

To: KIm Halquist, Town Administrator  
Lynn Lewis, Finance Officer  
Adam Ricker, Town Planner  
From: Bill Helm  
Date: September 18, 2023  
RE: Reserve Accounts, CIP, and Annual Budget

The purpose of this document is to set the stage for upcoming discussions among the Selectmen about the FY2025 Budget, Capital Reserve policy, and implications derived from the 2024 - 2030 CIP. I would appreciate your review of my thoughts, corrections to my rough numbers where necessary, and additional insights into the nexus of budgets, reserves and long range capital planning.

On June 7, 2023, the Selectmen and the Budget Committee met to discuss "Reserves" - Capital and Expendable (repair and maintenance) Trust Funds. One outcome from that meeting was the possibility of consolidating the number of Reserve Funds into a more flexible number of Funds, such as "Town Building Maintenance" and "Information Technology".

Subsequently, the Budget Committee appointed a subcommittee to study "Reserves", and the CIP subcommittee of the Planning Board has recently met with department heads to project expected "major" (greater than \$50,000) outlays to 2030 and in some cases beyond. These projections suggest potential outlays of close to \$13 million **before** possible completion of a new police and communications facility, before considering possible outlays related to the Water Precinct, and without allowance for possible acquisition of land for conservation.

The current consolidated balance in Reserve Funds is approximately \$3 million. Annual additions to these Funds have ranged in recent years from \$500,000 to \$1 million. Simple arithmetic would suggest that an average addition of \$1 million per year over the next ten years would exhaust the current balances ( $3 + 10 = 13$ ) **if** all projects included in the current CIP worksheets were funded from Reserves. However, a more likely scenario would fund certain one time outlays (Fire station expansion, Whipple roof, Sewer realignment, for example) with long term borrowing, acknowledge that some projects will not occur, and recognize that the cost of some equipment purchases may vary or be postponed.

In January 2021 the Fiscal Policy Panel recommended that “..the normal limit of total long term debt...” be determined such that the annual debt service (principal and interest) not be more than 10% of the General Fund total. This formula would yield debt capacity of approximately an additional \$10 million of long term debt being issued over the next 5-6 years.

Based on this background, I would suggest that for planning purposes the Selectmen proceed as follows:

1. Receive the CIP report in mid-October and explore the thinking and data behind this document.
2. Propose Warrant articles for the March 2024 Town Meeting that allow for consolidation of the existing 25 or so Reserve Funds into a dozen or so broader, more flexible Funds.
3. At the October 27 FY 2025 budget preparation session earmark \$1 million for Transfer to Capital Reserves in FY2025 , with supporting details to be determined in conjunction with the Budget Committee in subsequent budget meetings.