Town of Littleton
Financial Management Policy

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Section 1 – Purpose

This policy is intended to provide best practice guidelines to insure a consistent method of dealing with the annual budget process and year to year financial planning for all affected boards, committees and the financial management of the Town.

Section 2 – Scope

Well conceived and practiced financial planning can assist Town officials in achieving the best possible use of funds while providing both short and long term stability. Financial policies can improve a Town's credit rating and reduce the cost of interest paid on the Town's long-term debt issues. In addition, established policies can provide a base line for reference and consistency independent of political climates and personal agendas.

The Board of Selectmen, Finance Committee and the Town's financial management recognize the need to establish financial guidelines to provide the Town the ability to withstand periods of decreased revenues while minimizing the need for operational overrides as well as controlling spending during periods of increased revenues. The established guidelines must address the ongoing use and minimum balances of the stabilization fund, the Undesignated Fund Balance (UFB) or "Free Cash", debt management, OPEB and provisions for future additions to these funds. It is the intention of the Town to develop the appropriate financial policies and best practices, over time, including those outlined by the Government Finance Officers Association (GFOA) as may be applicable to the Town.

Section 3 - Overview

In providing funding for the above, the following guidelines must be followed;

1. Funds needed to provide the necessary balances must be appropriated prior to any appropriations for operations;
2. If recommended balance levels cannot be attained in any given year, a plan to meet the balance guidelines must be established and affirmed by both committees and financial management;
3. The Finance Director will provide annual projections and suggested levels for additions to the stabilization fund, capital stabilization fund, OPEB, debt service and capital needs and use of current year certified free cash.

Section 4 - Goals

The financial goals of the Town that are the basis of the policy are:

1. To guide Town officials in making financial decisions that are fiscally sound and consistent in practice from year to year and board to board;
2. To maintain our top credit rating from Standard & Poor's of AAA;
3. To provide the citizens of the Town with the proper levels of quality service in the most cost efficient manner;
4. To maintain adequate reserve levels for unforeseen emergency needs;
5. To maintain and improve the Town's infrastructure and other assets;
6. To minimize the unfunded liabilities of the Town in the areas of pension and OPEB;
7. To minimize the cost of government and maximize revenues;

8. To stabilize the Town's tax rate and avoid appropriation spikes;
9. To develop a sustainable budget without built in structural deficits.

Section 5 - __Financial Guidelines__

These recommended guidelines for the management of Free Cash, the Stabilization Fund(s) and Debt Management should serve as a platform for the annual budget message. The principles contained in these guidelines must be incorporated in the recommendations by the FinCom in each year's budget and used as the basis for any projections of the Town's future financial condition.
The following sections outline the longer-term financial goals of the Town. In some cases, the attainment of certain levels of funds or percentages may not be attainable in the short-term.

Section 6 - __Maintenance of the Town's Credit Rating__

The continued maintenance of the Town's AAA credit rating is important to its ongoing financial health by decreasing future debt service costs. While there are some external economic factors beyond the control of the Town that are included in the evaluation and rating process, a large component is directly related to management practices, financial controls and reserve levels instituted and followed by the Town. This policy is intended to provide those financial guidelines and controls that will enable the Town to do its part in achieving the goals stated above. The Town, therefore, will follow the financial policies outlined in this document.

Section 7 - __Tax Levy__

The financial needs of the Town vary from year to year. The revenue stream available to the Town is also subject to fluctuations outside the control of the Town such as State aid and certain local and miscellaneous receipts. It is due to this uncertainty in the revenue stream that the Town will minimize the amount of excess levy capacity in any given fiscal year until the following benchmarks are met;

1. All reserve levels outlined in this policy have been met;
2. The three year financial forecast , taking into account proposed excess levy amounts, shows no structural deficits;
3. The Town reaches and maintains funding of the OPEB and pension liabilities at the annual required contribution (ARC).

