

Town of Montague

A. FINANCIAL MANAGEMENT POLICIES

A-1 Annual Budget Process

PURPOSE

The purpose of this policy is to state the principles to be followed in the formulation of the recommended annual budget, describe the process and procedures 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, Assistant Town Administrator, the Town Accountant, the Director of Assessing, the Capital Improvements Committee (CIC), and Town Meeting.

The Town's annual operating budget (see definition below) is developed through a collaborative process that involves the Town Administrator and Financial Management Team (Accountant, Treasurer and Director of Assessing), the Selectboard, the Finance Committee, and the Capital Improvements Committee.

DEFINITIONS

Annual Budget - comprised of requests for funding for general fund operations, enterprise fund operations, non-capital special article requests, and capital projects. The fiscal year for the Town's annual budget begins on July 1, and is named according to the calendar year in which it concludes, e.g. the annual budget for FY2023 starts July 1, 2022 and ends June 30, 2023.

Capital Outlay – purchase of equipment with a useful life of 5 years or more with a cost of \$25,000 or more, including lease payments. These appropriations will be a separate line item in the department's annual budget as voted at town meeting. Any equipment with a value of less than \$25,000 shall be considered an operating expense.

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;
- 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 support and a part of a future Capital Project

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 the 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.

Operating Budget – The plan of proposed expenditures for personnel, supplies, and other regular expenses for the coming fiscal year. Unused and unencumbered appropriation balances close at the end of the fiscal year.

Special Article – A separate appropriation for a specific purpose, which can be capital or non-capital in nature. Unless it adds to an operating budget's appropriation, the unused balance does automatically close at the end of the year but remains until completely used, the purpose is completed, or the balance is appropriated for another purpose.

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 will not use one-time or non-recurring revenues to balance the budget, except in the event of emergency, extraordinary or unforeseen circumstances. Should such an event necessitate the use of one-time revenues to balance the budget, the Selectboard, Town Administrator, and Finance Committee shall present along with the budget a plan to return the town to a structurally balanced budget within three 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.

PROCEDURES

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

- By October 1st, the multi-year revenue and expenditure forecasting tool and financial policy guidelines have been prepared for use in the budget development process for the upcoming year. The Town Accountant and Town Administrator are responsible for keeping the forecasting tool up to date, the CIC and Assistant Town Administrator maintain the capital plan, and the Finance Committee reviews the financial management policies annually and makes recommendations for any changes to the Selectboard.
- In October, the Capital Improvements Committee (CIC), working through the Assistant Town Administrator, develops and transmits to the Town Administrator, the Selectboard and the Finance Committee a calendar identifying dates 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).
 - a scheduling period within which departments requesting capital projects will appear before the CIC to respond to the Committee's questions about project proposals, and to

provide information and answer questions regarding the cost estimates and scope for any projects proposed for the Capital Budget (coming fiscal year).

- a date (typically on or about January 15) by which the Assistant Town Administrator will submit to the CIC a finalized set of capital projects to comprise the coming fiscal year's Capital Budget.
- a joint meeting of the Finance Committee and CIC (typically on or about March 15), at which the CIC and Assistant Town Administrator will present and discuss the recommended Capital Budget and Six-Year Capital Improvement Plan.
- By November 1st, the Town Accountant provides department heads and committee chairs with the forms they will use to submit their budget requests for the upcoming year and the GMRSD with a preliminary estimate of the Affordable Assessment. The Town Administrator brings information about substantive changes under consideration for town services/programs to the attention of the Selectboard and Finance Committee.
- By December 15th, departmental requests for the operating budget and non-capital articles are submitted to the Town Accountant, who incorporates them into the budget workbook and distributes the workbook, the accompanying narratives, and non-capital special article requests to the Selectboard, the Finance Committee, and the Town Administrator.
- By mid-January, the Finance Committee chair, the Selectboard chair, the Town Administrator and the Town Accountant shall agree on a schedule for the remainder of the budget process and proposed dates that include, but are not limited to, the following:
 - Presentation by the Town Administrator and Town Accountant to the Selectboard and the Finance Committee on the status of the current year's budget, and for the ensuing fiscal year: a) updated estimates of revenue, b) an overview of proposed expenditures related to the operation of town departments (including information about personnel and programmatic changes), and c) anticipated capital requests
 - Reviews of departmental and committee requests (These are scheduled and hosted by the Finance Committee.)
 - A New Growth estimate, which will inform the final budget figure for use in the Annual Budget Process and calculation of the final Affordable Assessment.
 - At least one joint meeting of the Finance Committee and Selectboard, with representatives of the Town of Gill the Franklin County Technical School and the GMRSD, to review the two school districts' assessments and capital requests for the upcoming year.
 - By March 15th, a joint meeting of the Finance Committee, Selectboard and Capital Improvements Committee to receive CIC's final report on the coming fiscal year's capital projects and its recommendations, and to discuss funding sources for requests that are likely to appear on the warrant.

- A meeting at which the Finance Committee makes recommendations for annual appropriations to Reserves and Trust Funds.
- At least one joint meeting of the Finance Committee and the Selectboard to finalize the operating budget that will be recommended to the Annual Town Meeting and discuss other articles to be included in the Annual Town Meeting warrant.
- Dates for the opening and closing of the warrant for the Annual Town Meeting; the date when Annual Town Meeting materials will be released. These materials include the Finance Committee’s report on the recommended budget for the ensuing fiscal year.
- The Annual Town Meeting, typically held on the first Saturday in May.

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: MONTAGUE SELECTBOARD

DATE ADOPTED: NOVEMBER 28, 2022

A-2 Capital Planning

PURPOSE

Capital assets are fundamental to the functioning of any municipality. The presence and condition of such assets will naturally enable or restrict the ability of the community to operate and prosper. Capital planning, therefore, is essential to the near- and long-term success of the community. 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 repair or 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 or his/her designee in providing support to the CIC in developing the annual Capital Improvement Plan; and, the Selectboard 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 Asset: Any municipally owned facility, road, bridge, sidewalk, utility infrastructure, property, park, installed feature, vehicle, or equipment valued at or above \$25,000.

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:
 - 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 support and are a part of a future Capital Project.

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

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 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 improvements and equipment repair or 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. For the purpose of this policy, the value of excluded debt may be considered when considering the minimum target of 6% of PYGOR.

- 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.

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, Selectboard, and 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).
 - a scheduling period within which departments requesting capital projects will appear before the CIC to respond to the Committee’s questions about project proposals, and to provide information and answer questions regarding the 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 or their designee 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 or their designee, 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.
- 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, environmental sustainability, community and social equity concerns, concerns related to accessibility, availability of matching grants, program efficiency or improvements, etcetera.
- Generally speaking, in consultation with the Town Administrator, within twelve 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.

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: MONTAGUE SELECTBOARD

DATE ADOPTED: NOVEMBER 28, 2022