

**Financial Policy Work Group  
Agenda  
Wednesday, November 5, 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: <b>Don</b>, Lois, Ryan, Wendy</li> </ul>	Group
II.	1:05 PM	Approval of minutes: October 22, 2025	Wendy Rovelli
III.	1:10 PM	Discussion on Reserve Policies <ul style="list-style-type: none"> <li>• Follow-up on rating agency metrics for available funds</li> <li>• General Stabilization uses &amp; follow-up</li> <li>• Review and discussion on draft consolidated Stabilization Policy</li> <li>• Debt policy discussion (time permitting)</li> </ul>	Group
IV.	2:20 PM	Next Steps <ul style="list-style-type: none"> <li>• Next meeting date &amp; time</li> <li>• Meeting recap &amp; follow-ups</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: 10/16, 10/30, 11/20, 12/8, 12/11, 1/29

Select Board Meetings: 11/17, 12/8, 12/22, 1/6

**Town of Concord  
Financial Policy Work Group  
Minutes  
Wednesday, October 22, 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 1:00 PM on September 2, 2025

Work Group Members Present: Ryan Ferrara Acting Chief Financial Officer, Don Kupka, Wendy Rovelli, Lois Wasoff

Remote Participants: none

Ms. Rovelli opened the meeting at 10:08 p.m. Ms. Rovelli will be responsible for drafting minutes of the meeting.

### **Approval of Minutes**

Mr Kupka moved to approve the meeting minutes of September 30, 2025 as distributed. Ms. Wasoff seconded the motion. The minutes were approved by unanimous vote.

### **Calendar Review**

Ms. Rovelli reviewed the list of Finance Committee and Select Board meetings, noting that the work group was expected to provide an interim update to the Finance Committee and Select Board on policy recommendations related to stabilization funds. Ms. Wasoff confirmed the December FinComm meetings had a full agenda items and that targeting a discussion at the November 20<sup>th</sup> meetings could be considered.

### **Follow-up on Rating Agency Metrics for Available Funds**

In the prior meeting the group discussed the need to further understand how Moody's calculated the "Available Fund Balance Ratio". Mr Ferrara will follow-up with our financial advisors to document whether all enterprise and revolving funds are included and what elements are included in the numerator and denominator. Ms. Rovelli thought using information from the latest financial audit would be beneficial.

### **General Stabilization Uses**

Mr Ferrara shared that General Stabilization funds have traditionally used to support emergency funding needs under Massachusetts General Law. However, some Towns financial policies stated that general stabilization could be used for periodic or cyclical expenditures such as presidential elections. The group agreed we should proceed with an assumption that our General Stabilization fund can be used for non-emergency expenditures. Ryan will confirm this is compliant with MA law.

### **Stabilization Fund Policy**

Ms. Rovelli shared a document listing components of a stabilization policy that had been discussed in earlier meetings where there was consensus that a variation of the element should be included. The following enhancements were identified

- The policy document needs to include a list of relevant definitions. This ensures consistent interpretation and is educational to consumers of the policy.
- When establishing a target level for a given metric, it should be considered a floor, and not a requirement. We will not raise taxes to achieve a target.
- The group agreed that the policy should not include a specific target for an Available Fund Balance Ratio, but reference Moody's scorecard target for achieving a Aaa rating.
- The group discussed whether the policy should include annual review of reserve/revolving funds. It is important to consider reviews, as excess funds could be reallocated to free cash or other stabilization funds. Given the broad range of reserves/revolving funds, there was concern over incorporating reviews as part of a policy. An alternate would be to adopt the principle that owners conduct annual reviews.

The group discussed the use of Special Purpose Stabilization funds. The goal is to use the funds to mitigate future borrowing. We need to plan for our capital needs and encourage early anticipation of funding (for stabilization). The target will be driven based anticipated capital expenditure needs.

In the interest of expediting the stabilization policy, members agreed to draft the following sections and send to Ms. Rovelli, Tuesday, November 4<sup>th</sup>. Ms. Rovelli will consolidate and distribute for review for the next meeting.