Once the above benchmarks have been met, increases to the levels of excess levy capacity will only be allowed from actual new growth figures that exceed the forecasted levels utilized while compiling the Town's annual budget. This excess new growth, after satisfying any additions to overlay surplus as determined by the Finance Director and Board of Assessors, may either:

1. be appropriated for one-time expenditures as detailed in the Annual Town Meeting Appropriation section of this policy;
2. be substituted for current year debt exclusion payments or;
3. be added to the excess levy capacity of the Town by not raising the full allowable levy.

The attempt to control increases to the tax rate through excess levy capacity is a short-term solution to an issue that should be controlled using the other financial tools outlined within this policy.

While it is true that allowing excess levy capacity to exist in a given year is a method of reducing the tax rate, the level of excess levy needed to make a noticeable difference in the rate would be excessive, forcing cutbacks in budgets, services and programs that are currently being funded within the levy. While these cuts may be able to exist in the short-term, the need for these programs does not go away, ultimately forcing the Town to lower the previous years' excess levy capacity resulting in larger than normal spikes in the tax rate in future years. It is for these reasons that the use of any built up excess levy capacity follow these guidelines:

1. To replenish reserve levels after an unforeseen emergency or catastrophic event;
2. To replace potential debt exclusion items or cover existing debt exclusion payments;
3. The amount of excess levy capacity used in a single year or for a specific event must be replenished the following year or after the specific event has been satisfied.

Restricting the usage of excess levy capacity in this way limits the increase in the tax rate to a single year or for a specific event.

Section 8 - Split Tax Rate

The Town utilizes a split tax rate which is set at a tax classification hearing held by the Board of Selectmen. The Town began splitting the tax rate in FY88 as residential property values began to grow in relation to total property values. Proposition 2 ½ limits the overall growth of the property tax burden. It does not address the allocation of that burden across the different classes of property.
Utilizing the split tax rate is therefore a method of controlling the increases in rates on the different segments of property classifications; residential, commercial, industrial and personal property. While still taxing to the levy, as detailed above, the split tax rate shifts the tax burden between the residential property owners and the remaining property segments (CIP).

The effects of the split tax rate depend on a number of factors such as overall property values including any new growth recognized in the current fiscal year, year over year changes in overall value and the changes in overall value as a percentage of total value between the property classifications.
When selecting the residential factor, which sets the tax rate, the Board of Selectmen should base their decision on the overall goals and objectives of the Town established by the Board at the beginning of each fiscal year and existing Town policies. In addition, the following items should be used as guidelines in establishing the tax rate. Doing so will lead to consistency in the decisions from year to year. These include:

1. Tax rates that fluctuate sharply from year to year for either the residential or CIP tax rate should be avoided.
2. A healthy commercial base is vital for the Town's overall financial health by attracting business which provides jobs and opportunities for residents. Retail business not only provides convenience to residents, but also has a positive effect on residential property values. The resulting CIP tax rate should not be seen as an impediment to attracting or retaining business in Town.
3. Higher residential rates may make the Town unaffordable for some residents which in turn may have a detrimental effect on property values, forcing the tax rate even higher.
4. The Board of Selectmen should be mindful of the 150% CIP factor, the usual maximum factor allowed by statute.

5. The Board should, in most cases unless specific stated goals and objectives of the Board or local economic factors dictate otherwise, allow sufficient room below this factor in order to prevent potential spikes in either the current or future tax rates.
6. Every effort should be made not to exceed this 150% factor in years where the calculated maximum factor increases beyond this level. Future years calculated maximum factor may force a shift back to the 150% level creating an excess burden on the residential class.
7. In addition to providing detailed information on the current year selection, the Board of Assessors should provide a 3 year forecast of property values at each Tax Classification Hearing and inform the Board of Selectmen of any potential impacts that current year decisions may have on future tax rates.

It is recommended that the Board of Selectmen, Board of Assessors, Finance Committee, Town Administrator, Finance Director, Town Treasurer and Chief Assessor have a formal working session prior to the Tax Classification hearing where all pertinent data and calculations can be discussed.

