

A-1 Annual Budget Process (review draft 12.02.20)

PURPOSE

The purpose of this policy is to articulate the principles to be followed in the formulation of the recommended annual budget, formalize the steps that culminate in the adoption of the annual budget, and identify the parties responsible for preparing and presenting the budget.

APPLICABILITY

This policy applies to the Finance Committee, the Selectboard, the Town Administrator, the Town Accountant, the Director of Assessing, the Capital Improvement Committee, and Town Meeting.

The responsibilities of individual staff positions or public bodies as identified in this policy reflect the historical and current practice of the Town. The key roles played by volunteer members of the Town Finance Committee and Capital Improvement Committee are particularly notable. This policy documents the existing Annual Budget Process, but it is noted that it may not reflect typical practice as applied in other Massachusetts towns.

While the Town's current budget process has served the Town well due to the exceptional dedication and skill of those volunteer committee members who, as town residents, bring an understanding of issues of importance to the citizens of Montague, there is also recognition that a heavy dependence on volunteers comes with some risk. This may include the potential loss of key skills or institutional knowledge due to member turnover and the competing demands on members' time from personal and professional obligations. Consequently, notwithstanding the adoption of this policy, the Town shall continue to explore "best practices" for management of the annual budget process to see if there is any opportunity for improvement to the existing practice of the Town.

DEFINITIONS

Annual Budget - comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Capital Project - a major, non-recurring expenditure that generally meets the following criteria:

- Massachusetts General Law permits the Town to issue bonds to finance the expenditure;
- Project cost is \$25,000 or greater;
- Proposed project or asset to be acquired has a useful life of 5 years or more including:
 - 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;
 - Alterations, renovations, or improvements to existing buildings;
 - Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking;
 - 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;

Commented [CTA1]: JA- this would benefit from an explanation of what "annual" means here – eg that it is the town's budget for a fiscal year, running from July 1 – June 30, and that fiscal years are named according to the calendar year in which they conclude.

Commented [CTA2]: JH asks if different action is recommended.

Commented [CTA3]: JA The Financial Management policies adopted by the Montague Selectboard in 2014 do not include a step-by-step description of how the town's annual budget is created, and they do not define the roles and responsibilities of the Finance Committee, Selectboard, Town Administrator, department heads, etc. in the creation of the annual budget. The work with the Collins Center resulted in a draft policy that attempts to describe the current process, but the Finance Committee's discussion of the draft revealed that some of us felt it was not accurate, and some of us would like to consider alternative approaches. We believe that it will benefit the town to have an annual budget policy and propose to devote time to crafting a policy that we feel more satisfied during FY22. JA Hold codifying an Annual Budget Process until we have considered other options. I think we can do this in the context of this year's budget development process.

Commented [CTA4]: JW I think it is mostly fine but I also think that we should actively work to engage the townfolk to participate. We should spend some time and money for this effort and I think the budget process should be part of the messaging. Also, this piece "... Town Administrator (TA) – as agent of the municipality's chief executives (the Selectboard) - for the development of the recommended annual operating and capital budgets..." seems worthy of more conversation.

Commented [CTA5]: JH no mention of non-capital special articles – are these considered general/enterprise fundoperations?

Commented [CTA6]: JH doesn't see purpose of specifying MGL – don't believe we consider bonding as criterion.

- 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;
- Feasibility studies, engineering design services, or consultant services which are ancillary to a future Capital Project.

Commented [CTA7]: JH thinks this bullet should be set out as a free-standing comment.

Enterprise Fund - a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

General Fund - the primary fund used by a government entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise, capital project, grant, and revolving funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Gill-Montague Regional School District (GMRSD) Affordable Assessment – as a matter of policy, per the agreement captured in the 2009 Compact for Funding Education endorsed by the Administration and School Committee of the Gill-Montague Regional School District, the Selectboards and Finance Committees of Gill and Montague, and reaffirmed by consensus of those boards in 2019, 48.5% estimated general fund revenues for the ensuing fiscal year shall be known as the Affordable Assessment and be allocated to support the recommended budget of the GMRSD.

For the purpose of calculating the Affordable Assessment, estimated general fund revenues for the ensuing fiscal year shall be exclusive of those revenues characterized as non-recurring and/or revenues targeted to support specific operating budget programs, e.g., veterans benefit reimbursements, solid waste fees, Council on Aging reimbursements from the Town of Gill, a portion of Kearsarge Lease Fees and School Resource Officer (SRO) reimbursements from the FCTS and the GMRSD.

