

**Financial Policy Work Group  
Agenda  
Wednesday, December 3, 2025 at 1:00 PM  
Select Board Room, 22 Monument Square**

Join Zoom Meeting: <https://us02web.zoom.us/j/83028544790>

	Time	Agenda item	Facilitator
I.	1:00 PM	Selection of Clerk <ul style="list-style-type: none"> <li>• Rotation: Don, <b>Lois</b>, Wendy</li> </ul>	Group
II.	1:05 PM	Approval of minutes: <ul style="list-style-type: none"> <li>• November 5, 2025</li> <li>• November 12, 2025</li> </ul>	Wendy Rovelli
III.	1:10 PM	Discussion on Reserve Policies <ul style="list-style-type: none"> <li>• Follow-up on Moody's Leverage Metrics</li> <li>• Review additional enhancements to Financial Reserve Policy</li> <li>• Investment advantages of stabilization funds</li> <li>• Debt policy discussion</li> </ul>	Group
IV.	2:20 PM	Next Steps <ul style="list-style-type: none"> <li>• Next meeting date &amp; time</li> </ul>	Group
V.	2:25 PM	Public Comments	Wendy Rovelli
VI.		Adjournment	

**Key Dates:**

Warrant Opens: December 29<sup>th</sup>; Warrant Closes: January 23<sup>rd</sup>

Finance Committee Meetings: 12/8, 12/11, 1/29

Select Board Meetings: 12/8, 12/22, 1/12, 1/26

Parking Lot:

1. Investment advantage of Stabilization vs. Free Cash
2. Documentation of Reserve/Revolving funds purpose and targeted balances
3. Recission of outstanding debt no longer needed
4. Plan for achieving minimum general stabilization level

Current Town of Concord Financial Policy

<https://concordma.gov/DocumentCenter/View/24187/Town-of-Concord-Financial-Policies>

**Town of Concord  
Financial Policy Work Group  
Minutes  
Tuesday, November 5, 2025**

The Financial Policy Work Group convened a meeting in-person and via Zoom at the Concord Town House on the 2<sup>nd</sup> floor Select Board Room at 1:00 PM on November 2, 2025

Work Group Members Present: Jennifer Barrett, Chief Financial Officer, Ryan Ferrara, Assistant Chief Financial Officer, Don Kupka, Wendy Rovelli

Remote Participants: Lois Wasoff

**Introduction:** Ms. Rovelli opened the meeting at 1:02 p.m. and introduced the Town's new CFO, Jennifer Barrett. Mr. Kupka to serve as this week's clerk.

**Approval of Minutes** – Ms Wasoff moved to approve the meeting minutes of October 22, 2025 as distributed. Mr Kupka seconded the motion. The minutes were approved by a vote of 4-0. New member, CFO Barrett abstained.

**Follow-up of Rating Agency Metrics** – Mr. Ferrara distributed the components of metrics for available funds ration via email prior to the meeting. Ms Rovelli will pap the items in our audited financial to the metrics for future discussion. CFO Barrett noted that the draft 2024 audit report flagged our lack of an investment policy.

**Draft Reserves Policy** – committee members discussed policy components as follows:

Ms. Wasoff presented the introduction which references the enabling legislation and the parameters that are common to reserve funds, distinguishes between General and Special Purpose Stabilization funds, and notes some of the benefits of reserve funds. There were no suggested modifications.

Ms Rovelli presented a reserves summary table without targets, including an Annual Reserve Fund, Free Cash, General Stabilization Fund, Overlay, and Capital Stabilization Fund.

Ms Rovelli asked whether the Annual Reserve Fund target could be at the discretion of the CFO. Mr. Ferrara offered to research.

Ms Rovelli proposed that there be one target balance for the combined Free Cash plus General Stabilization Fund, and that this be considered as a floor, not a target range.

The group discussed whether to include Overlay in the policy, as found in some referenced policies. Mr. Ferrara suggested that the Select Board can make a request to the Board of Assessors to review and recommend any potential Overlay Surplus, and this policy can address the uses of that surplus, if the Board of Assessors determines that there is a surplus. Ms Rovelli to propose a sentence for the mechanism of responsibility. CFO Barrett to contact the Board of Assessors re. their policy.

Ms Rovelli presented the draft language of the Annual Reserve Fund, Free Cash and General Stabilization sections, with emphasis on the use of a target that is a combination of Free Cash plus General Stabilization, with floors of 3% for Free Cash and 10% for the Combined balances of Free Cash and General Stabilization.

Mr. Kupka presented a draft of the Special Purpose Stabilization fund section. The group agreed that the proposed language was too limiting, and that the policy should allow for any use permitted by law. Mr. Kupka to redraft this section incorporating references to the breadth of possible uses. The group also discussed who should be named responsible for establishing the target balances of General Stabilization Funds, as these vary by purpose and may vary from year to year. It was agreed that the Town Manager and Chief Financial Officer would be responsible for establishing target balances

**Action Items:**

1. Mr Ferrara will research whether the Annual Reserve Fund target could be at the discretion of the CFO
2. CFO Barrett to contact the Board of Assessors re. their Overlay Surplus policy.
3. Mr. Kupka to re-draft the Special Purpose Stabilization section.

The next meeting is Wednesday, November 12, 2025 at 3:00 p.m.

**Adjourn** The meeting was adjourned at 2:32 p.m

**Town of Concord  
Financial Policy Work Group  
Minutes  
Wednesday, November 12, 2025**

The Financial Policy Work Group convened a meeting in-person and zoom at the Concord Town House on the 2<sup>nd</sup> floor Select Board Room at 3:00 PM on November 12, 2025

Work Group Members Present: Ryan Ferrara Assistant Chief Financial Officer/Budget and Procurement Director, Don Kupka (arrived @ 4pm), Wendy Rovelli, Lois Wasoff

Remote Participants: Karlen Reed, Linda Escabedo

Ms. Rovelli opened the meeting at 3:15 p.m. Ms. Rovelli will be responsible for drafting minutes of today's meeting (and Ms. Wasoff will draft the subsequent meeting minutes).

**Approval of Minutes**

No minutes were available for review/approval.

**Available Fund Balance Ratio Follow-up**

Ms. Rovelli reviewed an updated table of the Moody's calculation for the Available Fund Balance and Liquidity Ratios. Ms. Rovelli added the FY24 financial values from the draft audit financials and a column listing the data source from the Audited Financial Statements. The Enterprise Fund data is captured under Business Type Activity in the financial statements, and the data is captured at slightly different levels of detail. The FY24 Available Fund Ratio of 29.2% is slightly lower than FY23 (30.3%) due primarily to an increase in revenues. The liquidity ratio has declined in FY24 from 86.5% to 63.6% due to the reduction in Government Fund net restricted assets, however the ratio remains well above the Aaa threshold of  $\geq 40\%$ .

At the bottom of the table, there is a calculation which shows that an additional \$11,887K in Government Funds+ Business Type net current assets would be required to achieve a 35% Available Fund Balance Ratio – the Moody's threshold for a Aaa rating, and which represents 20% of the overall rating scorecard.

There are 2 additional Leverage metrics which make up an additional 30% of the Moody's rating. Ms. Rovelli asked if our Financial Advisors could validate the Moody's calculation in the same manner as they did for the Financial Performance metrics. Ms. Rovelli will send Mr. Ferrara a formal request.

**Review and Discussion on Draft Consolidated Reserve Policy**

Ms. Rovelli led the group through a discussion of the updated Reserve Policy which incorporated comments from the last meeting and edits forwarded from Don on Special Stabilization Funds. The group reviewed the following:

- The policy table should include the minimum funding target rather than a range.
- The denominator for the % target should be the ensuing General Fund Budget.
- The Free cash minimum should be 3%. Historically the Town has "voted to raise and appropriate" funds for OPEB and Retirement Assessments, but the group agree to keep

both as an appropriate usage of Free Cash. If Free Cash falls below 3%. The Town Manager and Chief Financial Officer will develop a plan to bring Free Cash up to the minimum level. Based on the FY26 General Fund Budget, 3% Free Cash target equates to \$4.3M which the Town currently exceeds.

