For any municipality criticized for operating in perpetual crisis mode, allowing municipal assets to deteriorate, or being generally shortsighted, special purpose stabilization funds can provide an effective planning tool. Under M.G.L. c. 40 § 5B, a city or town can create multiple stabilization funds and assign a different purpose to each. The community may also take advantage of a unique funding source available under M.G.L c. 59, § 21C(g).

An example of a special purpose stabilization fund would be one created to supplement state reimbursements received under Chapter 90 to cover the costs of an ongoing street improvement program. A fund established solely to pay for building repair and maintenance would be another. A city or town might set up a fund to finance a vehicle replacement program. In this example, a community anticipating the need to purchase a $400,000 fire truck in five years could reserve $80,000 a year in such a fund and retain the interest earned.

A special purpose stabilization fund helps a community to:

- Think long term. Any program to replace vehicles, maintain buildings, or improve roads requires ongoing evaluation of the assets, management of a repair/replace schedule, and calculations of long-term projected costs.

- Save money. If a community purchases a $400,000 fire truck by borrowing over 15 years instead of paying cash in full, interest payments could add about $150,000 to the total cost, depending on rates. Even if this represents a nominal impact on the tax rate, the community can instead achieve a savings or expend the money elsewhere.

- Manage debt. A plan to accumulate cash over time and pay outright for a moderate-range capital expenditures helps preserve debt capacity for major, higher-dollar purchases or projects. An approach that balances debt with pay-as-you-go practices and protects against unforeseen costs is viewed in a positive light by credit rating agencies.

- Build resident confidence in government. Special purpose stabilization funds directly address resident concerns and provide assurance that money appropriated for a particular purpose will be used for that purpose and not be diverted.

The creation of a special purpose stabilization fund requires a two-thirds vote of a city or town council, town meeting, or district prudential (or similar) committee, and this vote must clearly define the purpose of the fund being established. As with a general stabilization fund, a city or town council, district committee, or town meeting may appropriate into a special stabilization fund by majority vote and may appropriate out of one by two-thirds vote.

There are three options for building up the balance in special purpose stabilization fund. One is as a traditional appropriation, presented either as a budget line item or in a separate article and sourced from within the levy or from other general fund revenues, such as a transfer of funds from another account. The second funding option is a unique type of Proposition 2½ override. Like a general override, additional tax revenue can be raised year after year without a communitywide ballot question beyond the year of inception. For this kind of override, however, the addition to the levy limit can be discontinued in a future year. Third, any fee, charge or other receipt may be dedicated to a stabilization fund, except locally assessed taxes, excises and property tax surcharges, or revenues reserved by law for a particular purpose, such as betterments that are dedicated to pay debt services.

In each succeeding year after a community has approved a stabilization fund override, the select board, city council or town council can continue the additional tax earmarked for the fund or may lower it, defer it, or resume a prior deferral solely through an annual two-thirds "appropriation" vote. The additional tax that can be appropriated for any year is limited to 102.5 percent of the amount when it was last appropriated.

For example, in FY2017, residents approve a $100,000 override for a special purpose stabilization fund and town meeting appropriates that amount. In FY2018, $102,500 (1.025 x $100,000) is available for "appropriation" and that entire amount is "appropriated." For FY2019, $105,062 is available (1.025 x $102,500), but only $80,000 is "appropriated." The amount available in FY2020 now becomes $82,000 (1.025 x $80,000), but the select board choose to make no appropriation. The amount available in FY2021 is $82,000 (1.025 x last appropriation made, which was $80,000 in FY2016).

Building up stabilization balances through an override unquestionably involves an increase to the tax levy but, as important, the creation of a special purpose stabilization fund provide a means for a municipality to respond to resident concerns about a lack of long-term planning. If considered thoughtfully and implemented prudently, these funds offer strategic mechanisms to help plan for future costs. Ultimately, they are most effective as a revenue source for anticipated expenditures, similar to a savings account. They work best when used to build moderate balances and pay midlevel expenditures the community will eventually need to make, like building maintenance, road repairs, and vehicle purchases.

For more information, please see the Information Guideline Release *2017-20 Stabilization Funds*