



Town of Littleton

Financial Management Policy

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 overall 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 Select Board, 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, pension, 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 maintain and improve the services provided to the residents of the Town in the most cost efficient manner;
4. To maintain adequate reserve levels, as defined later in this policy, 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;

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7. To stabilize the Town's tax rate and avoid appropriation spikes;
8. 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 Finance Committee 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 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 (see Section 13- Stabilization);
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.

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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 Select Board. 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 Select Board 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 Select Board should be mindful of the 150% CIP factor, the usual maximum factor allowed by statute.

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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 Select Board of any potential impacts that current year decisions may have on future tax rates.

It is recommended that the Select Board, 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 Select Board, Finance Committee 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 Select Board will establish a Tax Increment Financing /PILOT Committee that will negotiate any agreements based on goals, objectives and priorities established by the Select Board. The committee should include the following: 1 member from the Select Board, the Finance Director, Town Treasurer, Chief Assessor and 1 member from the Board of Assessors. 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 Select Board.

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.

In a year where the School Department has year-end expenditures less than its appropriation and the amount is certified by the State, then that amount would be deducted from the total certified free cash amount prior to any allocation below and be deposited to the School Building Stabilization Fund at the next annual Town Meeting (see Section 25). This transfer will be made provided the resulting balance of certified free cash is above the 5% minimum balance.

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

1. Maintain a minimum UFB balance of 5% of the Total Operating Budget;
2. Appropriate amounts above the 5% minimum threshold (items a & b);
3. Benchmark balance, noted in item (c) below, is 7.5% of the Total Operating Budget. This benchmark balance must be met before funding items d-I below;
4. Any unused UFB may only be appropriated to Capital Stabilization, over and above any percentage caps designated below, or left unused to roll into free cash the following year.

	<u>Use</u>	<u>Description</u>
a.	General Stabilization	appropriate amounts from the UFB to maintain the balance of the General Stabilization fund as detailed in Section 13 below;
b.	Capital Projects	appropriate amounts up to 2.5% of the Total Operating budget for capital items for which long-term borrowing is authorized or for other expenditures of a non-recurring nature;
c.	Benchmark balance	the remaining balance of the UFB must meet the 7.5% threshold as defined above before any additional funds may be appropriated
d.	OPEB/Pension Additional contribution	Appropriate amounts up to 20%, with a minimum of 10%, of the excess balance of the benchmark identified in item (c) to the OPEB and or Pension fund(s).

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	<u>Use</u>	<u>Description</u>
e.	Other Reserve Additional Contributions	Appropriate amounts up to 50%, with a minimum of 20%, of the excess balance of the benchmark identified in item (c) to augment any combination of the following reserves – general stabilization, debt exclusion stabilization and or capital stabilization including any other capital stabilization fund established for specific projects. Capital Stabilization must be funded to at least the minimum amount identified in Section 21 item 8
f.	CPC Blended Funds	Appropriate amounts up to 10%, with a minimum of 5%, of the excess balance of the benchmark identified in item (c) as a blended fund deposit into the CPA account as described in both Section 16 and the CPA Appendix to this policy. This blended deposit should not exceed the 1% surcharge currently assessed. The Select Board, Finance Committee and Community Preservation Committee shall jointly determine the appropriate allocation of the funds within the CPA accounts;
g.	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;
h.	Additional Capital Projects	Appropriate amounts up to 20% of the excess balance of the benchmark identified in item (c) to fund additional capital projects (see item b above)
i.	Extraordinary Uses	Exception only – with approval of Select Board and Finance Committee upon the recommendation of the Finance Director.

Section 13 – General Stabilization

The General 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 General 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 the General Stabilization account should not be earmarked for specific capital needs¹. The Town should endeavor to avoid the use of any stabilization fund balance, or any other reserve balance to fund a recurring expense in the operating budget. A two-thirds vote at Town Meeting is required to appropriate funds from this account. All interest shall be added to and become

¹ In this instance, the establishment of a specific Capital Stabilization account (see Special Stabilization section) to support future capital needs is the preferred method.

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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 General Stabilization Fund;
2. In budget years where the balance of the fund is already greater than the 5% minimum noted in item 1 above, a minimum deposit of \$100,000 shall be made from available free cash as outlined in Section 12, item a, until the balance of the account reaches a target level of 8%. Further contributions to the account once over the 8% target are optional;
3. The maximum balance of the General Stabilization fund should not exceed 10% of the Total Operating Budget;
4. Withdrawals from General 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 General 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.

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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/or improve the Town's 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

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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 most efficient 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 Select Board, 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.

