



TOWN OF NANTUCKET
BOARD OF SELECTMEN

FINANCIAL RESERVES POLICY

Effective date: 09/15/2011

Adopted: 09/14/2011

Applicability: Town, School, and Enterprise Departments

I. Purpose

In an effort to improve and protect the Town's long-term financial health, the proper reserves should be in place to offset any unforeseen or extraordinary needs of an emergency nature.

The purpose of this policy is to:

1. Ensure the Town maintains adequate reserves'
2. Ensure the Town maintains and improves its bond rating;
3. Ensure the operating budget is not balanced using financial reserves.

The effectiveness of this policy will be reviewed each fiscal year at the beginning of the budgetary process and refined accordingly, if necessary.

II. Policy – Free Cash (Previously Adopted August 3, 2005)

Free Cash is the term used for the portion of the Town's funds which is unrestricted and available for appropriation at the end of a fiscal year. The amount of Free Cash is certified by the Director of Accounts at the Department of Revenue's Division of Local Services, upon application by the Town on an annual basis.

As approved by the Board of Selectmen on August 3, 2005, appropriate uses of free cash include: to fund the stabilization fund; to fund capital projects with an estimated cost between \$100,000 and \$500,000 for which long-term borrowing is authorized at terms of five or fewer years; to fund extraordinary deficits that would otherwise be carried over to the following year; to remain in unreserved, undesignated fund balance until the sum of unappropriated free cash is equal to 5% of general fund revenue. The purpose of maintaining an unappropriated amount of free cash is to provide for cash flow and to have funds available if necessary for emergency appropriation.

Exceptions to the free cash policy shall be made only under extraordinary circumstances and any such exception shall be explained to the voters in a statement written by the

Board of Selectmen in the Annual Town Meeting or Special Town Meeting warrant if applicable. The Town will not use Free Cash as a source to balance its operating budget.

III. Policy – Stabilization Fund (Previously Adopted January 13, 2005)

A stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch 40 Section 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior years tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.

The Town will maintain initial funding in the Stabilization Fund an amount equivalent to 3% of the Town's prior year revenue. The fund shall be funded only with Free Cash or revenues. Once the initial funding goal of 3% of revenue has been achieved, additions to the Stabilization Fund shall be made each year to maintain the 3% level. In any year in which Free Cash exceeds \$3,000,000, an additional 3% of Free Cash will be added to the Stabilization Fund until the Stabilization Fund reaches 5% of revenue.

The Stabilization Fund may only be used to support the operating budget when revenue increases less than 3% from the prior fiscal year. The amount withdrawn from the Fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year revenue to 3%, or 1% of prior year revenue, whichever is less. There will not be any additional withdrawals from the Stabilization Fund until the amount withdrawn is replenished. Funding to replenish the Stabilization Fund shall come from Free Cash or from revenue. If Free Cash or revenue is insufficient to replenish the Stabilization Fund in the immediately following fiscal year, the replenishment shall occur as soon as Free Cash or revenue is available, and no further withdrawal shall occur until the fund has been replenished.

IV. Policy – Trust Funds

Trust funds account for assets being held by a community in a trustee capacity and for a specific purpose stipulated by a trust agreement. In the Town of Nantucket, the Treasurer generally acts as the trustee. If the trust is an expendable trust, then both the principal and interest may be used for the purpose as specified within the trust. If the trust is non-expendable, then only the interest can be used as directed in the trust agreement.

In the event the Health Insurance Trust Fund exceeds \$3,000,000, the Town portion of the trust will be used to offset the Other Post Employment Benefits (OPEB) liability.

The Town will not use Trust Funds as a source to balance the operating budget.

V. Policy – Fund Balance

Fund Balance is defined as the difference between assets and liabilities reported in a governmental fund, which is also known as fund equity.

The Town will not use the fund balance(s) as a source to balance the operating budget or to offset unforeseen expenditures.