



FINANCIAL RESERVES

PURPOSE

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

APPLICABILITY

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

POLICY

The Town of Carlisle commits 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. The Town will strive to maintain overall reserves in the level of ten to twelve percent of the annual operating budget. 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.

The Town shall set a year-to-year goal of maintaining its free cash in the range of five to seven percent of the annual budget. To achieve this, the Finance Director shall propose budgets with conservative revenue projections, and department heads shall carefully manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much practicable, the Town will limit its use of free cash to funding one-time expenditures (such as capital projects or emergencies, and other unanticipated expenditures) and will appropriate any excess above seven percent of the annual budget to current and future year reserves, capital needs, one-time expenditures, 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. Prior to the adoption of this policy, the Town established and appropriated funds to a general stabilization fund.

The Town will endeavor to maintain a minimum balance of five percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the three 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 Finance Director shall develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

C. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements and exemptions. Carlisle officials will prudently manage the overlay to avoid the need to raise overlay deficits in the tax levy. Annual overlay appropriations will consider multiple-year averages and consider one-time circumstances based on recommendations from the Board of Assessors.

At the conclusion of each fiscal year, the Board of Assessors shall submit to the Finance Director 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 balance exceeds the amount of potential liabilities, the Select Board may request that the Board of Assessors vote to declare those balances surplus available for use in the Town's capital improvement plan or for any other one-time expense.

REFERENCES

[M.G.L. c. 40 §5B](#)

[M.G.L. c. 59 §25](#)

Carlisle Overlay Policy

DLS Best Practices: [Free Cash](#) [Reserve Policies](#)

DLS Informational Guideline Release 16-104: [Overlay and Overlay Surplus](#)

Government Finance Officers Association: [Appropriate Level of Unrestricted Fund Balance in the General Fund](#)

EFFECTIVE DATE

This policy was adopted May 2023