For cities and towns subjected to criticism for operating in perpetual crisis mode, allowing municipal assets to deteriorate, or general shortsightedness, special purpose stabilization funds can provide an effective planning tool. Under M.G.L. c. 40 §5B, municipalities can create multiple stabilization funds, assign a different purpose to each, and take advantage of a unique funding option.

For instance, a community could establish a fund to pay solely for the maintenance and repair of municipal buildings. A separate fund might be created to supplement the state highway funds received under Chapter 90 to cover the cost of an ongoing street improvement program. Another stabilization fund might be set up to finance a government-wide 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 a special purpose stabilization fund and retain the interest earned. In the past, municipalities would need state approval of special legislation to set up such a reserve.

A special purpose stabilization fund:

- Encourages a community to think long term. Programs to replace vehicles, maintain buildings, and improve roads require an evaluation of all assets, the formulation of a replacement or repair schedule, and a calculation of long-term projected costs.
- Helps a community save money. If the $400,000 purchase price of a fire truck were borrowed over 15 years instead of paying cash in full, interest payments could add about $150,000 to the total cost, depending on interest rates. Even if this additional cost would have a nominal tax rate impact, it can instead be a savings or expended elsewhere.
- Helps a community manage debt. A plan to accumulate cash over time and pay outright for a moderate-range capital expenditure helps preserve debt capacity for major, high-dollar purchases or projects. An approach that balances debt with pay-as-you-go practices and that protects against unforeseen costs is viewed in a positive light by credit rating agencies.
- Builds 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.

Both the creation of a special purpose stabilization fund and appropriation to the fund require a two-thirds vote of a city council, town meeting, or district prudential (or similar) committee. The vote must clearly define the purpose of each fund established. Similar to general stabilization funds, all appropriations into and out of special stabilization funds require two-thirds votes by town meeting or city council.

There are two options for building up balances in special purpose stabilization funds. One is as a traditional appropriation, presented as a budget line item or in a separate article, sourced from

within the levy or from other general fund revenues, including potentially a transfer of funds from another existing account.
A second funding option is referred to as an override, but in fact, it has characteristics of both a Proposition 2½ override and an exclusion. Like an override, additional tax revenue can be raised year after year without town-wide or citywide referendum votes beyond the year of inception. However, like an exclusion under Proposition 2½, the levy limit increase need not be permanent. Solely through the action each year of the selectmen or city council it can be continued, lowered, or deferred entirely and resumed in a later year.

The additional levy capacity that can be appropriated, or raised, by this type of override increases by 2½ percent each year. After the first year, the selectmen or city council may appropriate less than the originally approved amount. However, the lower amount then becomes the maximum that can be raised in subsequent years, plus 2½ percent annual escalations. A higher amount can only be raised with voter approval of another referendum. A year, or years, can be skipped. The selectmen or city council can choose not to appropriate to the stabilization fund through an override in any year. They can then, in later years, resume the override. However, the new allowed amount that can be raised would be the last amount raised plus 2½ percent.

For example, town meeting and town voters approve a $100,000 override for a special purpose stabilization fund in FY2013. In FY2014, $102,500 (1.025 x $100,000) is available for "appropriation" and that entire amount is "appropriated." For FY2015, $105,062 (1.025 x $102,500) is available, but only $80,000 is "appropriated." The amount available in FY2016 now becomes $82,000 (1.025 x $80,000), but the selectmen choose to make no appropriation. The amount available in FY2017 is $82,000 (1.025 x last appropriation made, that is: $80,000).

Ultimately, special purpose stabilization funds are most effective as a revenue source, like a savings account, for anticipated expenditures. They work best when used to build moderate balances and to pay midlevel expenditures that the community will eventually have to make, like building maintenance, road repairs, and vehicle purchases.

Building up stabilization balances through an override unquestionably involves an increase to the tax levy but, as important, the creation of special purpose stabilization funds provides a response to resident concerns about the absence of long-term planning in municipal government. If considered thoughtfully and implemented prudently, they offer a strategic mechanism that can help a community to effectively plan for future costs.

For more information, please see the DOR Information Guideline Release, IGR-04-201.