Section 9 - Abatements

While the abatement process is the sole responsibility of the Board of Assessors, the results of the process could have a major impact on the future tax rates set by the Town. The Board of Selectmen and Board of Assessors should therefore meet annually to establish an overall strategy and/or develop guidance in dealing with abatement applications/settlement agreements based on the economic environment, property values and other financial criteria which drive the abatement process. The Town will make legal counsel available to the Board of Assessors to represent the Town, as necessary, at Appellate Tax Board cases.

Section 10 - Tax Relief Programs

The use of certain tax relief programs should be encouraged. The acceptance and implementation of these programs should be done after careful consideration of the effects of the program on both the taxpayer receiving the benefits and those who do not qualify. For example, does the relief amount that comes from the allowance for abatements cause a resulting need to increase the allowance, or is the relief amount spread across the remaining tax base.

Section 11 - TIF's & PILOT Agreements

The use of TIF's (Tax Increment Financing) and PILOT (Payment in-lieu of Taxes) are methods that can be used to attract and/or retain businesses within the Town. Their use should be analyzed on a case-by-case basis weighing the overall benefits received by the Town in areas such as employment, property values and growth against the amount of tax relief granted by the TIF or PILOT program. The Board of Selectmen will establish a Tax Increment Financing /PILOT Committee that will negotiate any agreements based on goals, objectives and priorities established by the Board of Selectmen. All TIF agreements are governed by M.G.L. 40 § 59.

TIF agreements that are decertified by the Commonwealth of Massachusetts will be considered void in the following tax year unless the agreement is voted to continue by the Board of Selectmen.

Section 12 - Undesignated Fund Balance – "Free Cash"

The accumulation and use of "Free Cash" now referred to in Massachusetts Accounting Statutes as the Undesignated Fund Balance (UFB) of the General Fund, is an important component of the Town's overall financial management policies. The available amount is calculated and certified each year by the Massachusetts Department of Revenue using data submitted by the Town.

The UFB is comprised of year-end revenues in excess of projections and year-end expenditures less than appropriations. The UFB is also impacted by the resolution of contingencies or deficits since the UFB is reduced in order to cover any deficits at year-end. Therefore, it is imperative that the Town maintain a minimum balance of 5% of the operating budget in order to provide a reserve for unexpected financial crisis during the year. Further, the undesignated fund balance should not be relied upon as a mechanism for funding the Town's operating budget.

Therefore the following policy must be applied in each budget cycle:

1. Maintain a minimum UFB balance of 5% of the Total Operating Budget;
2. Benchmark balance noted in item (e)below is 7.5% of the Total Operating Budget;
3. Benchmark balance must be met before funding of items f-h.
4. Appropriate amounts above the 5% minimum threshold in the following order:

	Use	Description
a.	Stabilization	appropriate amounts from the UFB to maintain the minimum balance of the Stabilization fund as detailed in the section below;
b.	Capital Projects	appropriate amounts up to 2.5% of the operating budget for capital items for which long-term borrowing is authorized or for other expenditures of a non-recurring nature;
c.	OPEB Additional contribution	Appropriate amounts up to 20%, with a minimum of 10%, of the excess balance of the benchmark identified in item (e) to the OPEB fund.
d.	Other Reserve Additional Contributions	Appropriate amounts up to 60%, with a minimum of 30%, of the excess balance of the benchmark identified in item (e) to augment any combination of the following reserves - stabilization, debt exclusion stabilization and/ or capital stabilization funds;
e.	Benchmark balance	the remaining balance of the UFB must meet the 7.5% threshold as defined above before any additional funds may be appropriated
f.	Extraordinary Deficits	use the UFB to fund extraordinary deficits that cannot be funded either by budgetary transfers or by the reserve fund, and would otherwise be carried to the following year;

	Use	Description
g.	Additional Capital Projects	Appropriate amounts up to 20% of the excess balance of the benchmark identified in item (e) to fund additional capital projects (see item b above)
h.	Extraordinary Uses	Exception only – with approval of Board of Selectmen and Finance Committee upon the recommendation of the Finance Director.

