

Town of Topsfield
Massachusetts



FINANCIAL
POLICY GUIDELINES

December 20, 2018

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Adopted on December 20, 2018

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INTRODUCTION

To ensure the continued financial well-being of the Town of Topsfield; to provide the public with confidence that Town officials seriously respect their responsibility for fiscal stewardship; and to demonstrate to bond rating agencies that the Town has thoughtfully prepared for its future, the objectives and guidelines outlined below will be duly considered by the Town in establishing fiscal policies and to guide the Town's financial decision-making process. These policy guidelines are a tool that may be amendable by the responsible public body as the case may be, unless otherwise governed by law or the Town's By-Laws. These policy guidelines should be reviewed periodically by the Town Administrator and designated staff on an annual basis and updated as necessary with the appropriate public body(ies).

This document is intended to establish a set of written financial management guidelines, and not the procedures that identify specific methods and actions necessary to carry out these policies. Policies and guidelines are the terms which help guide and direct the town in making financial management decisions. They should be structured with the flexibility necessary to address the complexities of municipal finance that often include unique, unexpected or extraordinary circumstances. Financial management policies and guidelines are established to support approaches and strategies as they are created or evolve to address ever-changing challenges that face municipalities in the Commonwealth.

The Town extends its appreciation to the Commonwealth of Massachusetts' Division of Local Services for awarding the Town with a \$35,000 Community Compact Grant to undertake this project. The Town recognizes, and extends its appreciation to, the staff and consultants of the Edward J. Collin's Center for Public Management for providing technical assistance to the Town's Financial Management Team as they worked to compile, refine and formalize these policy guidelines.

The objectives of the Financial Management Policy Guidelines are as follows:

1. To guide the Board of Selectmen, Finance Committee, and management staff in evaluating and implementing decisions that have significant impact on the Town.
2. To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.
3. To employ balanced and fair fee and user revenue policy guidelines that provide funding for required and needed programs.
4. To regularly evaluate the Town's financial capacity to meet present and future needs.
5. To promote credible and sound financial management by providing accurate and timely information on the Town's financial condition to elected officials, staff, the public and external interests.
6. To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.
7. To promote improvement in the Town's credit rating and provide financial resources sufficient to meet the Town's obligations on all municipal debt and other long term obligations.
8. To establish an effective system of internal controls that ensures the legal use of financial resources.
9. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

1. GENERAL BUDGET

1-A Balanced Budget

Background: All Massachusetts municipalities are required by state law to prepare balanced annual budgets. The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

Policy Guidelines: The Town should adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures should be realistically budgeted and estimated revenues should be conservatively budgeted to allow for unanticipated events. The Town should present said estimates and assumptions behind revenue estimates along with the balanced budget. The Town will strive to minimize the use of one time or other nonrecurring revenues to fund ongoing expenditures. The Town will strive to avoid using budgetary procedures that balance the budget at the expense of future years. The Town budget should support a financially sound operating position by maintaining reserves for emergencies, providing sufficient liquidity to pay bills on time, and avoiding revenue anticipation borrowing.

References:

- *Topsfield By-Laws: Chapter II, Administration, Article IV Finance Committee; Article X Town Administrator Powers and Duties*
- M.G.L. c.44, §31
- *Achieving a Structurally Balanced Budget*, Government Finance Officers Association Best Practice, February 2012

1-B Submission of Budget and Budget Message

Background: Two important principles of public budgeting are transparency and effective communication. The GFOA considers the preparation of the annual budget document of great importance in providing detailed financial information and also explaining the key issues that face the community. It is also important to broadly distribute the appropriate information to the staff, elected and appointed officials and the general public in order to give them a greater understanding of the operations, financing and key issues confronting the community.

Policy Guidelines: The Finance Committee's budget proposal to Town Meeting will strive to include a financial plan including all general and enterprise funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents. The budget message from the Finance Committee should strive to explain the proposed budget for all Town departments in fiscal terms. It should summarize financial policies for the Town for the ensuing fiscal year, describe the important features of the budget, indicate any major differences from the current fiscal year, expenditures, and revenues, together with the reason(s) for such changes, summarize the Town's debt position, and include such other material as the Finance Committee deems desirable, or that the Board of Selectmen and Town Meeting may reasonably require.

