

**CITY OF NORTHAMPTON**  
**GENERAL FUND FREE CASH AND RESERVES POLICIES**

**FREE CASH POLICIES**

- **Annual Free Cash Target** – The City shall strive to generate free cash by budgeting revenues conservatively and expenditures accurately. The City will strive to achieve a free cash generation rate of between 3 to 5% of the general fund operating budget.
- **Use of Free Cash** – The City shall use its certified free cash to build reserves in the city's various stabilization funds, to fund capital improvements and lastly to cover operating budget deficits if needed. The City allocates approximately 1/3 of its free cash toward reserves, 1/3 toward capital improvements and 1/3 is retained in free cash for operating budget overruns or as a base for next year's free cash.

**RESERVES POLICIES**

The City shall maintain the following general, special, and strategic reserve funds.

**STABILIZATION FUNDS:** Overall the City shall strive to maintain, among its three stabilization funds a balance equivalent to 10% of the annual General Fund Operating Budget.

- **Stabilization Fund** – a Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.
  1. The target funding level for the Fund shall be an amount equivalent to 3% of the City's General Fund and increasing it annually until it reaches and can be sustained at 5% of the City's General Fund Operating Budget. The Stabilization Fund shall be funded with Free Cash and/or one-time revenues.
  2. The Stabilization Fund shall be used under the following circumstances:
    - a) To support projects not necessarily identified in the capital plan but have arisen due to unforeseen or emergency circumstances
    - b) To supplement the general fund operating budget in case of sharp, unforeseen revenue declines such as reductions in state aid
    - c) To cover unforeseen operating budget deficits such as extraordinary snow and ice, or legal costs
- **Capital Stabilization Fund** – a Capital Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.
  1. The target funding level for the Fund shall be an amount equivalent to 2.7% of the City's General Fund and increasing it annually until it reaches and can be sustained at 5% of the City's General Fund Operating Budget. The Fund shall be funded via an annual operating budget appropriation that shall be increased by 6% each fiscal year. The Capital Stabilization Fund may also be funded with Free Cash or one-time revenues.
  2. After reaching the goal of having 2.7% of the City's General Fund in the Capital Stabilization Fund, any funds in excess of 2.7% of the city's General Fund budget will be appropriated from the Capital Stabilization Fund to fund capital needs. Each year the amount available to fund

capital needs will be increased by 0.1% so that the amount retained in the fund and the amount appropriated from the fund will move in sync toward the goal of sustaining the fund at 5% of the General Fund Operating Budget.

3. The Capital Stabilization Fund shall be used solely for the funding of capital improvements identified in the Five Year Capital Plan approved annually by the City Council.
- **Fiscal Stability Stabilization Fund** – Established in FY14, the Fiscal Stability Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.
    1. Funding for the Fiscal Stability Stabilization Fund shall be from the City's annual operating budget. Funds generated shall come from maximizing the city's levy capacity each year and setting those funds aside to extend the number of years between needing to seek an operating budget override.
    2. Each year the Mayor shall submit to City Council, as part of the annual budget, a five year fiscal stability plan showing appropriations into or out of the Fiscal Stability Stabilization Fund, and its projected balances over the five year period.
    3. In years in which the Fiscal Stability Stabilization Fund will be needed, it will be used to maintain essential city services.

**OTHER RESERVES:** Overall the City shall strive to maintain additional reserves in various forms to address future liabilities:

- **Compensated Absence Fund** – Established in FY14 a Compensated Absences Fund shall be maintained, under the provisions of MGL Chapter 40, Section 13D. This fund shall be maintained in order to provide stability in the budget when long time “grandfathered” employees’ retiree with the former sick leave buyout benefit. The current benefit has been reduced and annually an amount is budgeted to cover the typical cost to this benefit within the budget. However this fund will be used in years in which either an unusually large number of employees retire and/or a long time employee whose benefit was “grandfathered” retires with a large sick leave payout.
- **Post-Retirement Benefits Trust Fund (OPEB)** – Established in FY15, this fund shall be maintained to offset the anticipated costs of post-retirement benefits of retired employees. The uses of and procedures for accessing the fund are prescribed in MGL Chapter 32B, Section 20.

The City shall annually make an appropriation to this fund, increasing its contribution by \$25,000 or more each year. Other appropriations into this fund may come from year-end surpluses in fringe benefit line-items; from year-end surpluses in appropriations for employee health insurance; from assessments on the Enterprise Funds that support benefit-eligible employees; and Free Cash and other one-time revenues.

- **Overlay Reserve** – Established per the requirements of MGL Chapter 59, Section 25, the Overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Mayor shall, at the conclusion of each fiscal year, require the Board of Assessors to submit an update of the Overlay reverse for each fiscal year, including, but not limited to, the current balances and amounts of potential abatements. If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Mayor may request the Board of Assessors to declare those balances surplus, for use in the City's Capital Improvement Program or for any other one-time expense.

- **Receipts Reserved for Parking** – The City deposits all annual parking revenue above and beyond the cost of operating parking enforcement and parking maintenance activities, into the Receipts Reserved for Parking. This reserve is used solely for the maintenance, repair and replacement of parking related facilities and equipment. All expenditures must be approved by City Council and are funded as part of the City's five year Capital Improvement Program.

Adopted by:



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**Mayor David J. Narkewicz**  
**City of Northampton**

**ORIGINAL ISSUANCE:**      **October 16, 2014**  
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