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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/Pension, 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 proactive 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/Pension, 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 that had been reduced or eliminated 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, budgeting for the Snow and Ice deficit 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 Stabilization Fund*²**

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 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 funding will be updated annually by the Finance Director and presented to the Select Board;

² Established under Article 6 of May 6, 2013 STM – "...to create a Capital Stabilization Fund for the purpose of funding any capital-related project, or pieces of capital equipment, or debt-service payment related thereto, as authorized by Chapter 40, Section 5B of the General Laws..."

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3. Capital purchases will be accomplished either as a capital exclusion item, a raise and appropriate article when funds within the levy are available, a withdrawal from a capital or special stabilization fund or an appropriation from the UFB;
4. Capital purchases may not be made from a 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/Pension, Stabilization or Special Stabilization accounts and not allowed to supplement operating expenses, with the exception of Roadway Improvements budgeted annually;
7. Normal Infrastructure maintenance budgets (such as Roadway Improvement); capital spending or facility maintenance budgets built into the general operating budget (outside of one time supplemental appropriations) 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 amount of capital purchases made from the General Fund (raise and appropriate);
9. As mentioned in Section 13, the establishment of specific Capital Stabilization accounts, such as the Senior Center Stabilization Fund and School Building Stabilization Fund that support future capital needs or projects, is the preferred method of funding. A majority vote of Town Meeting is necessary to withdraw funds from a special stabilization fund.

Section 22 - Exclusions / Debt Exclusion Stabilization Fund³

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.

³ Established under Article 12 of May 2, 2016 ATM – "...to create a Debt Exclusion Stabilization Fund for the purpose of reducing the amount of existing debt service and/or the amount of debt needed to be placed when final bonding occurs for borrowing authorizations, both having been exempted from the provisions of Proposition two-and-one-half, so called."

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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 with section 12 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 of Section 21 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 unappropriated 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 be 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, Select Board, School Committee, Finance Committee, Finance Director and Personnel Advisory Board (as applicable). Analysis of the changes in

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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, stipends, and potential impacts to overtime, FLSA and other benefits. The negotiating team for union contracts and the Finance Director 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 - Littleton School Department

As the largest departmental budget of the Town, the preparation of the School Department budget is an extremely important component of the budget process. Given that, the Select Board, Finance Committee and School Committee should be committed to maintaining a close working relationship where each side clearly understands the needs and decisions faced by each other.

Budget Data

The School Department shall follow the budget guidelines outlined in the annual budget message. Budget data by DESE code showing actual spending for the two preceding fiscal years, budget data for the preceding and current year and requested budget data for the following budget year, with dollar and percentage variances, should be submitted according to the schedule outlined by the Finance Director. Detailed explanations for major variances such as new personnel, salary increases, new programs etc. should be included.

In addition to data detailing the spending of the Town’s appropriation, the School Department should provide a detailed report on their reserves and revolving funds showing actuals for the preceding year, budgeted additions and withdrawals for the current year as well as estimated additions and withdrawals for the following budget year.

School Choice

Just as the Town has reserves, the School Department should maintain a level of reserves for unanticipated expenditures. School Choice funds, the main source of reserves for the School

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Department, should maintain a minimum balance of 5% of the school appropriation with a normal balance of 10% of the appropriation.

In some instances, those unanticipated expenditures may be of a recurring nature such as unbudgeted special education costs. Excess balances, when possible, should be spent on one-time expenditures such as minor renovations, capital items or a deposit into the School Building Stabilization fund for future school projects.

Pre-payment of expenses

Unlike the Town, the School Department has the ability to prepay certain costs for the next fiscal year. Once these prepayments are made it then becomes necessary for these prepayments to continue each year in order to avoid unnecessary spikes in the school appropriation from year to year. Every effort should be made by the School Department to avoid these budget spikes.

Surplus Appropriation Amounts

Changes to anticipated expenditures may occur during the school year. As with all departments, increased expenditures must be covered from within the appropriated amounts. In the event that a budget surplus may exist at the end of a fiscal year, the unspent amount of the school appropriation will be deposited to the School Building Stabilization Fund⁴ at the following Annual Town Meeting to cover future school capital items once the funds have been certified by the State (see Section 12).

Open communication between the School Department and the Town is essential in developing and maintaining a strong financial plan for the Town as a whole. While it is understood that the spending of the Town's appropriation is at the sole discretion of the School Committee this open communication will enable the Town to continue to provide an outstanding school system for our students without impacting other services for our residents.

