

TOWN OF MONTAGUE

FINANCIAL MANAGEMENT POLICIES AND OBJECTIVES

TOWN OF MONTAGUE FINANCIAL MANAGEMENT POLICIES

I. OVERVIEW

It is the policy of the Town of Montague that financial management is conducted with the objectives of providing municipal service in an efficient, effective and consistent manner that aligns with the public policy goals as set forth by the Board of Selectmen.

Implementation of these policies shall be facilitated by the effective coordination of the “financial management team” including the Town Treasurer/Collector, Director of Assessing, Town Accountant, and Town Administrator.

To help ensure the Town’s financial stewardship, an established program of managing the Town’s finances is essential. To this end, the Board of Selectmen promulgates policies and procedures that are financially prudent and in the Town’s best economic interest.

In adherence to this policy, the Town shall pursue the following objectives:

- To set forth operational principles that minimize the cost of government to the extent consistent with services desired by the public and that minimizes financial risk;
- To continue effective financial management within the Town that conforms to generally accepted accounting principles;
- To simplify, clarify and modernize the financial systems of the Town as the need occurs;
- To provide increased public confidence in public financial management;
- To protect and enhance the Town’s credit rating and prevent default on any municipal debts; and
- To provide safeguards to ensure the quality and integrity of the financial systems.

In order to attain the above objectives, the Board of Selectmen adopts the following policies:

II. ACCOUNTING, AUDITING AND FINANCIAL PLANNING

- A. The Town will utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB). The Town will comply with GASB Statement 34 and continue to track, to report and to depreciate capital assets as required. The Town will comply with GASB Statement 45 regarding accounting for Other Post-Employment Benefits (primarily health insurance) to retired employees.

ACCOUNTING REQUIREMENT

- B. An annual audit will be performed by an independent auditing firm. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.
- C. The annual audit shall be provided by the independent public accounting firm no later than March 1 and reviewed by an Audit Committee. The Audit Committee shall be comprised of the Town Administrator, Town Accountant, Treasurer-Collector, and representatives of the Board of Selectmen, Finance Committee, and Capital Improvements Committee.
- D. A five-year financial projection shall be prepared annually by the Town Administrator and Town Accountant, projecting revenues and expenditures for all operating funds. This projection shall be used as a planning tool in developing the following year's operating budget and capital improvements plan. Revenue forecasts for property tax, local receipts and state aid shall be conservative, using generally accepted forecasting techniques and appropriate data. Revenue deficits will be avoided at all costs. To avoid any potential for such a deficit, estimates for local receipts (i.e. excise taxes, trash sticker fees, inspection fees, investment income, departmental user fees) will generally not exceed 100% of the prior year's actual collection without firm evidence that revenues will be achievable.

III. GENERAL

- A. Budget Goals and Objectives shall be determined annually by the Board of Selectmen in consultation with the Town Administrator. However, the annual operating budget as submitted to the Town must be balanced with the estimate of proposed expenditures for a fiscal year less than or equal to the proposed revenues. In short, all current operating expenditures should be paid for with current operating revenues.
- B. Per Massachusetts General Laws, long-term debt will not be used to fund current operating expenditures.
- C. The Town will carefully and routinely monitor all amounts due the Town. An aggressive policy of collection will be followed for all receivables, including property taxes. An average collection rate of at least 95% of current levy shall be maintained.
- D. Charges for services and other revenues shall be reviewed on a regular on-going basis at least every three years. Charges shall be adjusted as necessary to respond to changes in the cost of providing services. The Board of Selectmen may set specific cost recovery goals for individual departments or services as appropriate.

1. Recreation Department-Recreational user charges and fees will be set to recover approximately 75% of the total direct costs associated with recreational programs.
- E. One-time revenues will be used for capital improvements, additions to reserves or as legally restricted to a specific purpose by the funding source.
- F. The year-to-year increase of actual revenue from the property tax levy shall generally not exceed 2.5% pursuant to the limitations of Proposition 2 ½.
Massachusetts General Laws.
- G. Property values shall be based on an analysis of market conditions along with the assessment level and uniformity must be performed annually as of January 1 whether for the triennial certification or for an interim year adjustment.
Massachusetts General Laws
- H. The Town will strive to be informed and aware of all grants and other aid that may be available to us. All potential grants and other aid shall be carefully examined for matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that our participation in such grants will be beneficial and cost effective. When positions are funded with grants, a portion of the grant funding will be allocated to recover the cost of employee benefits if allowed by the granting agency.
- I. Each year and whenever appropriate, existing revenues will be reexamined and possible new sources of revenues will be explored to ensure that the Town is maximizing its revenue potential.

