Town of Reading 16 Lowell Street, Reading, MA 01867

Policy on Cash Reserves

Finance Committee
December 2006

The Finance Committee (FINCOM) **of the Town of Reading hereby establishes and adopts a Policy establishing a minimum target for cash reserves of 5% of Net Available Revenue** (as defined below). Further, the FINCOM recognizes that circumstances may occur which would require the FINCOM to raise or lower this minimum from time to time.

The FINCOM recognizes that the financial health of the Town of Reading is of paramount importance to its residents who receive essential services; to its bondholders who provide funding for long-term Town projects; to its vendors who provide services and equipment to the Town; and to its current and retired employees. This Policy on Cash Reserves is designed to protect the community from sudden and unexpected changes in revenues or expenses.

Funds in excess of the current Cash Reserves Policy may be:

- Added to reserves. This will increase the financial cushion against any sudden and unexpected changes in revenues or expenses.
- Added to the Capital Improvement Program. This investment will reduce future maintenance and repair costs.
- Added to the funding of any long term liability. This will reduce the need for future contributions towards the pension fund or other post-employment benefit costs.
- Used for one-time expenses for community priorities.
- Used to supplement the current fiscal year budget, including the opportunity to reduce property taxes or other fees for the Town's residents.

Cash Reserves are defined as the sum total of free cash, uncommitted Stabilization Funds, and the FINCOM Reserve Fund. Other reserves (such as Sale of Real Estate funds, committed Stabilization Funds and overlay reserves) are excluded from the 5% minimum requirement, though these funds may be considered if circumstances require higher reserves.

Net Available Revenue is defined as all general fund revenues, excluding any MSBA reimbursements made inside the tax levy, or any revenues collected outside the tax levy.

The most recent set of certified financial statements will typically be used to calculate both Cash Reserves and Net Available Revenue. The FINCOM may use the best estimates from the Town's financial staff at other times.