

TOWN OF BELMONT RESERVE POLICY AS ADOPTED WINTER/SPRING 2005

RESOLUTION

The Board of Selectman, after full consultation with the Warrant Committee and the Capital Budget Committee and by unanimous vote, hereby adopts the following reserve policy and resolves to present it for adoption in the form of a resolution at a vote of the April 2005 Town Meeting: [note: it was later decided that Town Meeting Action was unnecessary]

Principle

The Town of Belmont shall maintain minimum fund balances at a level sufficient to assure that the town can withstand unanticipated financial shocks without endangering payments to bondholders or critical town functions.

Fund Balance Measurement Approach

The town defines the following quantity to appropriately reflect its substantial Capital Endowment Fund as well as the usual reserves held by other communities: "Adjusted Reserve Ratio" or ARR shall be a fraction defined as follows --

1. The denominator shall be general fund revenues.
2. The numerator shall be the sum of:
 - a. unreserved, undesignated General Fund balance;
 - b. unreserved General Fund balance designated for stabilization;
 - c. the Capital Endowment Fund balance.

For the purposes of applying this policy to projected year end balances, the town shall not project that an operating surplus will contribute to unreserved, undesignated general fund balance until such point after January 1 of the fiscal year in question as the contribution can be projected with high confidence.

Reserve Policy and Operating Practice: Target of 10% of ARR; Hard Floor of 5% ARR

No interim or annual budget decision shall be made which would place the town at material risk of ending the fiscal year with an Adjusted Reserve Ratio under five percent.

The only exceptions to this policy shall be made in truly rare catastrophic circumstances, such as the sudden creation of an environmental liability. Reductions in state aid, adverse collective bargaining results, sharp increases in fuel, special education or health care costs and similar recurring budget problems will not justify exceptions to the policy.

It is further resolved that maintaining an ARR of 10% is prudent to help the town avoid hardship resulting from the 5% floor in the face of cyclical revenue reductions and long-term cost increases.

Reserve Recovery Practice

In any year in which the prior year's final actual ARR is below the ten percent target, the town shall seek to budget so to achieve a recovery in the ARR equal to one percentage point (or the difference between the ARR and ten percent, whichever is less), provided such recovery can be achieved without hardship. However, if, as a result of a rare catastrophic event, the ARR is below five percent, the town shall budget so as to achieve a recovery of at least one percentage point regardless of hardship.

Example Computation

The policy has the following results for the past three fiscal years:

	2004	2003	2002
	Audited	Audited	Audited
General Fund Revenues	63,919,568	60,443,394	61,713,546
Unreserved, Undesignated General Fund Balance (100%)	5,144,383	6,412,460	5,157,889
Stabilization Fund Balance (100%)	34,459	64,693	62,939
Sum General Fund Contributions to ARR Numerator	5,178,842	6,477,153	5,220,828
ARR before Capital Endowment Fund	8.1%	10.7%	8.5%
Capital Endowment Fund	3,206,024	3,137,904	3,167,711
Numerator of ARR (including Capital Endowment Fund at 100%)	8,384,866	9,615,057	8,388,539
ARR, including Capital Endowment Fund at 100%	13.1%	15.9%	13.6%
10% of Operating Revenues	6,391,957	6,044,339	6,171,355
Excess in ARR Numerator over 10% target	1,992,909	3,570,718	2,217,184

Note: Unreserved, Undesignated General Fund Balance includes the Kendall insurance proceeds.