IV. RESERVES

- A. The Town's total Reserves, including the Town's combined Stabilization Funds and Free Cash, should be maintained at between 5% and 10% of the Town's Prior Year General Operating Revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses.
- B. The General Stabilization Fund is the Town's main reserve fund designed to provide financial stability for the Town while improving the Town's credit worthiness and flexibility. The provisions of this fund are dictated by Massachusetts General Law, Chapter 40, Section 5B.
- C. The Town will endeavor to maintain a General Stabilization Fund large enough to buffer the general fund from the impact of two to three years of reduced state aid and/or declining local receipts. At a minimum the balance in the General

Stabilization Fund shall be maintained at 5% of the Prior Year's General Operating Revenues.

- D. The Town will strive to have an annual appropriation into the General Stabilization Fund of at least 0.3% of the Prior Year's General Operating Revenues.
- E. In order to meet the target in C, the Board of Selectmen may recommend at a Town Meeting to transfer an amount of at least 35% of certified Free Cash into the General Stabilization Fund. At no time may an appropriation into this fund exceed 10% of the previous year's tax levy, nor can the fund exceed 10% of EQV.
- F. The General Stabilization Fund may only be used under the following circumstances:
 - 1. To fund capital projects on a "Pay-as-you-go" basis, when the Capital Improvements Stabilization Fund has reached its \$25,000 minimum
 - 2. To support the operating budget when the increase in General Budgeted Operating Revenues is less than 2.5% from the Prior Year's General Operating Revenues.
 - 3. The Town will make withdrawals from the General Stabilization Fund that will reduce the balance of the fund below the 5% minimum only in response to extraordinary and unforeseen financial obligations that pose an immediate threat to the Town's financial stability and which cannot be funded using other available sources.
- G. If the Town withdraws money from the General Stabilization Fund that would reduce the balance of the fund below the 5% minimum, the Town must also present a plan for replenishing the fund. Replenishment funding shall come from Free Cash or from revenue. If Free Cash or revenue is insufficient to replenish the General Stabilization Fund in the immediately following fiscal year, the replenishment shall occur as soon as Free Cash or revenue is available.
- H. Free Cash is the remaining, unrestricted reserve fund resulting from operations of the previous fiscal year. The composition of Free Cash includes unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in the budget line-items. Once certified, monies held in this reserve may be appropriated during the current budget year and may also be used as a source of revenues for the ensuing budget year. The Town anticipates that sound, conservative budget practices will result in a Certified Free Cash amount of at least 3% of the Prior Year's General Operating Revenues. This reserve shall be available in case of emergencies.
- I. Free Cash in excess of 3% of the Town's Prior Year's General Operating Revenues should be used for non-recurring or emergency expenditures or

appropriated to the General Stabilization Fund or the Capital Improvements Stabilization Fund for future capital projects and equipment purchases. This would include funding of capital projects with an estimated cost of between \$100,000 and \$500,000 for which long term borrowing is authorized at terms of five or fewer years. Free Cash may also be used to subsidize the ensuing year's annual operating budget. However, it is the Town's goal to ultimately pursue a transition from using Free Cash to fund recurring operational expenses to using Free Cash to fund non-recurring expenses, such a capital expenses.