Section 13 - __Stabilization__

The Stabilization Fund is a special reserve account allowed by Massachusetts General Laws to allow savings to be set aside and available for emergency expenditures. In the case of an emergency expenditure a community with a Stabilization Fund balance may use the available fund balance rather than spiking its property tax rate. The tax rate may be therefore "stabilized". Bond rating agencies rate municipalities more highly if they maintain a healthy reserve balance in this and other reserve accounts.

The funds appropriated to a Stabilization account can also be earmarked for specific capital needs, however, in this instance, the establishment of a specific Capital Stabilization account *(see Special Stabilization section)* to support future capital needs is the preferred method. The Town should endeavor to avoid the use of stabilization fund balances, or any reserve balance for a recurring expense. A two-thirds vote at town meeting is required to appropriate funds from this account. The Fund balance may not exceed ten percent of the equalized valuation of the Town and all interest shall be added to and become part of the fund. The Treasurer may invest the proceeds in keeping with the regulations as set in M.G.L. Ch. 40 s 5B.

Therefore the following policy is recommended:

1. A minimum balance of 5% of the current operating budget must be maintained in the Stabilization Fund;
2. Withdrawals from Stabilization should only be used to mitigate a catastrophic or emergency event(s) (such as substantial damage to a municipal facility due to fire, or infrastructure compromised by a major storm event) that cannot be supported by current general fund appropriations;
    a. Withdrawals of funds should be limited when possible to the amount available above the 5% minimum reserve previously referenced;
    b. Withdrawals from stabilization that drive the balance below the minimum level should be avoided. If, however this was deemed necessary, the withdrawal should be limited to 1/3 of the Stabilization Fund balance. , A detailed plan must be developed that will replenish the fund to the minimum levels within the next 2 fiscal years.

Section 14 - __Debt Management__

Debt management is essential to the overall financial planning of any municipality, but especially critical in times of expansion. Borrowing funds and repaying over a number of years allows the Town to finance projects we could not afford to pay from our operating budget. The objective of debt management is to borrow at the least cost over the term of the debt. It requires careful planning and strategies to minimize the negative effect to the taxpayer and should be used only when the cost allocation is deemed equitable and the interest costs do not outweigh the advantages. It is critical to develop a policy or guidelines, determining the issuance, timing and tax impact of current and future debt.

Dedicated revenue supported debt are those borrowings which the Town has identified a reimbursement from a specific revenue source that has the ability to repay 100% of the annual debt service for the life of the borrowing. Examples of current revenue supported debt are borrowings associated with the Light & Water departments, land purchases with dedicated reimbursements made from cell tower revenues or CPA funds and any debt exclusion items, generally used for, but not limited to, the construction of new Town facilities.

Recommended Guidelines for Non-Dedicated Revenue Supported Debt

1. Every effort should be made to minimize the amount of non-dedicated revenue supported debt within the operating budget of the Town.
2. When used, non-revenue supported debt should be targeted towards the Town's commitment to maintaining and improving existing infrastructure;
3. Repayment of principal and interest together with issuance cost and short term financing costs should be targeted at approximately 5% of the total budget to maintain and improve credit rating.
4. At no time should non-dedicated revenue supported debt service exceed 10% of the total budget.
5. Repayment schedules should be in accordance with published requirements and be set as aggressive as possible.

These guidelines achieve the following:

1. Capital and maintenance needs are not displaced by the fiscal demands of current operations.
2. Borrowing is controlled.
3. The cost of interest is minimized.
4. The capability to borrow is quickly restored.