POLICY

The following principles shall guide town officials in the preparation of the recommended annual operating budget for presentation to town meeting:

- As required by Massachusetts General Law (M.G.L. c.44, §31 and M.G.L. c.59, §§ 21C-23), the recommended annual operating budget shall be balanced; that is, total recommended appropriations shall be supported by estimates of revenue equal to those appropriations.
- Recommended appropriations shall be realistically budgeted and revenues shall be conservatively estimated.
- As a general rule, sources of estimated revenue shall be reasonably expected to recur annually to sustain recurring annual expenditures. The document presenting the recommended annual budget shall include a presentation of estimated revenues and the assumptions underlying the estimates.

- The Town will seek to avoid using budgetary relief offered by statute or regulation that balances the budget at the expense of future years, such as amortizing deficits over multiple years.
- The Town shall maintain reserves for emergencies and other purposes (See Financial Reserves Policy) and shall maintain liquidity sufficient to pay bills on time to preclude the need to borrow in anticipation of revenue.

Commented [CTA8]: JH – this bullet is unclear. Clarify or delete.

PROCEDURES

The following procedures shall be followed in the development and presentation of the recommended annual operating budget:

- The recommended annual operating budget – inclusive of general fund operations, enterprise fund operations, and capital projects – shall be the responsibility of the Finance Committee.
- Prior to the beginning of the budget process, the Finance Committee shall develop a calendar outlining the steps to be followed in the development of the budget and the proposed dates they are scheduled to occur. The calendar shall be distributed to the Selectboard and the Town Administrator for their review and comment.

The calendar shall include, but not be limited to, dates for the following:

- Departmental submissions of capital requests, including those from the Gill-Montague Regional School District to the Capital Improvements Committee.
- Presentation by the Town Administrator and Town Accountant to a joint meeting of the Selectboard and the Finance Committee of the status of the current year’s budget, preliminary estimates of revenue for the ensuing fiscal year, and proposed budget guidelines to accompany instructions to Department Heads for submittal of their operating budget requests for the ensuing fiscal year.
- Presentation by the Town Administrator and Town Accountant of a multi-year revenue and expenditure forecast (see Revenue and Expenditure Forecasting policy)
- The calculation by the Town Accountant and transmittal of the preliminary GMRSD Affordable Assessment to the Finance Committee and GMRSD.
- Submittal of departmental operating budget requests, including Boards and Committees, to the Finance Committee.
- Presentation by the Capital Improvements Committee to the Finance Committee of the preliminary list of capital requests for the ensuing fiscal year.
- Joint reviews by the Finance Committee and Selectboard of departmental budget requests.
- Preparation by the Assessors of a new growth estimate on or about March 1st, which will inform the final budget figure for use in the Annual Budget Process and calculation of the Affordable Assessment.

Commented [CTA9]: JH – if specifying GMRSD, should also specify Airport and WPCF.

Commented [CTA10]: JH suggests striking “including Boards and Committees”

Commented [CTA11]: JH should this be expanded to include non-operating budget items?

- Joint Meeting of the Finance Committee and Selectboard, to be joined by representatives of the Town of Gill and the GMRSD, to receive from the Town Accountant final revenue estimates for the ensuing fiscal year and the final calculation of the GMRSD Affordable Assessment.
- Joint meeting of the Finance Committee, Selectboard and Capital Improvements Committee to receive CIC recommended capital projects for the ensuing fiscal year.
- Joint Meeting of the Finance Committee and the Selectboard to approve the operating budget to be recommended to the Annual Town Meeting as well as other articles to be included in the Annual Town Meeting warrant.
- Preparation and transmittal of the Finance Committee’s report to Town meeting on the recommended budget for the ensuing fiscal year. The report shall include but not be limited to the following:
 - A description of the important features of the budget
 - A description of any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes
 - A summary of the Town’s debt position
 - Other material the Finance Committee deems appropriate

REFERENCES

M.G.L. c. 44, §31

M.G.L. c.59, §§ 21C-23

Town of Montague – Capital Planning policy

Town of Montague – Revenue and Expenditure Forecasting policy

Town of Montague – Financial Reserves policy

ADOPTED BY:

DATE ADOPTED:

A-2 Capital Planning (review draft 12.02.20)

PURPOSE

Capital **assets** – roads and bridges, utility infrastructure, equipment, vehicles, parks, buildings, and technology – are critical components in supporting the delivery of municipal services and contributing to the quality of life in the town.