The Town should work toward the implementation of a budget document that meets the high standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

References:

- *Topsfield By-Laws Chapter II, Administration, Article IV. Finance Committee*

1-C Revenue and Expenditure Forecast

Background: A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast(s). Long term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality. The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time. A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow the Town Administrator and staff, the Finance Committee, and the Board of Selectmen to test various “what-if” scenarios and examine the fiscal impact on future budgets.

Policy Guidelines: Each year the Town Administrator, in consultation with the Finance Committee, will work to prepare a five-year Financial Forecast based on current service levels and current funding sources. The Town should strive to incorporate and include future anticipated Capital Improvement Program expenditures in the forecast.

The forecast may be used as a budget tool to enable Town officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast may be utilized to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast may be used to: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; 2) identify the resources needed to maintain required enterprise fund operations; and 3) estimate impact on taxpayers and rate payers.

The Town Administrator, in cooperation with the Finance Committee, will review fiscal assumptions every year and will use that information for preparation of an updated forecast. The Town Administrator will strive to share the forecast and associated assumptions with the Board of Selectmen and the Finance Committee by December 31st and will provided them no later than the review of the annual budget requests by the Finance Committee.

References:

- *Topsfield Revenue/Expenditure Forecast FY2018-FY2022 and Manual*, Edward J. Collins Center for Public Management
- *Revenue and Expenditure Forecasting*, MA DOR Division of Local Services Best Practice.
- *Financial Forecasting in the Budget Preparation Process*, Government Finance Officers Association Best Practice, February 2014.
- *Financial Management Assessment*, Standard and Poor’s, June 2006.

1-D Position Control/Vacancies

Background: A large segment of a town’s budget is its personnel costs. Failure to accurately monitor the personnel budget can lead to: errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

Policy Guidelines: The Town will maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets will be prepared in such a way that they account for all the costs necessary to cover positions that the Town has budgeted during the then current fiscal year. Proposed changes to personnel staffing levels should be identified during the budget review process. Proposed increases to personnel levels should be analyzed to ensure that all personnel costs and employee benefits, including pension and insurance liabilities, can be fully identified and calculated for consideration during the budget planning process.

1-E Personnel Policies and Labor Contracts

Background: The Town has approximately 245 full and part time town and school employees and a total of 7 unions and associations. For the purposes of these guidelines, the following definitions will apply:

- **Personnel Policies** are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.
- **Pay and Classification Plans** are the schedules that identify employees by job category, job title, and union/non-union status on a typical Grade structure. Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- **Memorandums of Agreement (MOAs)** are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- **Collective Bargaining Agreements (CBAs)** are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union.
- **Side Letters** are documents that represent a short term agreement between a municipality and a union.

Policy Guidelines: Pay plans and pay rates will be regularly monitored to ensure accuracy and compliance with labor contracts and personnel policies. Contract proposals and agreements will be fully costed out to understand the short and long term impact on Town finances. In order to foster transparency in the provision of employment agreements and benefits, the Town will prepare and maintain documents that are publicly available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements and side letters.

References:

- *Topsfield By-Laws Ch. XL Personnel*
- *Topsfield Personnel Rules and Regulations*

2. ENTERPRISE FUNDS

Background: Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

Policy Guidelines: Enterprise Funds (e.g., Water Enterprise Funds) will be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs should be explicitly documented and agreed upon by Town Accountant, Treasurer and Enterprise Department Heads. Rates and fees for enterprise services will be set at a level to provide for self- supporting enterprise operations, including direct and indirect costs. Capital projects should be financed from enterprise revenues and grants.

Enterprise Funds should be reviewed annually by the responsible board, commission, or department head to project revenues and expenditures for the next fiscal year and generate estimates of the current fiscal year and the projections for future years in order to prevent the need for subsidy by the General Fund operating budget. Estimates of capital project costs, debt service, and other liabilities should be included in this analysis in order to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency.

Specific to the Water Enterprise, changes in the rates and/or rate structure should be carefully analyzed prior to recommendation and implementation in order to ascertain the short and long term impact on rate payers.

References:

- MGL, Chap 44, Sec 53F1/2
- Enterprise Funds, MA DOR Division of Local Services Best Practice

3. RESERVE FUNDS/FUND BALANCES

Background: Formal written policy guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances can also impact a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus.

With the approval of the Finance Committee and the Board of Selectmen, policy guidelines for this Section 3 may be modified. The Finance Committee may recommend actions taken in variance with the policy guidelines, based upon economic conditions or other factors related to the Town's financial condition. Significant modifications of, or variances from, these guidelines should be detailed in the annual Finance Committee letter to the Town.