Section 15 - __Revolving Funds/Enterprise Funds__

A revolving fund allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be reauthorized each year at annual town meeting and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits. When practical, expenses should be budgeted in the General Fund using a transfer from the revolving fund as an offset in order to provide transparency in the Town's accounts.

An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs—are identified. This allows the town to recover total service costs through user fees if it chooses. Enterprise accounting also enables the town to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. Enterprise revenue should be set to offset expenses to ensure that deficits are not raised on the tax recap.

Section 16 - __Community Preservation Act Funds (CPA)__

The Town considers funding for Community Preservation as an important part of maintaining the existing character of the Town through open space purchases and increasing Town services in allowed areas such as recreational facilities. In this regard, the Community Preservation Committee should develop and maintain a policy and matching spending plan for the use of these funds.

The Town, which assesses a 1% surcharge, has the ability to add funds up to the 3% surcharge limit imposed by MGL into the CPA. These additional funds would also be eligible for State matching funds and may be appropriated from various sources as detailed in the *Community Preservation Act Appendix* to this document. The CPA appendix is intended to ensure better coordination between the use of CPA funds and other municipal funds deposited into the CPA fund.

Section 17 - __Financial Planning__

Proper financial planning is essential for the Town in order to continue to provide the services necessary for its citizens in the least costly manner possible. Decisions made to alleviate issues in one budget cycle may carry impacts several years down the road. The Town will maintain a budget forecast at a minimum of 5 years to assist in the planning of future projects, and quantify the impacts of today's decisions on future years.

Increases to the budget on the expenditure side cannot be allowed to increase greater than the recurring revenues available. That is a very easy statement to make, but is essential in proper municipal fiscal management. Inflating revenue projections and under budgeting expenses to balance an operating budget cannot be allowed to occur. Using other non-recurring revenue items and moving dollars from older warrant articles should only be used for like non-recurring expenses. In addition, a savings plan that will allow the Town to set aside dollars in an effort to minimize the impacts of future economic downturns in the economy on Town operations will be incorporated into each budget cycle. We cannot move forward and continue to spend every available dollar within the operating budget.

Section 18 - __Revenues__

Forecasting the proper level of revenues is essential in providing the necessary services to the residents of the Town. The forecasts of all revenues including local receipts and State net aid levels are the sole responsibility of the Finance Director per Town By-Law.
In forecasting appropriate revenue levels the Finance Director will follow the following guidelines:

1. Revenue estimates will be conservative in nature in order to avoid potential revenue deficits, taking into account economic cycles, historical data and trends for the previous 3 year cycle, and known increases or decreases to specific revenue accounts;
2. Revenue sources from other Town departments, for example, various enterprise funds, Trust Funds, CPC funds, cell tower funds, will be reviewed annually to ensure appropriate reimbursement levels are received by the Town and are in compliance with the appropriate State statute;
3. Unless agreed to by the Board of Selectmen, fees charged for enterprise fund services as well as the transfer station operations and other fee based program funds will be sufficient to cover all associated costs of the program; to include fringe benefits and Other Post Employment Benefit funding requirements.
4. Fees for General Fund services will be reviewed annually and updated as necessary;
5. New growth estimates will be made based on available data and projections by the Chief Assessor and reviewed and approved by the Finance Director.

The Town will follow the following overall guidelines for revenues:

1. One-time revenues will not be added to the operating budget and may only be used for one-time expenditures such as additions to reserves, contributions to OPEB, or additions to the roadway or capital plan;
2. The Town will be aggressive in the collection of all receivables including current and prior year property taxes. The Town will strive for a collection ratio in excess of 98% for current year property taxes;
3. New revenue sources should be explored by the appropriate Boards or Committees by taking a pro-active approach on economic development with the intent of attracting new businesses within the Town as well as the expansion and strengthening of existing businesses and commercial properties;
4. The Town will take advantage of any grants and other aid that may become available to provide needed services for residents. Matching grants and grants with other covenants and restrictions will be examined to ensure that the acceptance of these funds will be both cost-effective and beneficial to the Town.