- The General Stabilization Fund minimum should be 5%. Based on the FY26 General Fund Budget, a 5% target equates to \$7.2M. A plan needs to be established to achieve that target – one approach could be to allocate \$500K/year until the target is achieved. Development of a recommendation will be added to the list of parking lot items and revisited at a future date.
- The 5% target for General Stabilization is common across many Towns in MA and is within the range of that recommended by the Division of Local Services. The group recommended removing the reference to 5% being equivalent to 30% of State Aid and Local Receipts.
- Overlay Surplus: Rather than referencing fiscal year, the status of the Overlay reserve should be updated following the conclusion of the Abatement Year, which is generally complete by May 30<sup>th</sup>. The group felt that delineating the uses of surplus were unnecessary to specify, so the policy only needs to note that the Board of Assessors should vote that a surplus was available for appropriation.
- Several wording changes were discussed regarding the Special Purpose Stabilization section. It was agreed that a stabilization fund does not need to be created for individual large capital projects, but that one fund could be used and that appropriations and withdrawals for specific projects can be tracked and managed individually. The target for a given stabilization fund would be set based on anticipated needs. In the case of a Capital Stabilization fund, a target funding balance would need to be determined and updated regularly in alignment with the Town's Capital Improvement Plan, and related funding plan.

Ms. Wasoff volunteered to take the lead in updating the policy to incorporate changes discussed, tightening up the language and ensuring consistency of terms including the added definitions.

The group briefly discussed the list of parking lot items. The group had previously reviewed the balances of several Reserve and Revolving funds and Ms. Barrett acknowledged that reviewing those is something that she will eventually be doing. Recission of unused authorized debt will also be evaluated and considered for the upcoming Town Meeting.

The group felt that the proposed policy could be discussed at the upcoming November 20<sup>th</sup> Finance Committee with follow-up on December 11<sup>th</sup> if needed. A discussion with the Select Board could occur later that month.

Ms. Rovelli will add a review of debt metrics to the next agenda.

The next meeting is Wednesday, December 3, 2025 at 1:00 p.m.

#### **Adjourn**

The meeting was adjourned at 4:38 a.m.

## Town of Concord Financial Reserve Policy

### PREAMBLE

Under Massachusetts General Law c. 40, § 5B, municipalities and districts may create one or more stabilization funds, which are special reserves into which monies may be appropriated and reserved for later appropriation for any lawful municipal purpose.

Stabilization funds, along with free cash, overlay surplus, and retained earnings, are fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated for unforeseen expenses, capital expenditures, or other one-time costs.

Stabilization funds differ from free cash. Free cash is the 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 Massachusetts Director of Accounts – Free cash certified as of July 1st is available for appropriation only until the June 30th of that same fiscal year. Stabilization funds are designed to accumulate amounts for capital and other future spending purposes, although the fund may be appropriated for any lawful purpose. Communities may establish one or more stabilization funds for different purposes and may appropriate any amounts into them. Once created, monies accumulated in a stabilization fund carry over from one fiscal year to another, and interest remains with that fund.

Section 5B distinguishes between a **general purpose stabilization fund**, which is created for later appropriation for any lawful purpose, and a **special purpose stabilization fund**, which is created for later appropriation for a more specific purpose or purposes that is designated at the time the fund is created. [Voters may also approve a Proposition 2½ override in order to fund appropriations for a particular stabilization fund.]

Monies accumulated in a stabilization fund carry over from one fiscal year to another, and interest remains with that fund. Appropriations can be made **into** either a general or special purpose stabilization fund by a majority vote of Town Meeting. Appropriations **from** a general purpose stabilization fund must be approved by a two-thirds vote. Appropriations **from** a special purpose stabilization fund must only be approved by a majority vote. A two-thirds vote is needed to create either type of stabilization fund or to change the purpose of an existing fund.

Through the use of stabilization funds, Concord can protect itself against unanticipated events (such as, for example, by use of a general stabilization fund to provide a source of funds in the event of an unexpected reduction in revenues or unbudgeted expenses due to a natural disaster), and can set aside funds to help to cover anticipated major expenses in advance (such as, for example, by the use of special purpose stabilization funds to mitigate the impact on property taxes of excluded borrowing for major capital expenses including such as schools or other municipal buildings). The

**Commented [WR1]:** The gap between July 1<sup>st</sup> and when free cash is certified represents a risk and could be another justification for General Purpose stabilization (in the event we had to have a special TM for authorization for use of funds). Under normal circumstances when would the town typically submit to the state - I thought it was in the fall.