- J. The Town shall also maintain a Capital Improvements Stabilization Fund (CISF). The Town will strive to have an annual appropriation of at least 0.2% of the Town's Prior Year's General Operating Revenues. A minimum balance of \$25,000 shall be retained in this fund.
- K. The Board of Selectmen shall, at the conclusion of each fiscal year, request the Board of Assessors to submit an update of the Overlay balances for each fiscal year, including but not limited to, the current balances of potential abatements, uncollected receivables, potential costs of current and future Appellate Tax Board cases, and any transfers between accounts. If any fiscal year's Overlay balance exceeds the amounts listed above, the Board of Selectmen may request the Board of Assessors to declare those balances surplus. The preferred practice will be that any Overlay Reserve created be appropriated to a Stabilization Fund before the close of the fiscal year.
- L. The overall level of financial reserves is critical to maintaining the Town's bond rating and ensuring sufficient funds to manage unanticipated needs. Funds shall be allocated from reserves only after an analysis has been prepared by the Town Administrator and/or Town Accountant and presented to the Board of Selectmen and Finance Committee. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide sufficient cash balance for daily financial needs.

V. CAPITAL PLANNING

- A. In 1978, the Town of Montague established a Capital Improvements Committee for the purpose of long term capital planning. Section 6 of Article II of the By-Laws of the Town of Montague states: "Capital Improvements Committee: There shall be a Capital Improvements Committee consisting of one member appointed by and from the Planning Board, and five additional members to be appointed by the Moderator, with powers and duties to include: (a) to conduct an annual review of the capital improvements program of the Town as well as proposals for the construction of municipal buildings and acquisition of property, (b) to make recommendations to the Town Meeting regarding the above, and (c) to prepare an annual report.

- B. The Town shall continue to prepare a six-year Capital Improvement Program (CIP) updated on an annual basis.
- C. On or before January 15 of each year, the Town Administrator, after consulting with town departments and the regional school districts, will submit capital requests to the Capital Improvements Committee. The proposed program will detail each capital project, including the description, estimated costs, and funding sources.
- D. The Capital Improvements Committee, after reviewing and evaluating individual project requests, prioritizing these requests, and considering existing financial constraints, will prepare a six-year Capital Improvement Plan that includes the ensuing fiscal year (capital budget) as well as a five year projection of capital needs and expenditures (capital program), with estimated cost, description and anticipated funding sources for capital projects for the subsequent five years of the plan.
- E. Capital policies adopted by the Town are listed below.

A Capital Project is a tangible asset or project with an estimated useful life of five (5) years or more, and a cost of \$25,000 or more. Among the items properly classified as capital improvements are:

- a. New public buildings, or additions to existing buildings, including land acquisition costs and equipment needed to furnish the new building or addition for the first time;
- b. Major alterations, renovations, or improvements to existing buildings that have a useful life of at least ten (10) years;
- c. Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking;
- d. Major equipment acquisition, replacement or refurbishment, including but not limited to vehicles, furnishings, and information technology systems' hardware and software or other items that combined in purpose together make it a Capital Project;
- e. New construction or major improvements to Town's physical infrastructure, including streets, sidewalks, stormwater drains, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a Capital Project;
- f. Feasibility studies, engineering design services, or consultant services which are ancillary to a future Capital Project.

Guidelines for prioritizing capital projects (not necessarily in priority order):

- a. Imminent threat to health and safety of citizens, employees or property (e.g. police cruisers and radios, repairs to unsafe buildings);

- b. Maintenance and improvement of capital assets (e.g. major repairs of buildings, replacement of vehicles and equipment, park and play area renovations)
 - c. Requirements of state or federal law (e.g. asbestos cleanup program, removal of gas tanks, new NPDES treatment requirements);
 - d. Improvements of the infrastructure (e.g. streets and sidewalks, sewer programs);
 - e. Improvements/maintenance of productivity (e.g. equipment replacement, computer hardware/software);
 - f. Improvements of an overburdened situation (e.g. Town Hall renovations)
 - g. Newly identified need (e.g. recreation field);
 - h. Priority assigned by Department (Very High, High, Medium, Low); and
 - i. Consistency with and in furtherance of long-term planning objectives of the Town (e.g. Energy Efficiency, Historic Preservation)
- F. The capital program will be funded by a combination of Town Budgeted General Operating Revenues, enterprise fund revenues, special purpose funds of the Town, and grant funds from the federal and state governments.
- G. Montague recognizes that much of the Town's wealth is invested in capital plant (i.e. land, buildings, infrastructure, equipment and vehicles). Furthermore, that long term debt is an appropriate source of funding for certain types of projects while current revenues should be used for those assets with a short useful life.
- H. The annual budget should have a Capital Program that includes debt service obligations and cash-funded (pay-as-you-go) capital projects funded from current revenues equal to a minimum of 6 to 8% of the Prior Year's General Fund Operating Revenue. This shall include annual building renewal and equipment replacement equal to at least 2% of Prior Year's General Fund Operating Revenue, and debt service of at least 4 to 6%. If in any year funds for the capital program recommended to Town Meeting are below the minimum target of 6% of the Prior Year's General Fund Operating Revenue, a plan will also be presented to replenish funding of the capital program to the minimum within a reasonable time frame
- I. Pending a rigorous analysis, the Town will, as a rule, target 2% of annual Budgeted General Operating Revenues as a goal for funding building renewal projects and equipment replacement.
- J. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
- K. The annual operating cost of a proposed capital project, as well as debt service costs, will be identified before any long-term bonded capital project is recommended.