Section 19 - Annual Town Meeting Appropriation

The Town will make every effort to present a balanced budget to the May annual town meeting. In most years, final State aid figures may not be determined by the date of town meeting. The Finance Director will estimate the appropriate revenue levels as stated in the revenue section above. Budget appropriations for the annual town meeting, therefore, will be based solely on this estimated revenue stream.

In level funded or level service budget years, budgeted operating expenses will not be adjusted upward at a future special town meeting once final revenues are determined. Additional funding from any source may be appropriated at a special town meeting for one-time expenditures such as capital, roadway projects, improvements to existing infrastructure, or contributions to OPEB, Stabilization or Special Stabilization accounts.

Additional revenues received after the annual town meeting that are of a recurring and sustainable nature, may be used to reinstate specific department programs reduced in the budget passed at the annual town meeting, through the special town meeting process.

Appropriations may be decreased at a special town meeting in order to meet a decreased revenue stream. These cuts, if necessary, may be made as equitably as possible across all areas of the Town, however special emphasis may be placed on targeted cuts to specific projects or programs. Cuts must be made from the operating budgets, if the source of the decreased revenue stream was from recurring revenues and not a one-time source of funds. Alternately, if the source of decreased revenues was from a one-time revenue source, cuts may be made from a one-time expenditure category or a targeted project or program within the operating budget. Since budget cuts enacted six months into a fiscal year must, in most cases, be twice as deep, every effort should be made in developing initial estimated revenue streams based on available data that are as accurate as possible.

Section 20 - Employee benefits and other required annual funding

The Town must take care to fund its obligations relating to health insurance, retirement benefits, other post-employment benefit obligations (OPEB) and snow and ice expenditures at the appropriate amount.

1. Early retirement incentives will not be offered by the Town.
2. The Town's appropriation to OPEB should increase by a minimum of 10% from the previous year's appropriation until the annual required contribution (ARC) is met. Once met, the Town will maintain funding levels at the calculated ARC.
3. If appropriate, additional contributions may be made to the retirement system in an effort to decrease the Town's unfunded liability.
4. At a minimum, the Snow and Ice budgets should be crafted using a five year rolling average expenditure total.

Underfunding these obligations will mandate the use of the following year's revenue stream to meet the expense, thus perpetuating the shortfall.

Section 21 - Capital, Exclusions and Special Stabilization Accounts

Capital / Facility Maintenance Stabilization Fund

Planning for capital purchases as well as the ongoing maintenance of facilities and equipment is an essential part of the financial plan for the Town.

The Capital Investment Plan is prepared from a Town-wide perspective. There is no assumption of a budget quota for individual departments. Capital Improvement Project is defined as a major, non-recurring expenditure that generally meets all of the following criteria:

1. Massachusetts General Law Chapter 44, Sections 7 & 8, permit the Town to issue bonds to finance the expenditure;
2. The expenditure is a facility, object, or asset costing more than $5,000;
3. The expenditure will have a useful life of 10 years or more for infrastructure, buildings, and parks and a useful life of three years or more for vehicles, equipment and technology.

The Town will establish a Capital/Facility Maintenance Stabilization Fund to assist in meeting the year-to-year capital needs of the Town in addition to the ongoing facility maintenance that have been identified. The following guidelines must be adhered to;

1. A minimum five-year capital plan will be maintained in detail by department and projected funding source;
2. A minimum five year roadway plan and associated and funding will be updated annually by the Finance Director and presented to the Board of Selectmen;
3. Capital purchases will be accomplished either as a capital exclusion item, a raise and appropriate article when funds within the levy are available, or an appropriation from the UFB;
4. Capital purchases may not be made from the capital stabilization account until all available funds within the levy, (no less than the previous fiscal year), and available funds from the UFB have been allocated;
5. Unless an alternative funding plan is developed, debt exclusions should be utilized when borrowing for major capital projects such as new construction or major renovations to existing facilities;
6. Reserves for snow and ice deficits that remain unexpended in any year may only be used for capital expenses or other one-time expenses such as contributions to OPEB, Stabilization or Special Stabilization accounts and not allowed to supplement operating expenses;
7. Infrastructure maintenance budgets (such as Roadway Improvement); capital spending or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets;
8. A minimum appropriation to the Capital Stabilization fund will be made annually in the amount of at least 1% of the total General Fund Capital Plan;
9. The Town will continue its commitment to adequately fund the current Facility Maintenance Study and update the study as needed.

