



Town of Chester

Financial Reserves Policy

Last Updated: 11/18/2025

Approved: 12/15/2025

PURPOSE

To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating and expending reserve funds. With well-planned sustainability, Chester 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 establishing the Town's credit rating and consequently its long-term cost to fund major projects.

APPLICABILITY

This policy pertains to the short- and long-range budget decision-making duties of the Board of Selectmen, Town Administrator, and Finance Committee. It also applies to the related job duties of the Town Accountant and Board of Assessors.

POLICY

The Town is committed to building and maintaining its reserves 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. In total for the general fund reserves under this policy, the Town will strive to maintain a minimum funding level of 20 percent of its annual operating budget. Equating to one (1) fifth worth of operating expenditures, this is above the generally accepted reserve target for small communities with modest budgets and limited access to the bond market, but due to the nature and possible amounts of issues that the town could face it is advisable to have a minimum of 20%. 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.

To generate free cash, the Town Administrator will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. As much as practicable, the Town will limit its use of free cash to funding one-time expenditures (such as capital projects, snow and ice deficits, or emergencies).

The Town shall set a goal of maintaining its year-end unappropriated free cash balance in the range of 3 percent of the annual general fund budget. The Town will appropriate the excess above this target range to build reserves or to offset unfunded liabilities.

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. Chester currently has a general stabilization fund and three special purpose stabilization funds authorized under M.G.L. c. 40 § 5B as detailed below.

General Stabilization: The Town will endeavor to gradually increase the amount annually appropriated to the general stabilization fund with the goal of achieving and maintaining a minimum balance of 15 percent of the operating budget. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events and for one-time capital expenditures. When possible, withdrawals of funds should be limited to the amount available above the 15 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 Administrator will develop a detailed plan to replenish the funds to the minimum level within the next two fiscal years.

Special Purpose Stabilization Funds: The Town currently has four special purpose stabilization funds:

Vehicle Replacement Stabilization Fund: The Town will annually appropriate or transfer from available funds for the purpose of funding one or more replacement fire engines.

Town Building Maintenance Stabilization Fund: The Town will annually appropriate or transfer from available funds for the purpose of funding the maintenance costs of Town owned buildings.

Town Road Maintenance Stabilization Fund: The Town will annually be appropriating or transfer from available funds for the purpose of funding the maintenance of public ways.

Capital Improvement Stabilization Fund: The Town will appropriate annually to this fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. The fund's target balance shall be 15 to 20 percent of the Town's annual operating budget.

Educational Stabilization Fund: The Town will annually be appropriating or transferred from available funds for the purpose of funding the costs of the regional school systems budget.

Insurance Stabilization Fund: The Town will annually appropriate or transfer from available funds for the purpose of covering large mid-year increases to the town's various insurances.

C. Overlay Surplus

The purpose of the overlay reserve is to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. It can be used for other purposes only after it is determined to have a surplus. Therefore, unlike the other two types of general fund reserves, this policy does not set a consistent, specific funding target for the

overlay. Rather, each year as part of the budget process, the Board of Assessors will vote to raise an overlay amount on the annual tax recapitulation sheet based on the following:

- Current balance in the overlay account
- Three-year average of granted abatements and exemptions
- Abatement liability of cases pending before, or on appeal from, the Appellate Tax Board
- Timing of the next DLS certification review (scheduled every five years)

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Administrator and Town Accountant 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 overlay balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare it as surplus and available for use in the Town's capital improvement plan or for any other one-time expense.

Print Name:

Signature:

Position:

Date: