

Town of Dover Cash Reserve Policy Proposal

Goals:

Develop a set of reserve policies that collectively:

- Maintains reserves to protect the Town from emergency conditions & retains the Town's high credit rating;
- Uses existing reserves for planned purposes and known liabilities;
- Limits spikes in the annual tax rate;
- Provides for clear and transparent accounting of reserve balances and usage

Capital Reserve Team:

Robyn Hunter, Board of Selectmen
Barry Goldman, Capital Budget Committee
Cam Hudson, Warrant Committee
Carl Valente, Acting Finance Director
Dave Sullivan, Municipal Project Manager
Chris Dwelley, Town Administrator

General Reserve Team:

(Free Cash & General Stabilization)

Bob Springett, Board of Selectmen
Melissa Herman, Warrant Committee
Andy Ursitti, Warrant Committee
Carl Valente, Acting Finance Director
Chris Dwelley, Town Administrator



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Highlights:

- **Phased approach** that allows for stable and measured implementation;
- **Flexibility** that allows the Town to assess and evaluate policy implementation each year;
- Management tool that can be used by policymakers each year to **better track reserves & inform the budget process**;
- **No additional funds** are required to be raised in order to implement.



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Recommended Priority Areas:

- **General Reserves**
 - General Stabilization Fund
 - Free Cash
- **Known Liabilities**
 - Regional Schools OPEB Fund
 - Community Center Debt Relief
- **Capital**
- **Free Cash to Stabilize Tax Rate**



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Benefits of Recommended Priorities:

- **General Reserves.** Maintain a target of 8% of prior year revenues. This 8% will be allocated as 4% held in the Town's General Stabilization Fund and the other 4% maintained in 'free cash'.
 - Maintaining general reserves protects the Town from emergencies without having to eliminate services or lay off staff
 - Contributes to the Town's high bond rating (costs less for the Town to borrow money)
 - A recommended best practice for municipalities
- **Regional Schools OPEB Fund.** Appropriate free cash over a 10 year period to reach a funding target of 60% of the Town's share of the Region's OPEB liability;
 - Dover's unfunded liability for school employee retiree health insurance is \$13M.
 - Funding the Regional Schools OPEB Stabilization fund ensures that Town has a funding stream without increasing the operating budget



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Benefits of Recommended Priorities:

- **Community Center.** Continue plan to allocate free cash annually (\$4M over 10 years) to reduce tax impact of CC debt exclusion
 - Allocating free cash to reduce the cost of the debt service for the community center building project reduces the annual cost of the project as well as minimizes major increases or spikes in the tax rate
- **Capital.** Fund annual capital expenses in excess of the 1.5% levy contribution with free cash.
 - Town has nearly \$7M in capital expenses over the next three years, of which, the capital stabilization fund can support only \$2M
 - Funding these projects with free cash eliminates the need to increase taxes
- **Free Cash to Stabilize Tax Rate.** Continue plan to use free cash to stabilize the tax rate for FY23 - FY27.



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Capital Reserve Detail:

Allocate 1.5% of prior year revenues such that most, if not all, smaller capital projects (less than \$1 million) are funded without debt.

- Use free cash in FY23-FY25 to fund extraordinary municipal capital projects beyond 1.5% funding allocation
- Use debt in FY23-FY28 to fund extraordinary school capital projects
- In years when 1.5% of prior year revenues are greater than needed for capital projects, excess amount will be transferred to the capital stabilization fund
- In years when 1.5% of prior year revenues are insufficient to fund capital projects, the shortfall will be funded from the capital stabilization fund
- Capital stabilization fund may also be used:
 - For capital projects which may exceed original cost estimates
 - To reduce the amount needed to borrow for excluded debt
 - To fund debt service in order to stabilize the tax rate



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Certified/Projected Free Cash	\$ 10,942,965	\$ 8,736,210	\$ 6,614,191	\$ 5,029,157	\$ 4,610,031	\$ 4,541,016
Free Cash - Uses (projected appropriations)	FY23 Appr.	FY24 Appr.	FY25 Appr.	FY26 Appr.	FY27 Appr.	FY28 Appr.
CC Debt Service Relief	\$ 880,000	\$ 690,000	\$ 630,000	\$ 270,000	\$ 275,000	\$ 265,000
General Stabilization Fund	\$ 149,553	\$ 162,450	\$ 182,278	\$ 222,926	\$ 55,732	\$ 57,125
Regional OPEB Stabilization Fund	\$ 700,000	\$ 721,000	\$ 743,000	\$ 765,000	\$ 788,000	\$ 812,000
Free Cash to Stabilize the Tax Rate	\$ 1,600,000	\$ 1,200,000	\$ 800,000	\$ 400,000	\$ 200,000	
Capital	\$ 777,202	\$ 1,248,569	\$ 1,129,756	\$ 661,200	\$ 650,284	\$ 635,153
Projected Free Cash Balance	<u>\$6,836,210</u>	<u>\$4,714,191</u>	<u>\$3,129,157</u>	<u>\$2,710,031</u>	<u>\$2,641,016</u>	<u>\$2,771,738</u>
Cash Reserves Balance (Target - 8% of Prior Year Revenue)						
Free (Unrestricted) Cash	\$ 1,547,578	\$ 1,586,267	\$ 1,625,924	\$ 1,666,572	\$ 1,708,236	\$ 1,750,942
General Stabilization Fund	\$ 1,098,917	\$ 1,261,367	\$ 1,443,645	\$ 1,666,571	\$ 1,722,303	\$ 1,779,427
Total Cash Reserves	<u>\$ 2,646,495</u>	<u>\$ 2,847,634</u>	<u>\$ 3,069,569</u>	<u>\$ 3,333,143</u>	<u>\$ 3,430,539</u>	<u>\$ 3,530,369</u>
Unappropriated Free Cash	<u>\$ 5,288,632</u>	<u>\$ 3,127,924</u>	<u>\$ 1,503,233</u>	<u>\$ 1,043,459</u>	<u>\$ 932,780</u>	<u>\$ 1,020,796</u>