The purpose of this policy is to define an annual capital planning process to identify the need for the acquisition of new capital assets, the replacement of existing assets, and the proposed financing of each.

APPLICABILITY

This policy applies to all town departments, boards, and committees that maintain an inventory of capital assets; to the Capital Improvement Committee (CIC) with responsibility for creating an annual Capital Improvement Plan; to the Finance Committee with responsibility to review and take positions on capital projects proposed for funding and for integrating CIC recommendations into the recommended annual budget; to the Town Administrator and his/her designee in providing support to the CIC in developing the annual Capital Improvement Plan; and, the Select Board in its role to review and take positions on capital projects proposed for funding. Further, it is relevant to the Gill-Montague Regional School District, which operates in Town-owned buildings that are under its care.

Regarding the CIC, in 1978, the Town of Montague, through an amendment to Town By-Laws, established the CIC to conduct long-term capital planning. Specifically, its charge was “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, to make recommendations to the Town Meeting regarding the above, and to prepare an annual report”.

DEFINITIONS

Annual Budget: comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Available Funds: balances available for expenditure established through previous appropriations (e.g., stabilization funds or overlay surplus) or from a Fund’s positive operating results at fiscal year-end (e.g. free cash or retained earnings). **Capital Improvement Plan:** a 6-year plan prepared annually as part of the annual budget process which is comprised of the Capital Budget proposed for consideration for funding in the upcoming fiscal year (year 1 of the Plan), and years 2-6 including capital projects identified as candidates for funding in future fiscal years.

Capital Project: a major, non-recurring expenditure that generally meets the following criteria:

- Massachusetts General Law permits the Town to issue bonds to finance the expenditure;
- Project cost is \$25,000 or greater;
- Proposed project or asset to be acquired has a useful life of 5 years or more including:

Commented [CTA12]: JA Hold off on codifying a Capital Planning policy to allow for an additional year to make progress on multi-year capital plan. Policies from 2014 can stand in the meantime. I would defer to the CIC on this - if they want to recommend this draft for approval I would support that.

JAThe Financial Management policies adopted by the Montague Selectboard in 2014 provided the foundation for the draft developed by the Collins Center. Both versions refer to a multi-year Capital Plan, which the Town’s Capital Improvements Committee is in the process of developing. We believe that it would benefit the Town to adopt an updated Capital Planning Policy, but would like to wait until the end of FY22, when we expect that more progress will have been made on the multi-year Capital Plan.

Commented [CTA13]: JH – this paragraph belongs in definitions.

Commented [CTA14]: JH suggest reversing the 2 paragraphs and delete “regarding the CIC”

- 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;
- Alterations, renovations, or improvements to existing buildings;
- Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking;
- 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;
- 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;
- Feasibility studies, engineering design services, or consultant services which are ancillary to a future Capital Project.

Commented [CTA15]: JH suggests replacing "which are ancillary to" with "which support and are a part of"

Prior Year General Operating Revenue (PYGOR): a formulation used in the annual budget process for a variety of purposes in developing the proposed General Fund operating budget for the upcoming fiscal year. It is a function of General Fund revenues of the prior fiscal year and defined as follows:

- Property tax of the prior fiscal year as billed (Page 1, Item Id. - Tax Rate Recapitulation Sheet of the prior fiscal year) less:
 - Excluded Debt (Form DE-1 - Tax Rate Recapitulation Sheet of the prior fiscal year)
 - Allowance for Abatements and Exemptions (Page 2, Item II.d - Tax Rate Recapitulation Sheet of the prior fiscal year)
- Plus**
- Total Prior Year actual General Fund revenue less:
 - prior year property tax revenue collected (real and personal property taxes and revenue from tax liens and tax possessions)
 - local receipts deemed non-recurring or designated for a particular purpose

Commented [CTA16]: JA Prior Year General Operating Revenue (PYGOR): show the calculation for this, using real numbers, in an Appendix, and tell readers where to find the PYGOR calculation for a particular year.

Also for show-and-tell/appendix samples:

- Total General Fund, non-exempt, long term debt service (including the Town's share of GMRSD debt service) as a percentage of the Town's Prior Year's General Fund Operating Revenue (PYGOR) shall not exceed 10 percent with a target of 5 percent.
- In addition, as a general rule, the Town shall strive to maintain a debt service floor of 2 percent of the Prior Year's General Fund Operating Revenue representing a commitment to maintaining its capital assets from recurring revenue.
- Annual debt service shall not, in any fiscal year, grow at a rate that exceeds the projected percentage increase in General Fund revenue for that year as calculated on the same basis as PYGOR.

