



ARTICLE 18: Creation of Capital and Debt Stabilization Funds

Mr. Dahlberg moves that the Town take affirmative action on Article 18 to:

- create a Debt Stabilization Fund to offset the debt associated with future capital projects;
- transfer to the Debt Stabilization Fund the sum of \$500,000 from the Certified Free Cash Balance as of July 1, 2024;
- create a Capital Stabilization Fund to fund future capital projects; and
- transfer to the Capital Stabilization Fund the sum of \$100,000 from the Certified Free Cash Balance as of July 1, 2024,

All as authorized under Mass. Gen. Laws c. 40, § 5B.



What are Stabilization Funds?

In Massachusetts, stabilization funds, also known as "rainy day funds," are reserve accounts that municipalities can establish to set aside money for unforeseen expenses or future capital projects, with a majority vote required to appropriate funds into the fund and a two-thirds vote to appropriate them out. Massachusetts communities are permitted by M.G.L. Chapter 40, Section 5B, to set aside money each year to be held in a Stabilization Fund.



Why is it important to have Stabilization Funds?

- **Financial Stability**: Stabilization funds help municipalities weather unexpected events like natural disasters, uninsured losses, or revenue shortfalls, preventing budget crises and ensuring essential services continue.
- **Capital Planning**: These funds can be used to finance long-term capital projects, smoothing out the impact of large expenditures over time and allowing for better planning and budgeting.



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Why is it important to have Stabilization Funds?

- **Resident Confidence**: Special purpose stabilization funds can build resident confidence in government by demonstrating responsible financial management and ensuring that funds are used as intended.
- **Bond Ratings**: Rating agencies like Mood's consider a municipality's reserves, including stabilization funds, when determining its bond rating, which impacts borrowing costs.



Options for Funding Stabilization Funds

- Communities fund stabilization funds by setting aside a portion of their annual budget, typically through a majority vote of the town meeting or city council, and appropriating funds up to 10% of the previous year's tax levy.
- Free Cash - Communities also have access to free cash, which are the remaining, unrestricted funds from operations of the previous fiscal year.



Funding from Free Cash

| | |
|---|----------------------|
| UFB (Free Cash) - Conservative Est. | \$ 10,400,000 |
| FY25 Budget | \$ 138,108,501 |
| Minimum UFB (free cash) Balance - 5% | \$ 6,905,425 |
| Minimum UFB (free cash) Balance - 6% | \$ 8,286,510 |
| Minimum UFB (free cash) Balance - 7% | \$ 9,667,595 |
| UFB (Free Cash) - Gross | \$ 10,400,000 |
| LESS: Annual Town Meeting 2025 Spending | |
| Article 10 - CPS Operating Budget fund for McKinney-Vento Homeless Transportation program | \$ 69,906 |
| Art. 25 - Transfer of Peabody Middle School and Appropriate Funds | \$ 100,000 |
| Art. 33 - MCI Concord - Planning | \$ 250,000 |
| Total - Town Meeting 2025 Spending | \$ 419,906 |
| UFB (Free Cash) - Net Total | \$ 9,980,094 |
| Less: Minimum UFB (free cash) Balance - 6% | \$ 8,286,510 |
| UFB (Free Cash) - Available for Stab. Funds | \$ 1,693,584 |
| Capital Stabilization Funds | \$ 100,000 |
| Debt Stabilization Fund | \$ 500,000 |
| General Stabilization Fund | \$ 1,093,584 |



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Mr. Dahlberg moves that the Town vote to create (a) Debt Stabilization Fund, for the purpose of offsetting the debt associated with future capital projects, and to transfer \$500,000 from Free Cash into said fund; and vote to create (b) Capital Stabilization, for the purpose of funding future capital projects, and to transfer \$100,000 from Free Cash into said fund; as authorized under Mass. Gen. Laws c. 40, §5B.