RESERVE POLICIES
January 2020

Reserves can be used to hold money for specific future purposes, to finance unforeseen or emergency needs, sustain operations during difficult economic periods, or in limited instances, to provide revenue sources for the annual budget. Therefore, it is important to have formal, written policies that establish guidelines for funding and maintaining reserves. Reserve balances and policies can also positively impact a community's credit rating and, consequently, its ability to fund major projects.

Typically, a reserve policy addresses free cash, stabilization funds, and sometimes, overlay surplus. 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 a stabilization fund.

- 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.