POLICY

The following shall be the policy of the Town:

- To maintain its physical assets by providing funding in the annual operating budget to protect its capital investments and minimize future maintenance and replacement costs.
- To pursue a program of preventive maintenance as a cost-effective approach to protecting its capital investments and maximizing the useful life of its capital assets capital including the

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procurement of outside services where Town staff capacity or expertise appears insufficient to perform such preventative maintenance.

- To endeavor to provide and preserve the infrastructure and equipment needed for achieving the highest levels of public services and quality of life possible by annually developing a six-year Capital Improvement Plan to ensure adequate investment in the Town's capital assets.
- The following shall be considered in the identification of financing of capital:
 - Town Budgeted General Operating Revenues, Enterprise Fund revenues, Available Funds, (e.g., Special Purpose Stabilization Funds, Free Cash, Retained Earnings and Overlay Surplus), and grant funds from the federal and state governments.
 - Long-term debt shall be considered an appropriate funding source for capital requests whose costs cannot be accommodated within the annual operating budget without adversely affecting the financing of services.
 - The target for spending from General Fund operating revenue in the annual Capital Budget – to finance debt service on projects proposed for funding with debt and those proposed for funding with cash (pay-as-you-go projects) - shall be equal to a minimum of 6 to 8% of the Prior Year's General Fund operating revenue (PYGOR). The 6% to 8% shall be comprised of the following:
 - 2% of the Prior Year's General Fund operating revenue shall be targeted for building renewal and equipment replacement on a pay-as-you-go basis.
 - 4% to 6% of PYGOR shall be targeted to fund debt service on non-excluded debt-financed projects.
 - If in any year funds needed for the Capital Budget recommended to Town Meeting are below the minimum target of 6% of the Prior Year's General Fund Operating Revenue, the difference in revenue allocated for this purpose shall be appropriated into a capital stabilization fund to offset the costs of future capital projects.
 - The term for which debt is issued shall comply with the limits in Massachusetts General Law. Notwithstanding these limits, debt maturities should be equal to or less than the useful life of the asset being financed.
 - To the extent practicable, assets with short useful lives that are replaced regularly, e.g., police cruisers, shall be funded in the operating budget.

Commented [CTA17]: JH considerations of financing include items closer to Procedures (% yardsticks)

Commented [CTA18]: JH – need definition of building renewal and equipment replacement

Commented [RA19]: Debt service on non-exempt debt only

PROCEDURES

- The CIC shall have responsibility for coordinating the development of the annual Capital Improvement Plan, to be delivered on a timeline that supports the Annual Budget Process. The CIC shall create the form on which capital project requests are submitted. On or about October 1st, the CIC shall develop and transmit to the Town Administrator, the Select Board and the Finance Committee a calendar identifying dates in the development of the plan including:
 - a schedule for the submission of capital project requests by Town departments and the GMRSD for years 1 through 6 of the Capital Improvement Plan (CIP).
 - dates for departments requesting capital projects to appear before the CIC to respond to the Committee's questions about project proposals, and to provide and answer questions regarding cost estimates and scope for any projects proposed for the Capital Budget (Year 1 of the CIP).
 - a date (typically on or about January 15) by which the Town Administrator will submit to the CIC a finalized set of capital projects to comprise the Capital Improvement Plan. Projects proposed for the Capital Budget shall comply with the requirements of the CIC capital project request form.
 - a joint meeting of the Finance Committee and CIC (typically on or about March 15), at which the CIC and Town Administrator will present and discuss the recommended Capital Improvement Plan.
- The Capital Improvement Plan shall include:
 - projects recommended for funding in the upcoming fiscal year (the Capital Budget)
 - identify prospective sources of funding for projects in the Capital Budget (see the Town's Financial Reserves and Debt Management Policies)
 - Current debt service and projected annual debt service based on projects in the Capital Budget identified as candidates for debt financing.
 - A list of requested projects by department with estimated costs and indication of departmental priority for years 2 through 6 of the Capital Improvement Plan
- Only projects that have gone through the annual capital planning process will be considered for funding unless required by an emergency, which may be determined based on hazard to public safety, potential damage to people or property, regulatory requirement, grant availability, or other factors. Emergency requests will be submitted to the Town Administrator, in a form prescribed by the Town Administrator, for review and consideration. If the Town Administrator deems the request constitutes an emergency, he/she shall transmit the request, including a recommendation of the source of funding, to the CIC, the Finance Committee and the Selectboard for consideration.