Section 26 - Budget Calendar & Process

While the Town Administrator is responsible for the budget process, the budget calendar and process is decided jointly by the Town Administrator, Finance Committee, Select Board and Finance Director. Recommendations for 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 must be adjusted to reflect actual dates for each budget cycle.

⁴ Established under Article 26 of May 7, 2024 ATM – "...for the purpose of providing funds for the construction and/or rehabilitation of existing or new school buildings, reducing the amount of existing non-excluded debt and/or the amount of debt needed to be placed when final debt issuance occurs for borrowing authorizations, for school projects to be called the School Building Stabilization Fund ..."

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Date	Milestone	Comment
September	Financial Projections presented by the Town Administrator and Finance Director to the Select Board and Finance Committee	3–5-year projections used to assist in developing the budget message for the year
September	Budget message/directive developed by the Town Administrator, Finance Director, Select Board and Finance Committee, Budget and Capital documents distributed to Town and School Departments	Directive based on Select Board Goals and above projections
October 31 st	All required Budget/Capital documents due to Finance Director	Submitted by Town and School Departments
October/November	Finance Committee meets with individual Departments to discuss requests, Special Town Meeting held	
November	Tax Classification process – Working session and Hearing conducted with Select Board and Assessors	Held after fall STM, Tax bills must be issued prior to December 31 st
December 1 st	School Committee detailed budget request submitted to Finance Director with backup showing total revenue and spending projections	
December/January	Town Administrator and Finance Director submits annual budget report detailing Budget/Capital requests to Select Board and Finance Committee, Joint Budget Review session held with all Departments and Boards	Review scheduled between Finance Committee, Select Board and School Committee
February – April	Budget requests considered for inclusion, balanced budget finalized for Town Meeting report	Town Meeting Report mailed per Town Code section 41-3, 14 days prior to ATM
1 st Tuesday in May	Annual Town Meeting	
June (1 st week)	Financial Policy Working Group (2 Finance Committee members, 2 Select Board members, 1 School Committee member, Finance Director, Town Treasurer and Town Administrator (ex-officio).	Finance Committee convenes the Working Group to review and recommend any changes to full Boards and Committees (see Section 27)

Section 27 - Policy Review

This policy will be reviewed annually each June by the Financial Policy Working Group. Their recommendations will be submitted to the Select Board, Finance Committee and School Committee. Regardless of changes, this policy must be approved by vote of the Select Board and Finance Committee annually and be ratified by the School Committee. The School Committee should also vote to accept Section 25 annually.

Glossary of Terms

Abatement - A reduction or elimination of a tax, fee or special assessments by the town.

Appropriation - Authorization by town meeting to make expenditures or incur debt for specific purposes.

Assessed Valuation - A valuation, based on full and fair market value, placed on real estate or other property by the Town as a basis for levying taxes.

Audit - An examination of financial systems, procedures, and data by independent certified accountants.

Available Funds - Funds established through previous appropriation or the results of favorable conditions. Examples are Stabilization, Free Cash Overlay Surplus, and Water Surplus.

Betterments - A special property tax on a specific area of town that receives a benefit from a public improvement. Each property owner that benefits receives a proportionate share of the project cost which may be paid in full or over 20 years. Examples are Water, Sidewalks, etc.

Bond - An obligation to pay a specific sum of money, including principal and interest, at a specific date or dates in the future.

Bond Anticipation Note (BAN) - Short term notes not to exceed ten years used to provide initial cash for Town Meeting approved projects prior to issuing long-term bonds.

Budget - A financial operating plea for the Town consisting of proposed revenues and expenditures for a certain period of time.

Capital Expenditure - An appropriation for assets or projects costing at least \$5,000 and having a minimum useful life of anywhere from three to ten years depending upon the asset. Examples are construction, major repairs or replacements to capital facilities or equipment, acquisitions, etc.

Capital Outlay Expenditure Exclusion - A vote by the Town to exclude payments for a single year capital project from the levy limit. The exclusion is limited to one year and may temporarily increase the levy above the levy ceiling.

Cherry Sheet - Official notification from the Department of Revenue of the next fiscal year's state aid and assessments to cities, town, and regional school districts. State aid consists of distributions (funds based on formulas) and reimbursements (funds for cost incurred for specific programs or services) Assessments are advance estimated of State and County charges.

Cherry Sheet offset items - Local aid that may be sent without appropriation in the budget, but which must be spent for specific programs. Examples are school lunch grants, library grants, etc.

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Classification of Real Property - Assessors are required to classify all real property as residential, industrial, commercial, or open space. Local officials then determine what percentage of the tax burden is to be by each classification.