Section 22 – <u>Exclusions / Debt Exclusion Stabilization Fund</u>

It is the intention of the Town to minimize the amount of debt and capital exclusions since this amount has a direct impact on the taxpayer. As a general guideline, the tax impact of excluded items should be held to less than 10% of the single tax rate. For example, if the single tax rate is $16.50, the amount of tax from exclusion items should not contribute more than $1.65 to this rate. In some instances, such as periods where multiple projects may be in process or recently bonded, this guideline may be exceeded. In those instances, the Finance Committee, in conjunction with the Finance Director, should develop a plan to reduce this ratio by either reducing or eliminating capital exclusions or delaying future projects, if circumstances allow.

A Debt Exclusion Stabilization Fund may be utilized as a method of controlling the impact of excluded items on the tax rate:

1. Identified one-time revenues may be added to a debt exclusion stabilization fund and allowed to accumulate from year-to-year in anticipation of a major project. Funds added here may be used to reduce the amount of debt needed to be placed when final bonding occurs, thereby reducing the level of excluded debt.
2. This account may also be used as a funding source for portions of existing excluded debt service as a way to reduce the overall tax effect of the excluded debt. Funding large amounts of excluded debt in a given year without the capability of repeating that payment in subsequent years may result in a larger than normal spike in the tax rate. Careful planning must therefore be used when allocating funds from

inside the levy to pay debt service costs from outside the levy taking into account projected available funding in subsequent years and projected tax rates based on current assumptions.

3. In addition to one-time revenues, this account may also be funded by a portion of the undesignated fund balance in accordance to that section of this policy.

The use of these funding strategies as a way to reduce the effects of excluded debt does not replace the need to obtain the initial debt exclusion votes for major projects as described in item #5 above.

Section 23 – __Use of Revenues / Available Funds__

In addition, the following savings plan will be incorporated into each budget cycle:

	Item	Description
a.	New revenues	At a minimum, 10% of the new recurring revenue stream should be left un-appropriated and allowed to roll into the UFB. Recurring revenues are defined as total revenue less capital and debt exclusions and any other specific non-recurring revenue items.
b.	One Time Revenues	One time sources of revenue should be appropriated to the Stabilization Fund or other such reserve fund, or appropriated for a one-time expenditure. One time revenues will not be used in funding the Town Operating budget.
c.	Debt service	100% of the year-to-year decrease in non revenue supported debt service from inside the levy limit be rolled into the UFB or made available for capital expenditures. These funds may not used in funding the Town Operating budget.
d.	Old Warrant Articles	Funds set aside inside the levy from warrant articles that have not been spent after 3 fiscal years will be closed out to UFB or appropriated for the purchase of one-time expenditures. These funds will not be allowed to fund any portion of the current operating budget as detailed in the fiscal year Tax Recap worksheet by December 31st.

Section 24 - __Employee costs - Union & non-union employees__

Employee costs are by far the largest expense for the Town. It becomes imperative for the Town to understand the total compensation impacts when negotiating and approving collective bargaining agreements with unions and by-law changes for non-union employees. Although some Boards or Committees are allowed under MGL to negotiate contracts on their own, it is in the best interests of the Town and its ongoing financial health that a cooperative spirit exists between all Town officials. Regular dialogue must exist between the negotiating team, Board of Selectmen, School Committee, Finance Committee, Finance Director and Personnel Board (as applicable). Analysis of the changes in employee total compensation for the life of the contract must be completed prior to any approvals. This analysis should include items which on the surface may not appear to have a significant financial impact such as staffing levels, changes to work rules, paid time off, potential impacts to overtime and other benefits. The negotiating team for union contacts or the Personnel Board for by-law employees should be given a range, derived from this analysis, upon which to negotiate or propose by-law changes, as applicable.