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- In prioritizing each capital request, the CIC shall determine how the project addresses the following criteria:
 - Defined Criteria/Rationale Used in Assessing Special Article Requests
 - Public Safety: Does the capital improvement rectify a safety concern or otherwise prevent a potential public safety issue?
 - example: Installing the new front porch/egress stairs at the senior center. The old porch egress had stairs with risers that were inches higher than what is allowed by building code, resulting in the potential of a dangerous fall.
 - Cost Avoidance: Will the capital improvement save the town financially?
 - example: Replacing the controls at Denton Street sewer pump station. New controls included in the upgrade enhance its reliability and allow the station to be monitored remotely resulting in reduced alarms and need to send crew out to check on the system.
 - Service Interruption: Does the capital improvement prevent an interruption in services?
 - example: Replacing the building management system and components at TFHS. Without upgrading and replacing the hardware and software the school would be vulnerable to losing its ability to operate the equipment necessary to control classroom temperatures. Failure of the system would result in school closure.
 - Other- Any other reason identified as relevant by the CIC. This may include considerations such as regulatory requirements or orders, concerns related to accessibility, availability of matching grants, program efficiency or improvements, etcetera.
- Generally speaking, in consultation with the Town Administrator, within six months after the completion of a capital project or acquisition financed through a special article, the Town Accountant shall close out the project so any unexpended balance financed with cash or bond proceeds can be re-deployed for other purposes pursuant to Massachusetts General Law or regulation.

Commented [CTA20]: JW - Community engagement & environmental sustainability should also be considerations here.

REFERENCES

M.G.L. c. 41, § 106B M.G.L. c. 44, §§ 7-8
 M.G.L. c. 44, § 20 M.G.L. c. 44, § 33B

Section 6 of Article II of the By-Laws of the Town of Montague creating the Capital Improvement Committee

Division of Local Services Best Practice: [Presenting and Funding Major Capital Projects](#)

ADOPTED BY:

DATE ADOPTED:

A-5 Financial Reserves (review draft 12.17.20)

PURPOSE

The creation and maintenance of financial reserves is a critical component of sound and prudent financial management. Reserves serve multiple functions:

- As a source of funding for selected, planned future capital expenditures to reduce the need to issue debt thus avoiding interest and borrowing costs.
- As a source of funding for significant and extraordinary, unforeseen expenditures.
- As a source of funding to substitute for lost revenue during a time of economic downturn thus precluding, or minimizing, cuts to municipal and educational services.
- As evidence to credit rating agencies of a municipality's strong financial management in that the maintenance of significant reserves indicate a commitment to comprehensive long-term planning, a positive factor in credit rating determinations.

APPLICABILITY

This policy pertains to short and long-range budget decision-making and applies to the Finance Committee, Capital Improvement Committee, Selectboard and Town Administrator in that capacity and is intended to be advisory to Town Meeting.

DEFINITIONS

Enterprise Fund: Pursuant to Massachusetts General Law (M.G.L. c. 44, § 53F½), municipalities can establish enterprise funds by vote of Town Meeting to account for a utility, cable television public access, health care, recreational or transportation facility whose services are delivered on a business-type basis. Under enterprise accounting, the service's revenues and expenditures are segregated into a separate fund with its own financial statements, separate from all other governmental activities.

Finance Committee Reserve Fund: Pursuant to Massachusetts General Law (M.G.L. c. 40, § 5A), To provide for extraordinary or unforeseen expenditures in each fiscal year, a town may - at an annual or special town meeting - appropriate or transfer a sum or sums not exceeding in the aggregate five percent of the levy of the fiscal year preceding the fiscal year for which the fund, to be known as the reserve fund, is established. No direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the Finance Committee. At the end of each fiscal year, any unused amount of the Reserve Fund is closed to the surplus of the general fund.

Free Cash: Also known as Unassigned Fund Balance represents the surplus of the general fund operating budget at the close of a fiscal year resulting from revenues realized in excess of estimates and expenditures less than appropriations plus unused free cash resulting from the prior fiscal year. Use of free cash to support appropriations requires a vote of Town Meeting. The amount of free cash must be certified by the Massachusetts Department of Revenue before it is available for appropriation. Unpaid property taxes and certain deficits reduce the amount of remaining funds that can be certified as free cash.

