

RESPONSIBLE FINANCIAL MANAGEMENT

Financial Policies & Procedures Adopted 2024 • Following GFOA Standards

Fiscal Oversight • Transparency • Taxpayer Protection

WHAT IS THE FINCOM RESERVE FUND?

The FinCom Reserve Fund is a dedicated appropriation set aside each fiscal year to address unforeseen or emergency expenditures that arise after the annual Town Meeting budget is adopted.

Under Massachusetts General Law, **all transfers require both a Select Board and a Finance Committee vote at a public meeting** - ensuring every dollar released is independently reviewed, openly debated, and on the public record before it is spent.

This dual approval process - requiring sign-off from both the **Select Board** and the **Finance Committee** - provides residents a clear, accountable record of how and why emergency funds are used.

OVERRIDE IMPACT AT A GLANCE

Budget Line	No Override	Override Passes (Tier 1)
Stabilization Fund Long-term savings reserve	\$0	\$250,000 Restored
OPEB Transfer Retiree benefit obligations	\$0	\$250,000 Restored
FinCom Reserve Emergency contingency	Cut \$26,000	\$440,000 Restored

HOW EXCESS RESERVES ARE DEPLOYED: THE WATERFALL

1

FinCom Reserve Fund - First Priority

All additional reserves are directed into the FinCom Reserve Fund account first, ensuring the town maintains a fully funded contingency cushion under independent Finance Committee oversight.

■ **Dual Approval Required:** Both the **Select Board** and the **Finance Committee** must vote to approve this transfer at a public meeting - providing direct accountability to every taxpayer.

2

Free Cash → Stabilization Fund - Appropriated to Reach 5% Target

Free Cash, derived from prior-year surpluses, may be appropriated by Town Meeting, consistent with financial policy, to the General Stabilization Fund until the 5% minimum is achieved.

3

Opportunity to Create the Capital Stabilization Fund - Long-Term Infrastructure Reserve

Once the 5% Stabilization Fund floor is met, the town could explore establishing a Capital Stabilization Fund - a dedicated reserve for major infrastructure, equipment, and capital projects that would reduce the town's reliance on future borrowing. **This is an option the town may consider as a sound fiscal management approach, subject to a vote of Town Meeting to establish and appropriate funds.**

FOLLOWING MARBLEHEAD FINANCIAL POLICIES, PROCEDURES & SOUND FISCAL PRACTICES

Multiple layers of approval • Reduced reliance on Free Cash • Stronger long-term budgeting

Marblehead Financial Policies, Procedures & Sound Fiscal Practices

- **Town Meeting Stabilization Vote:** Any appropriation from or into the Stabilization Fund requires approval at Town Meeting - the highest level of democratic oversight - protecting long-term savings from being used without broad community awareness and consent.
- **Town Meeting Capital Stabilization Vote:** If created, any appropriation into the Capital Stabilization Fund also requires a vote of Town Meeting, ensuring residents have direct say in how long-term infrastructure reserves are established and used.
- **Select Board & Finance Committee Approval:** All FinCom Reserve transfers require a vote from both the Select Board and the Finance Committee at a public meeting - creating multiple independent checkpoints before any emergency dollar is spent.
- **Eliminating Reliance on Free Cash:** By building dedicated reserves through disciplined budgeting, the town moves away from using Free Cash as a recurring revenue source - creating more predictable, structurally balanced budgets year over year.
- **Recognized Municipal Finance Standards:** This layered approach - reserves, stabilization funds, and multi-body approval - reflects the framework endorsed by the Government Finance Officers Association (GFOA) and positions Marblehead on a stronger, more sustainable fiscal path.

WHY ARE DOCUMENTED FINANCIAL POLICIES AND PROCEDURES SO IMPORTANT?

- **Consistent Guidance and Guardrails:** Written policies provide the Select Board and Finance Committee with a clear, agreed-upon framework for financial decision-making. Rather than relying on individual judgment or informal tradition, documented procedures establish guardrails that keep the town on a fiscally responsible course.
- **Stability and Consistency Through Staff Turnover:** Municipal leadership and staff change over time. Documented policies ensure that institutional knowledge is not lost when personnel transition - providing continuity and stability so that sound financial practices are maintained regardless of who serves in key roles.
- **Accountability to Residents:** When policies are written and publicly available, residents can see exactly what standards their elected and appointed officials are held to - creating a transparent and trustworthy financial environment.
- **Bond Rating Agency Credibility:** Documented financial policies and sound reserve management demonstrate fiscal discipline to bond rating agencies - adding credibility and assurance that can positively impact the town's credit rating and reduce borrowing costs.

Massachusetts Department of Local Services Financial Best Practices

- **Formal Financial Policies:** Adopting written, comprehensive financial policies to provide a roadmap for long-term fiscal stability and enhance credibility with rating agencies.
- **Multi-year Forecasting:** Projecting revenues and expenditures over several years to anticipate challenges and maintain structural balance.
- **Reserve Management:** Establishing policies for stabilization funds (target 5-7% balance) and managing Free Cash to avoid utilizing one-time revenues for recurring expenses.

<http://marbleheadma.gov>