recurring and/or capital expenditures and recurring non-operational expenditures greater than \$10,000. If free cash must be used for operations, its use should be restricted as a general revenue source for the ensuing year's budget in an amount no greater than 25% of the total free cash certified for the previous fiscal year. It shall be the goal of the Town to achieve and maintain an annual certification of free cash in the amount of 3 to 5% of the Town's general fund operating budget.

• **Overlay Reserve** – established per MGL Chapter 59, Section 25, the overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall annually request in writing the Board of Assessors to submit the balance in the overlay account in excess of the amount remaining to be collected or abated as certified by the Board of Assessors. Either upon their own initiative or within ten days of the request of the Board of Selectmen, the Board of Assessors shall transfer the declared excess of each fiscal year to a reserve fund to be appropriated for any lawful purpose. It shall be the goal of the Town to appropriate such overlay surplus to fund the senior citizen property tax work-off program, the Town's Capital Improvement Plan (CIP) or for any other one-time expense. Any balance in said overlay reserve fund at the end of the fiscal year shall revert back to the General Fund toward the calculation of free cash.


Ellen Allen, Chairman