Commented [CTA21]: JA The Financial Management policies adopted by the Montague Selectboard in 2014 provided the foundation for the draft developed by the Collins Center, but the draft policy that we received in July 2021 identifies several places where we might make adjustments based on current conditions or do a better job of explaining our Town's approach to Reserves. This is closely interwoven with the Annual Budget Process and Capital Planning, and we would like to present an updated Reserves policy to the Selectboard when we offer our proposal for updates to those policies at the end of FY22.

General Fund - the primary fund used by a government entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise, capital project, grant, and revolving funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Other Post Employee Benefits (OPEB): Other post employee benefits are benefits, other than pension distributions, paid to employees during their retirement years. The major post-employment benefit in Massachusetts is health insurance.

Overlay Surplus: Excess overlay that is determined to be over and above what is needed to cover abatements and exemptions of property taxes in a given fiscal year. It is determined, certified, and transferred by vote of the Board of Assessors. The use of overlay surplus as a funding source is subject to appropriation by Town Meeting and can be used for any lawful purpose. Any unused balance of overlay surplus at the end of a fiscal year is closed to general fund balance and becomes part of free cash available for appropriation in the subsequent fiscal year.

Prior Year General Operating Revenue (PYGOR): a formulation used in the annual budget process for a variety of purposes in developing the proposed General Fund operating budget for the upcoming fiscal year. It is a function of General Fund revenues of the prior fiscal year and defined as follows:

- Property tax of the prior fiscal year as billed (Page 1, Item Id. - Tax Rate Recapitulation Sheet of the prior fiscal year) less:
 - Excluded Debt (Form DE-1 - Tax Rate Recapitulation Sheet of the prior fiscal year)
 - Allowance for Abatements and Exemptions (Page 2, Item II.d - Tax Rate Recapitulation Sheet of the prior fiscal year)

Plus

- Total Prior Year actual General Fund revenue less:
 - prior year property tax revenue collected (real and personal property taxes and revenue from tax liens and tax possessions)
 - local receipts deemed non-recurring or designated for a particular purpose

Retained Earnings - any operating surplus (actual revenues in excess of estimates and appropriations in excess of expenses) is retained in the enterprise fund rather than closed to the General Fund at fiscal year-end. Surplus of an enterprise certified by the Massachusetts Department of Revenue, Division of Local Services as available is called "retained earnings". Use of retained earnings requires appropriation by Town Meeting.

Stabilization Funds: Pursuant to Massachusetts General Law (M.G.L. c. 40, § 5B), a municipality, through a vote of Town Meeting, may establish one or more stabilization funds and designate the purpose for which each fund is established. The creation of a stabilization fund requires a majority vote of Town Meeting. Appropriation of funds into a stabilization fund is by majority vote. Appropriation of funds out of a stabilization fund requires a two-thirds vote of town meeting. Any interest that is earned from the investment of stabilization fund monies accrues to the stabilization fund. There is no limit on the cumulative balance of all stabilization funds in a municipality.

POLICY

The following table summarizes elements of the policies and procedures that follow.

Reserve Funds and Target Thresholds			
Name of Fund	Purpose	Funding Target	Primary Source of Financing
General Stabilization Fund	to cover projected revenue shortfalls due to economic downturn as a means to maintain services	5% of PYGOR ¹	0.3% of PYGOR from the tax levy if funding is below target plus other sources, e.g., free cash, overlay surplus, and one-time revenues, if available to accelerate progress toward funding target
Cannabis Impact Fee Stabilization Fund	to finance the mitigation of impacts resulting from the operation of licensed cannabis establishments	No target per se; fund serves as repository for impact fees collected	cannabis impact fees
GMRSD Stabilization Fund	to mitigate the impact on town's operating budget from spikes in the Town's share of capital and/or costs generated by the GMRSD	The fund is supported by a portion of the Town's Kearsarge Lease revenue	Kearsarge Lease payments
FCTS Stabilization Fund	to mitigate the impact on the Town's operating budget from spikes in the Town's share of operating and/or capital costs generated by the FCTS	Defined by ongoing estimates of projected enrollment as a primary driver of operating costs	Taxation
Capital Stabilization Fund	to finance future capital costs on a pay-as-you-go basis or to underwrite debt service for capital projects	function of spending targets reflected in capital plan	0.2% of estimated annual GF revenue net of revenues targeted for specific purposes plus revenue from cannabis retail sales
WPCF Capital Improvement Stabilization Fund	to finance future capital costs on a pay-as-you-go basis or to underwrite debt service for capital projects	function of spending targets reflected in capital plan	Sewer fees
Free Cash	to fund emergency expenses, non-recurring operating expenses, or	3% of PYGOR	Surplus from GF operations at each fiscal year-end
Finance Committee Reserve Fund	to fund extraordinary and unforeseen expenses	TBD annually	estimated GF revenue
WPCF Retained Earnings	to serve as working capital, fund emergency expenses, non-recurring operating expenses, or capital	5% of PYEFR ²	sewer rates
Airport Retained Earnings	to serve as working capital, fund emergency expenses, non-recurring operating expenses, or capital	5% of PYEFR ²	airport revenues
¹ Prior Year General Operating Revenue			
² Prior Year Enterprise Fund Revenue			