VI. DEBT MANAGEMENT

- A. The town's bond rating is important because it determines the rate of interest it pays when selling bonds and notes as well as the level of market participation (number of bidders). Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts (Moody's, Standard and Poor's, Fitch) typically look for four sets of factors in assigning a credit rating.
 - 1. Debt Factors: debt per capita, debt as a percentage of equalized valuation, rate of debt amortization and the amount of exempt versus non-exempt debt.
 - 2. Financial Factors: Operating surpluses or deficits, free cash as a percentage of revenue, state aid reliance, property tax collection rates, unfunded pension liability.
 - 3. Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.
 - 4. Management Factors: governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.
- B. The Town will continually strive to improve its bond rating through the implementation of sound financial management, improved receivables management, accounting and financial reporting, increased reserves such as the General Stabilization Fund and the adoption of the following debt management policies and procedures.
- C. Long term debt will be issued only for objects or purposes authorized by State Law (Chapter 44, Sections 7 and 8) and for capital projects or assets that have a long useful life. Long term debt should be used to pay for the cost of significant infrastructure or capital projects, such as land and equipment purchases, building construction or remodeling, sewer and road construction.
- D. The Town will not use the proceeds of long-term debt to fund current, ongoing operations. Items with a useful life of more than five years that cost less than \$25,000 shall be financed through the operating budget.
- E. The Town will confine long term borrowing to capital improvements and projects that cost at least \$25,000, cannot be financed from current revenues and have a useful life of at least five years, or will prolong the useful life of a capital asset by at least five years.
- F. The Town shall continue the policy of seeking voter-approved debt exclusion overrides to finance major new construction projects or significant renovations and capital expenditures in excess of \$500,000.

- G. The Town will, to the extent possible, use available funds such as Free Cash, prior year special article surpluses, grants, etc. to reduce the amount of borrowing required for a Capital Project.
- H. Where possible, the Town will use special assessments, revenues or other self supporting bonds, instead of general obligation bonds. Sewer main replacements, treatment facilities, pump stations, transportation and other infrastructure should be scheduled so as to avoid major increases in sewer rates and other user fees.
- I. Borrowing purposes and maximum loan durations are set out in MGL Chapter 44, Sections 7 and 8. The Town will strive to issue debt for shorter periods than the maximum allowable when the statutory limit exceeds 10 years; and except for major buildings, sewer projects and land acquisition, the Town will limit bond maturities to no more than 10 years. Under no circumstances should the Town schedule debt for repayment for a term greater than 30 years unless required to do so by the USDA.
- J. Long term debt shall not be incurred without a clear identification of its financing sources including a consideration of its impact upon the operating budget.
- K. The Town will endeavor to manage debt so as not to exceed the following ratios, which are reflective of municipal bonding standards:
 - 1. Gross General Fund debt service/ Prior Year's General Fund Operating Revenue 15% "ceiling"
 - 2. Net General Fund debt service/ Prior Year's General Fund Operating Revenue 8-10% "ceiling"
 - 3. Net General Fund debt service less debt exclusions 5% "ceiling"
- L. Debt service on an annual basis, not including projects funded by debt exclusion, shall not be less than 2% of the Town's Prior Year's General Fund Operating Revenues (debt service "floor").
- N. When considering the use of debt, the Town shall be guided by the following:
 - 1. Borrowing versus Cash - The Town will endeavor to finance Capital Improvement Projects with a total cost of less than \$50,000 through cash appropriation rather than borrowing.
 - 2. Useful Life - When borrowing, the Town will ensure that the term of the bonds issued will not exceed the life of the project.
 - 3. Capital Expenditure versus Capital Improvement Project - Capital expenditures not meeting the definition of "Capital Improvement Projects" should be financed through inclusion within operating budgets.

