



To: Finance Committee

Fr: Paul Bockelman, Town Manager
Sean Mangano, Finance Director
Sonia Aldrich, Comptroller

Dt: June 9, 2021

Re: Option for Stabilization Fund for Reparations

Recommendation

If the Town Council approves a reparations program, we recommend the creation of a reparations stabilization fund, appropriation of a sum to the reparations fund, and adoption of a specified plan to provide ongoing funding to and appropriations from the stabilization fund. At this stage, the next steps are to:

- Establish a reparations stabilization fund;
- Transfer \$210,000 to the fund in FY22 from free cash.

Background

The Town Council is considering adopting a program for reparations that includes both a reparations fund and a community-wide process of reconciliation and repair for harms against Black people of African heritage.

The Finance Committee was asked to identify a possible revenue stream for reparations.

Revenue streams in the Town are constrained by Proposition 2 ½, limits on State Aid, and a lagging economy. The Town was unable to fund a full 2.5% increase for operating budgets or meet its targets for capital spending in the FY22 budget proposal. If there were additional funding streams, they would have already been utilized for the areas described above.

The Finance Director and Comptroller have identified one option that does not directly impact FY 22 operating budgets.

Funding Vehicle

The recommendation calls for the creation of a reparations stabilization fund. The fund could be managed like an endowment with contributions invested at the direction of a professional investment consultant. Annual reparation expenditures could be funded via an annual draw of

4% which will allow the fund to live on and grow. The Town Council, working with other committees or groups, would develop a process for making expenditures from the stabilization fund.

Funding Stream

The Town Council could establish the reparations stabilization fund at any time. The Town Council could “seed” the fund by transferring \$210,000 or such other sum from free cash into the newly created stabilization fund.

The next step is to consider a funding policy that lays out a mechanism for contributions in FY23 and beyond. One option is to base future contributions on “excess” free cash levels (free cash that exceeds 5% of the budget). Excess free cash is generated from operating budget surpluses less any appropriations out of free cash during the year. Currently, the Town transfers excess free cash into a stabilization fund for reserves. The Town could choose to direct a percentage of this transfer into a reparations stabilization fund.

There are numerous financial factors to take into consideration under this, or any other plan. We are available to discuss these advantages and disadvantages with the Finance Committee as you discuss different options.