



TOWN OF ORLEANS

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SELECTBOARD
TOWN
MANAGER

GENERAL OPERATING RESERVE POLICY

General Policy:

The Town of Orleans General Operating Reserves Policy target is a minimum of 15% - 17% of the General Fund Annual Operating Budget. To meet this target, the General Stabilization Fund and Free Cash balances will be combined annually in accordance with the below policies.

1. General Stabilization Fund

Background:

The General Stabilization Fund is the Town's main reserve fund designed to provide financial stability for the Town, while helping to maintain the Town's credit worthiness, liquidity, and flexibility. The provisions of this fund are dictated by Massachusetts General Law (MGL), Chapter 40, Section 5B with further directions provided in MA DOR Division of Local Services Information Guideline Release No. 17-20.

The Stabilization Fund may be appropriated for any lawful municipal purpose upon recommendation of the Select Board and a two-thirds (2/3) vote by Town Meeting. This would also include the use of any funds above the targeted minimum balance. Appropriations into the fund require a majority vote by Town Meeting.

The use of Stabilization Funds for "lawful municipal purposes" could include funding for non-recurring expenditures such as unanticipated capital improvements or capital equipment requirements, responding to extraordinary snow and ice conditions or other natural disasters, or the settlement of litigation.

Policy:

The Town will endeavor to maintain a target minimum balance in the General Stabilization Fund of 12% of the annual general fund operating budget net of debt service for the purpose of providing financial stability and protecting the Town's credit worthiness.

The Town will endeavor to leave this balance unspent, except in the event of an emergency or extraordinary/unforeseen event or to provide short-term relief in temporary economic downturns.

If it is necessary to draw down from the General Stabilization Fund, the Town will ensure that it is restored through the appropriation of revenues from sources such as free cash and/or one-time revenues as soon as practicable.

References:

MGL Chapter 40, Section 5B
MA DOR Division of Local Services Information Guideline Release No. 17-20
MA DOR Division of Local Services Best Practices - Reserve Policies (January 2020)

2. Free Cash Policy

Background:

The MA DOR Division of Local Service's *Municipal Finance Glossary* (January 2020) defines Free Cash as follows:

Free Cash – Remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimated on the tax recapitulation sheet, and unspent amounts in budget line items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the June 30 balance sheet, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Director of Accounts.

MA DOR Division of Local Services recommends that a municipality strive to generate free cash in an amount equal to 3% - 5% of its annual budget.

Policy:

The Town of Orleans will not use free cash to fund the operating budget. Free Cash is considered a non-recurring source of funds, and should only be used for non-recurring purposes, including replenishing reserves.

The Town will endeavor to reserve a target minimum balance of Free Cash equal to 3% - 5% of the annual general fund operating budget for the purpose of providing financial stability and protecting the Town's credit worthiness. Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs in order to maintain the targeted minimum balance.

Amounts exceeding this reserve target will be available for capital or other one-time expenses, or can be used to reduce the tax rate, while the reserve target amount will be left unspent from year to year.

References:

MA DOR Division of Local Services Best Practices – Free Cash (January 2020)

US Government Finance Officers Association Best Practice - Fund Balance Guidelines for the General Fund (September 2020)

US Government Finance Officers Association Reserve Policy Template (September 2020) MA DOR Division of Local Services Municipal Glossary (January 2020)

DATE APPROVED: September 23, 2020

REVISED: March 19, 2025