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maintenance of adequate reserves is also a factor considered by the bond rating agencies, so the creation and appropriation of general and special purpose stabilization funds may help Concord to maintain its Aaa bond rating.

## POLICY

Set out below are the Financial Policies adopted by Concord to inform the creation of, and appropriation to and from, general purpose and special purpose stabilization funds.

### Reserves

#### RESERVES

The Town is committed to building and maintaining reserves to ensure budget flexibility to finance emergencies and unforeseen needs and establish funds to support Town priorities and long-term capital improvement plannings. It is a Town goal to maintain reserves, in aggregate, to retain a Aaa rating and consequently reduceimpact long-term borrowing costs. Reserves are intended to be used to fund unanticipated or one-time costs rather than to fund operating expenses (unless provisions are made to replenish reserves). It is Town policy to maintain, at a minimum, the following types of reserves levels: described in this Policy..

Policy Summary

SUMMARY

Available Funds	Minimum Funding Target*	Examples of Appropriate Usage	Description
Annual Reserve Fund	TBD	<ul style="list-style-type: none"> <li><del>Unforeseen</del>Unforeseen operating budget expenditures</li> </ul>	<ul style="list-style-type: none"> <li>Funds set aside as part of the annual budget to provide for unforeseen or extraordinary costs</li> </ul>
Free Cash	3%	<ul style="list-style-type: none"> <li>Funding stabilization funds</li> <li>Funding capital projects</li> <li>Retirement &amp; OPEB</li> </ul>	<ul style="list-style-type: none"> <li>Funds remaining from the prior fiscal year, as certified by the Commonwealth</li> </ul>
General Stabilization Fund	5%	<ul style="list-style-type: none"> <li>Emergency and unexpected events</li> <li>Non-recurring annual expenditures</li> </ul>	<ul style="list-style-type: none"> <li>Fund established by Town Meeting to accumulate funds for future appropriation</li> </ul>
Overlay Surplus	No target	<ul style="list-style-type: none"> <li>Appropriation for any legally permitted purpose</li> </ul>	<ul style="list-style-type: none"> <li>Excess amount of the Overlay Reserve certified by the Board of Assessors as available for appropriation</li> </ul>
Special Purpose Stabilization	Target to be set for each fund	<ul style="list-style-type: none"> <li>Capital expenditures</li> <li>Funding debt service</li> </ul>	<ul style="list-style-type: none"> <li>Fund or Funds established by Town Meeting to accumulate funds for the purposes specified by Town Meeting</li> </ul>

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Commented [WR3]: Ryan: We should consider updating the percentages base on a percentage of the Prior FY budget for Free Cash and for the General Stabilization and other stabilization fund targets, as a percentage of the current year General Fund budget.

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\* As a percentage of the ensuing General Fund Budget

Annual Reserve Fund

As part of the annual budget appropriation, funds will be set aside to provide for extraordinary or unforeseen departmental operating costs. The amount of appropriation will reflect a financial management decision based on economic and budgetary risks. The Town Manager, with the certification as to fund balance by the Town Accountant, can make a request to the Finance Committee for a transfer from the General Fund Reserve Fund to another appropriated account, in the event that the account incurs an expenditure which is extraordinary or unforeseen, per M.G.L. 40 § 6. The Finance Committee shall have the sole authority to approve such a transfer.

