RESERVE POLICIES
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Formal, written policies that establish guidelines for funding and maintaining reserves can help communities to sustain operations during difficult economic periods. Reserves can be used to hold money for specific future purposes, to finance unforeseen or emergency needs, or in limited instances, to provide revenue sources for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and, consequently, its long-term cost to fund major projects.

Typically, a reserve policy addresses free cash, stabilization funds, and sometimes, overlay surplus. Not usually included are reserve funds under the control of a city council, town finance committee, or district prudential committee. A sound reserve policy will:

- Establish target balances for the stabilization fund, annual free cash, and other reserves, either as a total dollar amount or as a percentage of the annual budget. It will set a schedule of annual appropriations (e.g, to stabilization) or limitations on use (e.g, of free cash) designed to gradually reach and sustain the target balances over time.

- Direct the use of all or portions of free cash as a funding source for stabilization or as an outlay for one-time capital projects. It can also direct the use of revenue from a specific, recurring income source (e.g, rental income) for similar purposes.

- If free cash must be used for operations, restrict its use as a general revenue source for the ensuing year's budget and at a maximum percentage of total free cash available.

- Restrict the use of unexpected, nonrecurring revenue, or surplus revenue, to one-time costs.

- Restrict the use of stabilization funds to nonrecurring expenditures and only in amounts above a certain dollar threshold. Set similar guidelines on the use of free cash.