Member	Section
Mr. Ferrara	Glossary of terms (Dept of Revenue)
Ms. Wasoff	Policy Preamble
Ms. Rovelli	Free Cash & General Stabilization
Mr. Kupka	Capital/Special Stabilization

The next meeting is Wednesday, November 5, 2025 at 1:00 p.m.

**Adjourn** The meeting was adjourned at 11:40 a.m.

# Town of Concord

## Financial Reserve Policy

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.

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 the 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 their purpose.

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 such as schools or other municipal buildings). The 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.

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**

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 plans. It is a Town goal to maintain reserves, in aggregate, to retain a Aaa rating and consequently impact long term borrowing costs. Reserves are intended to be used to fund unanticipated or one-time costs rather than fund operating expenses (unless provisions are made to replenish reserves). It is Town policy to maintain, at a minimum, the following types of funds.

**Policy Summary**

Reserve Name	Funding Target	Appropriate Usage
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Annual Reserve Fund	No target	<ul style="list-style-type: none"> <li>• Unforeseen operating budget expenditures</li> </ul>
Free Cash	3-5%	<ul style="list-style-type: none"> <li>• Funding stabilization funds</li> <li>• Funding capital projects</li> </ul>
General Stabilization Fund	5-7%	<ul style="list-style-type: none"> <li>• Emergency and unexpected events</li> <li>• Non-recurring annual expenditures</li> </ul>
Overlay	No target	<ul style="list-style-type: none"> <li>• Offset unrealized tax revenue</li> </ul>
Special Purpose Stabilization		<ul style="list-style-type: none"> <li>• Cash capital expenditures</li> <li>• Funding debt service</li> </ul>

### *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.

### *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, Town Manager and the Finance Director 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 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 prolonged 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.

If withdrawals from the fund result in a balance below the minimum target, the Town Manager in conjunction with the Finance Director will develop a plan to replenish funds within the next two fiscal years.

#### *Overlay*

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

At the conclusion of each fiscal year, the Assessor will provide an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any potential transfers to surplus. If the overlay balance exceeds the amount of potential liabilities, the Select Board may request that the Board of Assessors vote to declare it as surplus and available for use in the Town's capital improvement plan or for any other one-time expense.

#### *Special Purpose Stabilization*

The purpose of a Special Purpose Stabilization fund (SPS fund) is to provide funds to mitigate the cost of specific future needs that would be likely to cause an unusual increase in the tax Levy absent mitigation. An unusual increase is an increase greater than the general rate of inflation, defined for the purposes of this policy as the change in the cCPI-U index.

A Special Purpose Stabilization fund may be established at Town Meeting via a warrant article sponsored by the Select Board, the Town Manager, or the Finance Committee. SPS funds are funded by warrant articles appropriating funds from surplus Free Cash, a surplus in the General Stabilization fund, transfer of funds from other SPS fund, or via the Levy when an increase in the tax rate otherwise is below the general rate of inflation, providing stability and predictability to changes in the tax Levy over time.

The target balance of SPS funds is the amount necessary to prevent an unusual increase in the tax rate as determined by the Finance Committee. It varies by fund purpose and may vary over time.

An example of a Special Purpose Stabilization Fund is a Major Capital Stabilization Fund. The purpose of a Major Capital Stabilization fund is to smooth out the cost of large capital projects such as the periodic replacement of buildings. Per Financial Policy #9 Capital Expenditures, the Town and Schools spend a designated percentage of their budgets ex-Tier 3 capital, on capital funding. They also maintain multi-year capital forecasts called Capital Improvement Plans (CIP). Unless mitigated, it is possible that the funding of major capital projects, such as new buildings, will exceed the percentage designated for capital funding and would cause an unusual increase in the tax rate. A Major Capital Stabilization Fund may be used to mitigate the tax impact of the CIP. SPS funds may be dedicated to specific projects or may be undesignated and appropriated to projects

as needed. The target funding balance is determined annually by the Finance Committee by considering the probable capital financing cost of all items in the CIP, in comparison with the percentage designated for capital funding per Financial Policy #9.

DRAFT

## 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 § 53F<sup>1/2</sup>, 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.