Proposed substitute language from Ryan F.:

To respond to extraordinary or unforeseen financial obligations, an annual budget reserve shall be established under the provisions of MGL Chapter 40, Section 6. The Town will appropriate the Budget Reserve in an amount equivalent to no less than six tenths of 1% of the Town Government Operating Budget within the Finance Committee's spending budget guidelines, exclusive of the budget reserve. The Finance Committee may make transfers from the budget reserve for all Town

[Operating Budget needs, including spending categories outside of the budget guidelines, as allowed under MGL Chapter 40, Section 6.](#)

#### *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. It is Town policy to maintain a minimum Free Cash balance, at or above 3% of the ensuing General Fund Budget with the following stipulations:

1. If Free Cash falls below 3% of the ensuing General Fund Budget, the Town Manager and Chief Financial Officer shall develop a plan to bring Free Cash back up to the minimum level.
2. If Free Cash in combination with the General Stabilization fund rises above 10% of the ensuing General Fund Budget, the Town Manager and Chief Financial Officer shall consider recommending using the excess Free Cash in the following ways:
  - i. Appropriate a portion of the excess Free Cash for a special non-recurring expenditure that could include a capital item that would otherwise be eligible to be funded through borrowing.
  - ii. Appropriate a portion of the excess Free Cash to a General Fund or Special Stabilization Fund. Funds should not be allocated for stabilization that would result in full use of the unused levy limit.

#### *General Stabilization*

The General Stabilization Fund is established to provide emergency funds for usage in a major or significant event, such as natural disaster, uninsured loss, damage to a capital asset, or unanticipated decrease in revenue. [Withdrawals should be limited to mitigating emergencies, unanticipated events or non-recurring expenditures that cannot be supported by annual general fund appropriations.](#) It is Town policy to establish a minimum funding target at or above 5% of the ensuing General Fund Budget. Where possible, withdrawal of funds, should be limited to an amount where Free Cash in combination with the General Stabilization fund exceeds 10% of the ensuing general fund budget.

**Commented [WR4]:** Ryan: Should we qualify this statement? Town Meeting can vote to transfer for any purpose..?

If withdrawals from the fund result in a balance below the minimum target, the Town Manager in conjunction with the Chief Financial Officer will develop a plan to replenish funds [back up to the minimum level within the next two fiscal years.](#)

**Commented [WR5]:** Ryan: Consider deleting timeframe. Two years could be too limiting

#### *Overlay Surplus*

The purpose of the Overlay Reserve is to offset unrealized tax revenue resulting from abatements and exemptions. As approved by the Board of Assessors (~~BOA~~) or directed by the Appellate Tax Board, the Assessing Division grants abatements for real estate and personal property tax. Annually the ~~BOA~~ Board of Assessors will determine an overlay amount, based on the annual recapitulation sheet, to be incorporated into the annual Town tax levy.

At the conclusion of each Abatement year (by May 30<sup>th</sup>), the Assessor will update the status of the Overlay Reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any potential surplus, where the Overlay Reserve exceeds the amount of potential liabilities. If the ~~BOA~~[Board of Assessors](#) determines that a surplus exists, the ~~BOA~~[Board of Assessors](#) will notify the Chief Financial Officer, Town Manager and Select Board of the potential surplus amount. The Select Board in conjunction with the Chief Financial Officer and Town Manager may request that the ~~BOA~~[Board of Assessors](#) vote to declare that some or all of the surplus be available for appropriation.

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#### *Special Purpose Stabilization*

It is Concord's practice to create Special Purpose Stabilization funds to be appropriated for specific purposes that are designated by a vote at Town Meeting. The purpose of a Special Purpose Stabilization fund may be defined narrowly (i.e. one specific project or purchase), or broadly (i.e. to support a capital improvement plan which may include various projects to be completed over a lengthy time period).

Special Purpose Stabilization funds may be used as a source of funding for capital related projects, equipment, and for major maintenance items. Other special purpose funds may include vehicle replacement, technology upgrades, and road maintenance.

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Target balances for a Special Purpose Stabilization Fund are set based on the purpose of the particular fund and anticipated expenditures. Appropriations to Special Purpose Stabilization Funds may come from the General Fund, ~~from~~ [Free Cash](#), or by dedicating a particular fee, charge, or other receipt as funding source(s). Appropriations to any Special Purpose Stabilization Fund will be subject to approval by Town Meeting. All such requests will be subject to review by the Select Board and the Finance Committee, which will make recommendations to Town Meeting.

One example of a Special Purpose Stabilization Fund is a Capital Stabilization Fund, the purpose of which is to fund the implementation of the Concord's Capital Improvement Plan, and to ameliorate the tax impact of the large capital projects where possible. The target funding balance of a Capital Stabilization Fund should be determined and updated regularly by the Town Manager and Chief Financial Officer.

