

**TOWN OF WELLESLEY
FINANCIAL
RESERVES POLICY**

BACKGROUND

The Town desires to 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 resolving emergencies or for long term purposes such as capital expenditures. Reserves have also been used, at times, to balance the operating budgets.

As part of the long range planning process, it has been suggested that the Selectmen put a policy in place on the use of the Town's Reserves. As part of the annual Town wide Financial Plan, a critical component of the analysis is the determination of the level of Reserves.

The Government Finance Officers' Association recommends maintaining balances of Reserves in the amount of 5-15% of Budgeted Operating Revenues.

DEFINITIONS

Free Cash: Sum of funds appropriated and raised by the Town, but not expended in the years for which they were appropriated, plus unanticipated revenues, minus uncollected taxes of prior years. This amount must be certified by the Massachusetts Bureau of Accounts before it can be used. The determination is made annually in the late fall, based on sums as of the end of the previous fiscal year.

General Purpose Stabilization Fund: A special reserve account created to provide for any lawful purpose pursuant to MGL 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 of Town Meeting.

Budgeted Operating Revenues: For purposes of this policy, the definition includes taxes and state and local receipts used for the operating budget. Self-supporting items such as traffic and parking receipts reserved for appropriation, Community Preservation Act Funds, Enterprise Funds, and excluded items (exempt debt and the funding

exclusion for Other Post Employment Benefits [OPEB]) are not included in the Budgeting Operating Revenue total.

Reserves: Free Cash and the Stabilization Funds.

Special Purpose Stabilization Fund: A stabilization fund set up for a specific purpose in order to encourage long-term planning and anticipated expenditures. Creation of, and appropriation to and, from the special purpose stabilization fund requires a two-thirds vote of Town Meeting.

POLICY STATEMENT

The determination of the appropriate level of Reserves must be evaluated in the context of the Town's overall financial picture which includes not only OPEB and Pension obligations but also funds set aside and used for specific purposes such as Community Preservation Act Funds, Chapter 90 Funds, and the Enterprise Funds. Maintenance of the proper level of Reserves will be part of the annual budget process.

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

POLICY

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

- 1) Reserves shall be maintained at a level sufficient to provide required financial resources to:
 - a. Maintain top tier bond rating,
 - b. Ensure short-term cash availability when revenue is unavailable or there are unanticipated expenditures or emergency cash needs,
 - c. Minimize interest expense from short-term borrowing for operating budget needs,
 - d. Provide for investment income,
 - e. Provide for stable tax rates, and
 - f. Enhance planning for contingencies and long term planning.
- 2) Reserves shall be maintained in a range of 8 to 12% of the current period's Budgeted Operating Revenues.
 - a. Reserves in excess of 8 % but less than 12 % may be utilized for the following purposes:
 1. Stabilizing tax rates or fluctuations in cash flow requirements,
 2. Meeting anticipated capital needs, and.
 3. Avoiding or deferring an Override.

b. Reserves in excess of 12% may be used in accordance with the Town wide Financial Plan and can be available for appropriation at Town Meeting.

3) Reserves may be drawn below 8% for one or more extraordinary or unforeseen expenditures which are one-time, non-recurring expenditures.

Promulgated this 10th day of December, 2012 effective upon the filing of a copy hereof with the Town Clerk

WELLESLEY BOARD OF SELECTMEN

Terri Tsagaris
Terri Tsagaris, Chairman

Barbara D. Searle
Barbara D. Searle, Secretary

Ellen F. Gibbs
Ellen F. Gibbs, Vice Chairman

Katherine L. Babson, Jr.
Katherine L. Babson, Jr.

Donald S. McCauley
Donald S. McCauley

Reserve Calculation for Subsequent Budget

	<u>Year</u>	<u>Amount</u>
Free Cash Balance (from prior year end)	6/30/2012	\$ 10,499,623
Stabilization balance (from prior year end)	6/30/2012	\$ 3,071,289
	Total Reserves	\$ 13,570,912
Current year beginning reserve %		11.37%
Possible Current year changes		
Current year (2013) estimated revenue shortfall - State		\$ (250,000)
Current year (2013) estimated expense turnback 2013		\$ 750,000
Additional current year (2013) Snow and Ice	current - STM	\$ (600,000)
Proposed to balance subsequent (2014) year budget	next year - ATM	\$ (2,500,000)
Other Unanticipated needs		
Change in Retirement Funding schedule (2014 budget)		\$ (600,000)
Other		\$
Estimated Uses before recertification		\$ (3,200,000)
Estimated ending Reserves after estimated uses		\$ 10,370,912
		Estimated Reserve Balance
Current year revenue budget (as calculated per policy)	\$ 119,305,603	8.693%

Town of Wellesley

Prior year (ending) Reserves as a percentage of current year revenues

(For purposes of determining subsequent year action)

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1-Jul	Prior Year		Current Year							General Reserves % of Revenue
	Prior year Free Cash*	General purpose Stabilization	Sources and Uses Revenue*	Subtract Debt - Excluded Revenue	Subtract OPEB Exclusion	Subtract CPC & Traffic	Current Net Revenue			
2013	\$ 10,499,623	\$ 3,071,289	\$ 133,159,065	\$ 10,436,702	\$ 1,800,000	\$ 1,616,760	\$ 119,305,603			11.37%
2012	\$ 8,439,070	\$ 3,045,628	\$ 127,197,630	\$ 10,058,107	\$ 1,800,000	\$ 1,476,136	\$ 113,863,387			10.09%
2011	\$ 9,471,751	\$ 3,022,256	\$ 124,030,778	\$ 8,954,941	\$ 1,800,000	\$ 1,675,161	\$ 111,600,676			11.20%
2010	\$ 9,145,674	\$ 2,786,551	\$ 118,333,453	\$ 6,504,369	\$ 1,800,000	\$ 2,170,133	\$ 107,858,951			11.06%
2009	\$ 10,692,354	\$ 2,150,628	\$ 115,043,010	\$ 5,033,306	\$ 1,800,000	\$ 3,024,798	\$ 105,184,906			12.21%
2008	\$ 6,786,366	\$ 1,980,183	\$ 105,664,965	\$ 3,743,001	\$ 1,800,000	\$ 1,175,370	\$ 98,946,594			8.86%
2007	\$ 4,028,225	\$ 1,992,348	\$ 98,131,055	\$ 3,794,401	\$ -	\$ 1,031,302	\$ 93,305,352			6.45%