It shall be the general policy of the Town to:

- Maintain reserves to provide the capacity to respond to the costs of unanticipated and extraordinary events, significant reductions in annual revenue streams due to economic disruption, and to provide a source of available funds for future capital expenditures.
- Maintain and manage multiple types of reserves, including stabilization funds, free cash, retained earnings, and overlay surplus.
- Maintain overall general fund reserves including the Town's combined stabilization funds (General, Capital, GMRS, FCTS and Cannabis Impact Fee) and free cash between 5% and 10% of the Town's Prior Year General Operating Revenue.

The following policies shall govern the administration of the following reserves.

- **Finance Committee Reserve Fund** - Annually, the annual operating budget recommendation shall include an appropriation into the Finance Committee Reserve Fund. Every year, the Finance Committee shall review the history of Finance Committee transfers to determine if the annual appropriation into the Finance Committee Reserve is adequate.
- **Free Cash** - In the development of the proposed annual general fund operating budget, the Town shall strive to estimate revenue and recommend appropriations at a level that will generate free cash at fiscal year-end equal to approximately 3% of the Town's Prior Year General Operating Revenue. As a general rule, the use of free cash equal to the 3% threshold will be limited to non-recurring operating or capital budget expenditures and extraordinary or unforeseen costs that cannot be financed from the Finance Committee Reserve Fund or through transfers between line items in the operating budget.

It shall be the policy of the Town to avoid the use of free cash to support the operating budget, except under extraordinary or unusual circumstances. Further, to the extent practicable, any amounts of free cash certified in excess of 3% of the Town's Prior Year General Operating Revenue shall be appropriated to one or more of the Town's stabilization funds and/or to offset unfunded liabilities, e.g. other post-employment benefits (OPEB).

- **General Stabilization Fund** - The Town shall maintain a general stabilization fund whose primary purpose is to replace declines in general fund revenue due to economic downturn. The target level of the fund shall be 5% of the Prior Year's General Fund Operating Revenue, an amount estimated to support the operating budget through three years of economic downturn. The Town shall strive to annually appropriate to the general stabilization fund 35% of certified free cash in excess of 3% of the Prior Year's General Fund Operating Revenue (see above) until the target minimum balance is met.

Once the target level of the fund is reached, if any use of the fund reduces the balance below the target level, a plan for replenishment of the Fund shall be developed per the procedure described below.

In fiscal years when no appropriation into the General Stabilization Fund is required because it is at its target, funding sources historically targeted for this purpose but not needed will be re-directed to funding of the Town's OPEB liability. **(FOR DISCUSSION)**

- **Special Purpose Stabilization Fund(s)** – The Town shall maintain one or more specialized Stabilization Funds to finance future needs. Sources of financing appropriations into special purpose stabilization funds shall include each or some combination of taxation; available funds including but not limited to free cash and overlay surplus; and other term-limited or potentially inconsistent revenue sources. Such Stabilization Funds shall include but not be limited to the following.
 - Capital Stabilization Fund(s) - to finance selected future capital needs as identified through the Town's annual capital planning process on a pay-as-you-go basis or to subsidize debt service of large capital projects, (e.g., municipal or school construction) to mitigate the impact on taxpayers. Use of a Capital Stabilization Fund(s) to finance projects on a pay-as-you-go basis can serve to preserve the Town's debt capacity for major capital projects.

The Town will strive to appropriate 0.2% of the Town's Prior Year's General Fund Operating Revenue into a capital stabilization fund(s) annually.

