

**Financial Policy Work Group
Agenda
Wednesday, November 12, 2025 at 3:00 PM
Select Board Room, 22 Monument Square**

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

	Time	Agenda item	Facilitator
I.	3:00 PM	Selection of Clerk <ul style="list-style-type: none"> • Rotation: Don, Lois, Ryan, Wendy 	Group
II.	3:05 PM	Approval of minutes: November 5, 2025 (if available)	Wendy Rovelli
III.	3:10 PM	Discussion on Reserve Policies <ul style="list-style-type: none"> • Available Fund Balance Ratio Follow-up • Review and discussion on draft consolidated Stabilization Policy • Debt policy discussion (time permitting) 	Group
IV.	4:20 PM	Next Steps <ul style="list-style-type: none"> • Next meeting date & time 	Group
V.	4:25 PM	Public Comments	Wendy Rovelli
VI.		Adjournment	

Key Dates:

Warrant Opens: December 29th; Warrant Closes: January 23rd

Finance Committee Meetings: 11/20, 12/8, 12/11, 1/29

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

Moody's Available Fund Balance and Liquidity Ratios with Financial Statement references: FY23 & DRAFT FY24

	FY23	FY24	Audit Financial Statement
Financial Performance Factor Inputs and Calculated Subfactors	Value	Value	
Governmental Funds revenue (000s)	\$147,716	\$156,193	Statement of Revenues, Expenditure & Change in Fund Balances
Business Type Activities revenue (000s; operating plus non-operating)	\$49,625	\$49,139	Statement of Revenues, Expenditure & Change in Fund Balances: Total Operating Revenue+ Investment Income+ Misc
Internal Service Fund non-operating revenue (000s)	\$0	\$0	
Total revenue (000s)	\$197,341	\$205,331	
Governmental Funds available fund balance - committed, assigned and unassigned (000s)	\$26,676	\$27,120	Government Fund Balance Sheet
Internal Service Fund total unrestricted current assets (000s)	\$0	\$0	
Internal Service Fund total current liabilities (000s)	\$0	\$0	
Internal Service Fund current portion of long-term debt	\$0	\$0	
Internal Service Fund net current assets (000s)	\$0	\$0	
Business Type Activities total unrestricted current assets (000s)	\$44,716	\$45,760	Statement of Net Position: Total Current Assets
Business Type Activities total current liabilities (000s)	\$14,282	\$15,453	Statement of Net Position
Business Type Activities current portion of long-term debt (000s)	\$2,566	\$2,529	Statement of Net Position: Bonds & Loans Payable
Business Type Activities current portion of other long-term liabilities (000s)	\$23	\$23	Statement of Net Position: Coimpensated Absences
Business Type Activities net current assets (000s)	\$33,024	\$32,859	Calculation
Governmental funds available fund balance + Business type activities net current assets	\$59,700	\$59,979	
Available fund balance ratio	30.3%	29.2%	
Governmental Funds net unrestricted cash (000s; net of cash flow notes)	\$138,386	\$97,715	Statement of Net Position: Cash + Investments
Internal Service Fund unrestricted cash (000s)			
Business Type Activities unrestricted cash (000s)	\$32,259	\$32,851	Statement of Net Position: Cash + Investments
Liquidity ratio	86.5%	63.6%	
Available fund balance ratio: Moody's Aaa target	35.0%	35.0%	
NEEDED: Govl funds available fund balance + Business type activities net current assets (000s)	\$69,069	\$71,866	
CURRENT VARIANCE from target (000s)	\$9,369	\$11,887	

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.

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Policy Summary

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

- - Percent of ensuing General Fund Revenues/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.

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 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, ~~representing approximately 30% of State Aid and Local Receipts revenue.~~ 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~~ Chief Financial Officer (CFO) will develop a plan to replenish funds within the next two fiscal years.

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 fiscal year, the Assessor will ~~provide an~~ 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 ~~transfers to~~ surplus, ~~where .~~ If the overlay balance exceeds the amount of potential liabilities. ~~If the BOA determines that a surplus exists,~~ the ~~BOA will notify the CFO, Town Manager and Select Board of the potential surplus amount. The Select Board in conjunction with the CFO and Town Manager~~ may request that the ~~BOA~~ Board of Assessors vote to declare ~~that some or all it as of the surplus be and~~ available for ~~appropriation to free cash, one or more stabilization funds or use in the Town's capital improvement plan use or~~ for any other one-time expense.

Special Purpose Stabilization

~~It is Concord's policy to create special purpose stabilization funds (SPS funds) with designated specific allowable expenses. The purposes and allowable expenses may be defined narrowly, i.e. one specific project, or broadly i.e. the capital improvement plan, which encompasses many projects.~~

~~Once funded, 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.~~

~~Target balances are to be defined based on the purpose and anticipated expenditures. SPS funding may come from the general fund or by dedicating a particular fee, charge, or other receipt as funding source.~~

SPS funds may be established by Town Meeting via a warrant article sponsored by the Select Board, the Town Manager, or the Finance Committee.

One example of a Special Purpose Stabilization Fund is a Capital Improvement Plan Stabilization Fund (CIP fund), the purpose of which is to smooth out the tax impact of the large capital projects inside the CIP. The target funding balance of a CIP fund should be determined and updated annually by the Finance Committee after considering the tax impact of the probable capital financing cost of all projects in the CIP over the expected duration of project debt financing. The target balances of more narrowly defined SPS funds may not require annual updates.

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.

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.

Parking Lot Items

1. Investment Advantage of Stabilization Funds vs. Free Cash
2. Documentation of Reserve/Revolving fund purpose and targeted balances
3. Recision of outstanding debt no longer needed