Commented [WR6]: Ryan: Should we cite a Capital Stabilization Fund if we are going to establish the fund? Consider deleting this paragraph.

## Financial Policy Working Group

### Financial Glossary

*All definitions are taken from the Massachusetts Department of Revenue/Division of Local Services January 2020 Municipal Glossary*

**Audit** – An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor) resulting in a report on the fairness of financial statements and local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating a community's fiscal performance.

**Audit Committee** – A committee appointed by the select board, mayor, or city council with specific responsibility to review a community's independent audit of financial statements and address all issues relating to it, as well as those outlined in the accompanying management letter.

**Audit Management Letter** – An independent auditor's written communication to government officials, separate from the community's audit. It generally identifies deficient areas, if any, and presents recommendations for improving accounting procedures and other internal controls.

**Audit Report** – Prepared by an independent auditor, an audit report includes: (a) a statement of the audit's scope; (b) explanatory comments as to the application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) supplementary comments, recommendations and statistical tables. It is very often accompanied by a management letter.

**Available Funds** – Balances in the various fund types that represent nonrecurring revenue sources. As a matter of sound practice, they are frequently appropriated for unforeseen expenses, capital expenditures, or other one-time costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and retained earnings.

**Bond** – A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

**Bond Rating (Municipal)** – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard & Poor's, use rating systems that designate a letter or a combination of letters and numerals, where AAA is the highest rating and C1 is very low.

**Capital Asset** – Any tangible property used in the operation of government that is not easily converted into cash and that has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and minimum initial cost.

**Capital Budget** – An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method to finance each recommended expenditure (e.g., tax levy or rates) and identify those items that were not recommended.

**Capital Improvement Program** – A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital plan. It coordinates community planning, fiscal capacity, and physical development. While all the community's needs should be identified in the program, there is a set of criteria that prioritize the expenditures.

**Capital Outlay** – The exchange of one asset (cash) for another (capital asset) with no ultimate effect on net assets. Also known as "pay as you go," it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

**Debt Burden** – The amount of debt carried by an issuer usually expressed as a measure of value (e.g., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

**Enterprise Fund** – Authorized by MGL c. 44 § 53F½, an enterprise fund is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of a service's total costs recovered through user charges and the portion subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital --are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus," or retained earnings, generated by the enterprise operation rather than closing this out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

**Financial Advisor** – An individual or institution that assists municipalities in the issuance of tax exempt bonds and notes. The public finance department of a commercial bank or a non-bank advisor usually provides this service.

**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. (See Available Funds)

**General Fund** – The fund used to account for most financial resources and activities governed by the normal town meeting or city council appropriation process.

**Governmental Funds** – Funds generally used to account for tax-supported activities. There are five different types of governmental funds: general, special revenue, capital project, debt service, and permanent.

**New Growth** – The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or revaluations.

**Nonrecurring Revenue Source** – A one-time source of money available to a city or town. By its nature, a nonrecurring revenue source cannot be relied upon in future years, and therefore, such funds should not be used for operating or other expenses that continue from year to year.

**OPEB (Other Postemployment Benefits)** – Many public employees earn benefits over their years of service that they do not receive until after their government employment ends. While pensions are the most common of these, other postemployment benefits generally include combinations of health, dental, vision, and life insurances. These are provided to eligible retirees and sometime to their beneficiaries, and as a group, are referred to as OPEB.

**Operating Budget** – The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Overlay (Overlay Reserve, or Allowance for Abatements and Exemptions)** – An account that funds anticipated property tax abatements, exemptions, and uncollected taxes. Additions to the overlay reserve need not be funded by the normal appropriation process but instead raised on the tax rate recapitulation sheet.

**Proposition 2½** – A state law enacted in 1980, Proposition 2½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

**Reserve Fund** – An amount (not to exceed 5 percent of the tax levy for the preceding year) set aside annually within a community's budget to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted by the city council upon recommendation of the mayor.