- Non-Capital Stabilization Funds:
 - Cannabis Impact Fee Stabilization Fund – to finance the mitigation of impacts resulting from the operation of licensed cannabis establishments
 - GMRSD Stabilization Fund – to mitigate the impact on town's operating budget from spikes in the Town's share of capital and/or costs generated by the GMRSD.
 - Franklin County Technical School (FCTS) Stabilization Fund – to mitigate the impact on the Town's operating budget from spikes in the Town's share of operating and/or capital costs generated by the FCTS
- **Overlay Surplus** - Overlay surplus shall be reserved for non-recurring costs such as direct capital expenditures, contributions to the general stabilization fund or a special purpose stabilization fund, or to finance unfunded liabilities, e.g., OPEB.
- **Retained Earnings** - In the development of the proposed annual budget for its Enterprise Funds, the Town shall strive to estimate revenue and recommend appropriations at a level that will generate retained earnings at fiscal year-end equal to approximately 5% of the operating budget. The rationale for this level of retained earnings is as follows:
 - To cover potential revenue shortfalls in any given fiscal year
 - To finance unanticipated, extraordinary expenditures not provided for in the adopted annual budget

- To provide cashflow for the fund to preclude the use of the Town's pooled cash to fund sewer operations which would have a negative impact on general fund interest income.
- For rate stabilization

In addition, the Town shall consider - consistent with guidance from the Department of Revenue (DLS Departmental Procedure Manual: Enterprise Funds) - adding to Enterprise Fund budgets a line-item ("budget surplus") whose unexpended balance at fiscal year-end would accrue to retained earnings and be available to finance selected future capital needs as identified through the Town's annual capital planning process. These amounts could accumulate as unappropriated retained earnings until the capital need arises, or could be appropriated annually into a Special Purpose Stabilization Fund created to fund capital projects.

PROCEDURES

The following procedures are adopted pursuant to this policy.

- **Finance Committee Reserve Fund** - requests of the Finance Committee for Reserve Fund transfers shall be based on requests from department heads submitted to the Town Accountant for initial review, who will then bring those requests to the Finance Committee for review and approval, with input from the Town Accountant and Town Administrator.
- **General Stabilization Fund** - Pursuant to the policy governing the General Stabilization Fund, if use of the Fund results in a balance that falls below the target of 5% of the Prior Year's General Fund Operating Revenue, the Town Administrator, in consultation with the Selectboard shall develop a plan for transmittal to and consideration by the Finance Committee to bring the balance of the Fund back to its target level.
- **Overlay Surplus** - Pursuant to the policy governing the use of overlay surplus, the Selectboard shall periodically request that the Board of Assessors conduct an analysis of the overlay to determine the amount, if any, that can be declared overlay surplus. The analysis shall consider the following:
 - Current cumulative balance in the overlay accounts of all fiscal years after reconciling with the Town Accountant's records
 - Balance of property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
 - Estimated amount of potential abatements, including any cases subject to State Appellate Tax Board hearings or other litigation

Upon determining any excess in the overlay account, the Board of Assessors shall present the analysis to the Selectboard for its review. If the Selectboard determines that the excess is needed to support proposed spending, it shall, pursuant to Massachusetts General Laws (M.G.L. c. 59, § 25), formally request that the Board of Assessors convene to consider a vote to transfer

overlay to overlay surplus within 10 days of such request. Notification of that vote shall be made to the Selectboard, Town Administrator, Town Accountant, and Finance Committee.

- **Appropriations from Reserves** - 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 recommended for appropriation from reserves only after an initial review by the Town Administrator and/or Town Accountant and their presentation to the Selectboard and Finance Committee. Consideration of the use of reserves shall include an assessment of whether the balance of relevant reserve accounts after their proposed use are adequate to offset potential downturns in revenue sources and provide sufficient cash balance for daily financial needs.

REFERENCES

M.G.L. c. 40, § 6

M.G.L. c. 40, § 5A

M.G.L. c. 40, § 5B

M.G.L. c. 59, § 25

M.G.L. c. 44, § 53F½

DLS Best Practices: Free Cash and Special Purpose Stabilization Funds

DLS Departmental Procedure Manual: Enterprise Funds

DLS Informational Guideline Releases 17-20: Stabilization Funds and 17-23: Overlay and Overlay Surplus

Government Finance Officers Association Best Practices: Fund Balance Guidelines for the General Fund and Working Capital Targets for Enterprise Funds

ADOPTED BY:

DATE ADOPTED: