



FINANCE COMMITTEE RESERVE FUND POLICY

Purpose

This policy sets forth guidelines for requesting and making transfers from the Finance Committee Reserve Fund to ensure the fund is being used according to its statutory authority.

Background¹

- The Town of Hudson may establish a *reserve fund* to provide for *extraordinary* or *unforeseen* expenditures as authorized by G.L. chapter 40, section 6.²
- The Town of Hudson may fund the reserve fund either by including it as a line item in the annual budget, or by creating it by a budget article and funding it through a transfer from a specified revenue source.
- The annual, cumulative balance of the reserve fund may not exceed 5% of the prior-year property tax levy.
- Transfers out of the reserve fund require a majority vote of the Town of Hudson Finance Committee.
- No expenditure can be made directly from the reserve fund, rather funds must be transferred from the reserve fund to another account, even if newly created, for the expenditure to be posted against such account.
- The amount that the reserve fund is funded reflects a financial management decision.
- During periods of lower revenue, a higher reserve fund balance may be justified to accommodate more frequent requests from departments with lean budgets.
- During periods of higher revenue, a lower reserve fund balance may be justified to accommodate less frequent requests from departments with ample budgets.
- Extraordinary or unforeseen expenditures refer to expenditures that could not have been anticipated or determined before the tax rate was set or the budget was approved.
- An expenditure does not qualify as extraordinary or unforeseen if it could have been anticipated or determined via a diligent annual budget process.

¹ Adapted from MA DOR DLS memorandum “City, Town, and District Reserves” dated January 2020.

² G.L. c. 40, Powers and Duties of Cities and Towns, s. 6, Towns; reserve funds for extraordinary expenditures;

To provide for extraordinary or unforeseen expenditures, a town may at an annual or special town meeting appropriate or transfer a sum or sums not exceeding in the aggregate five per cent of the levy of the fiscal year preceding the fiscal year for which the fund, to be known as the reserve fund, is established. No direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the finance or appropriation committee of the town, in towns having such a committee, and in other towns by the selectmen; and the town accountant in towns having such an official, and in other towns the auditor or board of auditors, shall make such transfers accordingly.



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Background (continued)

- The Finance Committee determines in the first instance whether or not an expenditure qualifies as extraordinary or unforeseen and may consider circumstances such as whether delayed action would increase the expenditure prohibitively or whether the expenditure is too small to justify calling a special town meeting.
- The reserve fund cannot be used to make transfers that bypass or invalidate the annual budget process or decisions made at town meeting.
- The reserve fund cannot be earmarked for a particular purpose and any vote at town meeting to do so would not be binding on the Finance Committee.
- Any remaining balance in the reserve fund at the end of the fiscal year closes to free cash.

Policy

All departmental requests for potential reserve fund transfers shall comply with the following policy:

- The department head who identified an expenditure for a potential reserve fund transfer shall consult with the Executive Assistant regarding such expenditure.
- The Executive Assistant shall consult with the Finance Director and the Select Board regarding the expenditure and potential reserve fund transfer.
- If the Executive Assistant, in consultation with the department head, Finance Director, and/or Select Board, determines the expenditure is eligible for a potential reserve fund transfer and the Select Board, as applicable, recommends such request for review, then the Executive Assistant shall submit a "Finance Committee Reserve Fund Transfer Request Form" ("request form") to the Finance Committee Chair. The Executive Assistant shall attach to the request form all documentation necessary for the committee to evaluate such request.
- Upon receipt of a request form, the Finance Committee Chair shall either include such request form on the agenda for the next scheduled meeting of the Finance Committee, or schedule a meeting within ten (10) business days, whichever is sooner, to review such request.³ The department head and/or the Executive Assistant shall attend such review meeting to present the request form.
- The expenditure shall be extraordinary or unforeseen and otherwise comply with G.L. chapter 40, section 6.
- The approval of a request requires a majority vote of a quorum (simple majority) of the Finance Committee.

³ For "rush" requests, the Chair shall endeavor to schedule a meeting of a quorum of the Finance Committee within three (3) to (5) business days.