**Sale of Cemetery Lots Fund** – A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL c. 114 § 15.

**Stabilization Fund** – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL c. 40 § 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate any amounts into them. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money from a stabilization fund. A majority vote of town meeting or city council is required to appropriate money into a stabilization fund.

**Trust Fund** – In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds, or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For nonexpendable trust funds, only interest (not principal) may be expended as directed.

**Unfunded OPEB Liability** – This is the difference between the value assigned to the benefits (other than retirement) already earned by a municipality's employees and the assets the local government will have on hand to meet these obligations.

**Unfunded Pension Liability** – This is the difference between the value assigned to the retirement benefits already earned by a municipality's employees and the assets the local retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is redetermined every three years and driven by assumptions about the interest rates at which a retirement system's assets will grow and the rate of the pensioners' future costs of living increases.



## Excerpt of Concord Financial Policies

### 9. Capital Expenditures

#### A. Capital Assets

1. It is Town policy that capital items are defined as assets such as structures, land, and equipment (including related plans, designs, and studies), which have a life expectancy of at least 2 years and a cost of at least \$10,000.
2. It is Town policy that in compliance with GASB #34, capital assets (other than land) are depreciable and should follow straight-line depreciation schedules in accordance with the Massachusetts Department of Revenue's useful life schedules.

#### B. Capital Funding Target Level (General Fund – within the levy limit)

1. It is Town policy that **a target of 7% to 8% of the total budget net of the excluded debt levy be allocated for capital financing. Of the 7% to 8%, no more than 5% shall be for debt service within the levy limit.** Capital Outlay from the Town Departments and the Concord Public Schools shall be at least 2% to 3% of the annual budget (not including excluded debt).

#### C. Five-Year Capital Improvement Program (CIP)

1. It is Town policy that the Town shall maintain and annually update a 5-year Capital Improvement Program to identify current and future capital needs. The CIP shall allocate resources to fund new needed capital projects and fund the repair and replacement of existing capital assets in effort to maintain the Town's physical infrastructure and avoid deferring maintenance for future years.

### 10. Debt

#### A. Debt Structure

1. It is Town policy that capital items that can be funded through borrowing include infrastructure, facilities, vehicles, equipment, and land, which have (1) an estimated cost of \$100,000 or more and (2) a useful life of at least 5 years.
2. It is Town policy that all borrowing whether tax-supported by the General Fund or revenues supported by the Enterprise Funds shall be issued as General Obligation (GO) bonds, having the Town's pledge of full faith and credit for repayment.
3. It is Town policy that tax-supported borrowing can be used for the sustainability, improvement, or expansion of the Town's significant capital assets with debt service is paid for by the General Fund.
4. It is Town policy that the **maximum level of indebtedness shall not exceed 5%** of the equalized valuation of the Town per M.G.L. 44 § 10.
5. It is Town policy that the Town shall develop a 5-year debt capacity analysis inclusive of CPS, with estimated project costs updated annually.

6. It is Town policy that for tax-supported borrowing within the levy limit, the Town's goal is to structure the Town's debt in the following way:
  - a. The repayment schedule is at an accelerated pace in which of 60% of the principal is repaid within 5 years and 90% is repaid within 10 years. This goal reduces the cost of interest expense and frees up debt capacity for future borrowing.
  - b. The annual amount of debt services is approximately 5% of the annual General Fund expenditures net of excluded debt service. The purpose of this goal is to allocate sufficient funds for the Town's capital needs and prevent operating needs from "crowding out" the proper investment in capital.
7. It is Town policy that revenue-supported borrowing shall be reserved for capital assets associated with expansion of service. Debt service is paid through user fees and rates earned by the specific Enterprise Fund.
8. It is Town policy that excluded debt shall be used for capital items that cannot be funded through the debt plan within the levy (e.g., new schools construction, facility expansion, land acquisition, etc.). For all excluded debt proposals, the impact on property tax shall be calculated prior to the presentation at Town Meeting.
9. It is Town policy that the retirement structure of a specific bond shall not be greater than the useful life of the underlying capital assets.
10. It is Town policy that borrowing shall not be used for operating expenses or to fund other long-term liabilities such as pension or other post-employment benefit obligations.