The Town must also be aware of "future costs" when dealing with staffing changes for benefit eligible positions. Pension costs and retiree health insurance, including the funding of the Town's OPEB liability must be taken into consideration in any staffing analysis and review as these future liabilities continue to grow and remain unfunded. The Town's commitment to its employees and retirees as it relates to health and life insurance benefits are detailed in the *Policy on Group Health and Life Insurance Coverage for Active Employees and Retirees*.

Estimated expenses from the above analysis, related to the normal costs of both OPEB and pension liabilities, will be accumulated during each fiscal year. Pension normal cost will be estimated at 4% of total salary. OPEB normal costs will be based on estimates from the Town's actuary taking into consideration age, sex, and retirement group. Year end contributions to both the pension and OPEB funds will be made based on these accumulated normal cost estimates. In each case, the year end contributions will roll into the following year or until the next actuarial study is completed. Currently, actuarial studies are performed on each of these liabilities every two years. The additional contributions will assist the Town in attempting to keep up to date with the normal cost component of the annual required contributions of both funds.

Section 25 - <u>Budget Calendar & Process</u>

While the Town Administrator is responsible for the budget process, the budget calendar and process is decided jointly by the Town Administrator, Finance Committee, Board of Selectmen and Finance Director. Recommendations to changes in the process should be made after a discussion of the prior year process to determine process improvements based on particular projects or the financial needs of the Town.

Town officials and department heads will adhere to the following budget cycle calendar:

Note: dates shown are approximations and may be adjusted to reflect actual dates for each budget cycle.

Annual Town Meeting & Budget Planning Calendar		
Date	Milestone	Comment
September 15th	Budget message developed based on initial projections from Finance Director	Board of Selectmen upon recommendation of Finance Director
September 30th	Budget and capital plan documents distributed to department heads	Finance Director to Town and School departments
October 31st	All required budget documents, including capital plan items, to be submitted to Finance Director	From Town departments
	School Committee submits initial budget projections and capital plan	
October/ November	Tax classification working group session	BOS, Assessors & Town Finance Departments

Annual Town Meeting & Budget Planning Calendar		
Date	Milestone	Comment
October / November	Finance Committee meets individually with departments to review requests	
November	Tax Classification hearing	scheduled after fall Special Town Meeting
November 15th	Finance Director submits initial budget documents to Board of Selectmen and Finance Committee	
November 30th	Budget review session with all departments	Saturday meeting
December 15th	School Department submits detailed budget and backup data reflecting total revenue and total expenditure projections	
January 15th	Finance Director presents a full budget overview for the Board of Selectmen and Finance Committee	Details of current budget cycle as well as projections for the following two (2) years
February 15th	School Committee provides updates to the latest budget request and backup data	
February 21st	Annual report deadline for all department reports	Reports to be submitted to Town Administrator's office
March 1st	Selectmen open Town meeting warrant	
45 days prior to Town Meeting	Selectmen close warrant	
March 31st	Final budget approvals from Board of Selectmen and Finance Committee	
April 10th	Finance Committee report to be submitted to Town Administrator	final report sent to printers
14 days prior to town meeting	Town Meeting Report to be mailed to all residents	per Town Code sec 41-3
April 30th	Moderator's meeting	
1st Monday in May	Annual Town Meeting	

Section 26 - Policy Review

This policy will be reviewed annually by the Board of Selectmen, Finance Committee and the Finance Director. Regardless of changes, this policy must be approved by vote of the Board of Selectmen and Finance Committee annually.