- O. The Town will attempt to maintain a long-term debt schedule so that at least 50% of the outstanding principal will be retired at the end of 10 years.
- P. Short-term debt, such as bond anticipation notes, tax anticipation notes, or grant anticipation notes, may be used when it provides immediate financing and an interest rate advantage, or if there is an advantage to aggregating multiple authorizations or to delaying long-term debt until market conditions are more favorable.
- Q. The town shall borrow for a term of up to 15 years in anticipation of reimbursements from betterments, as authorized by Chapter 371 of the Acts of 2010, in cases where a limited segment of the community is receiving the benefit from a public improvement. This funding source will contribute all or a portion of the costs associated with a capital project.

VII. DEFINITIONS

- A. GASB 34: A major pronouncement of the Governmental Accounting Standards Board that establishes new criteria on the form and content of governmental financial statements. GASB 34 requires a report on overall financial health, not just individual funds. It requires more complete information on the cost of delivering services and value estimates on public infrastructure assets such as bridges, roads, sewers, etc. It also requires the presentation of a narrative statement analyzing the government's financial performance, trends and prospects for the future.
- B. GASB 45: This is another Governmental Accounting Standards Board major pronouncement that each public entity account for and report other post-employment benefits (OPEB) in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.
- C. Reserves: Free Cash and Stabilization Funds
- D. Free Cash: A funding source that results from the calculation, as of July 1, of a community's remaining, unrestricted funds from operations of the previous year, based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line-items for the year just ending, plus unexpended free cash from the previous year. After the books are closed for the year, potential available funds' balances are submitted to the State for certification. Certification of Free Cash is generally submitted to the Department of Revenue in the summer with final certification in late summer or early fall.

- E. General Stabilization Fund: A general reserve. Money from this fund may be appropriated by a two-thirds vote at Town Meeting. The Town has established a goal of maintaining a minimum balance of at least 5% of the Prior Year's General Operating Revenue in its General Stabilization Fund.
- F. Capital Stabilization Fund: A special stabilization fund established specifically for the purpose of funding capital projects including vehicle/equipment replacement and building repairs/maintenance on a "pay-as-you-go" basis. The town's goal is to maintain a minimum balance in this fund of at least \$25,000.
- G. Annual Operating Budget: The total of the Town's general fund operating budget, school district assessments, taxation share of enterprise fund budgets, and special article appropriations that are not capital projects.
- H. Prior Year General Operating Revenues: The total of the Town's most recently completed fiscal year's actual net tax levy (less excluded debt), actual net state aid, and actual local receipts.
- I. Budgeted General Operating Revenues: The total of the Town's estimated net tax levy less excluded debt, estimated net state aid, and estimated local receipts
- J. Debt Service: Payment of interest and principal related to long term debt.
- K. Bond Anticipation Notes (BAN): Short term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issues are for a term of less than one year, BANs may be re-issued for up to five years, provided that principal repayment begins after two years (MGL Ch. 44 section 17).
- L. General Fund Gross Debt Service: Annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town appropriations and debt exclusions. Excluded are Sewer Enterprise Funds and short term interest.
- M. General Fund Net Debt Service: After State reimbursements and State School Building Assistance Aid, the annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town appropriations, and debt exclusions (i.e. Gross Debt Service less reimbursements). Excluded are Sewer Enterprise Funds and short term interest.
- N. General Fund Net Debt Service (less debt exclusions). Same as General Fund Net Debt Service but does not include excluded debt