Classification of the Tax Rate - Select Board vote to determine the tax rate options. Communities may set as many as three tax rates: residential, open space, and commercial/industrial/personal property.

Debt Exclusion - A vote by the town to exclude debt service payments for a particular capital project from the levy limit. The annual debt service payments are added to the levy limit for the life of the debt only.

Debt Service - The annual cost of principal and interest for a particular bond

Encumbrance - Part of an appropriation that is reserved to meet an obligation in the form of purchase orders, contracts, or salary commitments.

Equalized Valuations (EQV) - The determination bi-annually of the full and fair market value of all property in the state that is subject to local taxation. The EQVs are used as variables in determining State aid, County assessments and certain other costs.

Estimated Receipts - Estimates of miscellaneous state and local receipts based on previous year's receipts deducted by the assessors from gross amount to be raised by taxes.

Excess Levy Capacity - The difference between the levy ceiling and the actual amount of real and personal property taxes raised for a given year.

Exemptions - Partial or full discharge of a tax obligation granted by the Board of assessors.

Fiscal Year - The state and local municipalities operate on a fiscal year that runs from July 1 and ends the following June 30.

Fixed Cost - Mandated cost such as retirements, insurance and debt

Foundation Budget - The target amount set by the state for each school district that defines the level of spending necessary to provide all students with an adequate education.

Free Cash - Moneys remaining from the previous fiscal year's operations certified by the DOR which are available for appropriation.

General Fund - This non-earmarked fund is used to account for most financial transactions governed by town meeting.

Levy Ceiling - The maximum tax assessed on real and personal property may not exceed 2½% of the total full and fair cash value of all taxable property. Property taxes may exceed this limit only if the town votes a capital outlay exclusion, or a special exclusion.

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Levy Limit - The maximum amount a community can levy in a given year. The limit can only grow by 2½% of the previous year's limit plus new growth

Local Aid - Revenue that the town receives from the state.

Local Receipts - Revenues the town generates other than real or personal property taxes. Examples include investment income, motor vehicle excise tax, fees, rentals, etc.

Minimum Regional Local Contribution - The minimum amount of money that the town must appropriate from property taxes and other revenues for the support of schools.

Net School Spending - Includes both school budget and town budget amounts attributable to education, excluding long-term school debt, busing, school lunches, and certain other specified school expenses.

New Growth - Taxing capacity added by new construction and other increases in the property tax base. New growth is calculated by multiplying the value of new construction by the previous year's tax rate.

Offset Receipts - Certain amounts on the Cherry Sheets for specified programs for which only the money can be spent.

Operating budget - The proposed plan for expenditures for personnel, supplies, and other expenses in the coming fiscal year.

Overlay - An account set-aside for property tax exemptions and abatements.

Override - A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

Property Tax Levy - The amount a community can raise through property tax. The levy can be any amount up to the levy limit plus exclusions.

Reserve Fund - An amount of money set aside in the budget to provide funding for unexpected or extraordinary expenditures.

Residential Factor - The percentage of the tax levy to be paid by property owners. A residential factor of "1" will result in the taxation of all property at the same rate. Select Boards set the residential factor annually.

Revaluation - The town assessors are responsible for achieving a fair cash value of all taxable property in accordance with state law. Every five years the assessors must submit certified property values to the State Department of Revenue (DOR). These values must be maintained in the years between certifications.

Revolving Fund - Revenues raised by the town for a specific service. The revenues are to be used only for that specific service and may be spent without appropriation.

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School Building Assistance Program - This program provides state aid or grants for local and regional school construction projects.

Special Exclusion - The Town for limited capital purposes may assess taxes above the amount of its levy limit or levy ceiling without voter approval. There are presently only two special exclusions:

Water and sewer project debt service cost which reduce water and sewer rates by the same amount; and a program to assist homeowners to repair or replace faulty septic systems, removal of underground fuel storage tanks, or removal of dangerous levels of lead paint to meet public health and safety codes. Homeowners then repay the town similar to betterment.

Stabilization Fund - A fund in which money is set aside for any lawful purpose. A two-thirds vote of town meeting is needed to appropriate money from the account.

Tax Rate - The amount of tax stated in terms of a unit of the tax base; for example, \$13.50 per \$1,000 of the assessed property value.

Underride - A vote by the town to permanently decrease the tax levy limit.

Unreserved Fund Balance - This is also referred to as the "Surplus revenue account". It's the amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves.

Warrant - The list of items to be acted upon by Town Meeting.

Water Surplus - Any revenues in excess of estimated water receipts or unspent water appropriations. Water surplus may be appropriated to fund water-related general and capital expenses or to reduce water rates.