3-A. Free Cash

Background: The Division of Local Service's *Municipal Finance Glossary (May 2008)* defines Free Cash as:

Free Cash (Also "*Budgetary Fund Balance*") – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency or any other unanticipated expenditure, non-recurring capital expenditures, and uneven cash flow. Free cash can serve as a source to fund capital items or replenish other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balances to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures).

DLS recommends that a municipality strive to generate free cash in an amount equal to 3-to-5% of its annual budget, less enterprise funds.

Policy Guidelines: The Town will endeavor to eliminate dependence on free cash to fund on-going, reoccurring expenses in the annual operating General Fund budget.

The Town will endeavor to maintain a target minimum free cash balance of 3% of the prior year's tax levy after town meeting appropriations. Amounts in excess of this amount may be made available and recommended for capital purchases, one-time expenses, reserve funds or other discretionary grant awards and donations as may be authorized and appropriated by Town Meeting vote.

Free cash will not be fully depleted in any year, so that the following year's calculation will begin with a positive balance.

Free Cash may be used for certain one-time expenditures, such as capital items, emergencies, other unanticipated expenditures, or to replenish other reserves. The Finance Committee may recommend, and Town Meeting may vote, to use any remaining free cash above the target minimum balance to reduce the tax levy, with the amount of the reduction to be typically less than 1% of the tax levy.

References:

- *Topsfield Finance Committee, Reserves and Capital Policies.*
- *Free Cash, MA DOR Division of Local Services Best Practice.*
- *Appropriate Level of Unrestricted Fund Balance in the General Fund, Government Finance Officers Association Best Practice, September 2015.*
- *Reserve Policies, MA DOR Division of Local Services Best Practice.*

3-B. Stabilization Funds

Background: A stabilization fund allows a Town to maintain a reserve to enhance the Town's fiscal stability. By state law, it allows a town to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose.

Under state law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into and from them in any year. Generally, a majority vote of town meeting is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund. In accordance with MGL Chapter 40, Section 5B, the total of all stabilization fund balances should not exceed 10% of a municipality's equalized values (the sum of the valuation of all property in town).

General Stabilization Policy Guidelines: The Town will strive to maintain a General Stabilization Fund of not less than 5% of the prior year's tax levy for the purpose of extraordinary or unforeseen expenditures. If the fund balance is below the target amount, the Town will strive to make annual appropriations into the fund to achieve the target amount within five (5) years. Once this target has been reached, the Town will strive to appropriate an amount each year to maintain the fund at least at the target value, which will grow as the tax levy grows. The Town will endeavor to leave the stabilization fund balance unspent at the target amount, except in the event of an emergency or extraordinary or unforeseen events. If it is necessary to draw down from the General Stabilization Fund, the Town will make efforts to restore it to at least the target amount through the annual appropriation of revenues such as free cash and/or one-time revenues.

Capital Stabilization Policy Guidelines: The Town will maintain a special purpose Capital Stabilization Fund that may serve as a funding source for the Town's Capital Improvement Plan, including any associated debt service. The Town will strive to maintain a Capital Stabilization Fund of not less than 3% of the prior year's tax levy. If the fund balance is below the target amount, the Town will strive to make an annual appropriation into the fund to achieve the target amount within five (5) years. If the Fund is drawn down, the Town will make efforts to restore the Fund to the targeted funding level through an annual appropriation of revenues such as free cash and/or one-time revenues.

References:

- *M.G.L. c. 40 §5B*
- *Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.*

4. CAPITAL IMPROVEMENT PLAN

Background: Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sound manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment. Adherence to this policy will help the Town meet its capital needs despite limited resources. A delay in necessary infrastructure upgrades will frequently require a catch-up period to properly address problems caused by deferred maintenance and replacements. Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

Policy Guidelines: Each year, the Town Administrator will submit a five-year capital improvement plan to the Selectmen and Finance Committee. All Officers, Boards, Commissions, and Committees should, by the end of November of each year, submit to the Town Administrator information concerning all anticipated Capital Projects and Purchases requiring Town Meeting action. The Town Administrator will submit a list of departmental Capital Budget requests for the upcoming year to the Board of Selectmen and Finance Committee by the end of December. A five-year capital improvement plan with recommendations will be submitted to the Board of Selectmen and Finance Committee no later than the end of January.

To qualify as a capital expenditure, a proposed capital item or project must have a useful life of five years or more, and must exceed \$5,000 in cost.

At a minimum the following principles will guide the development of the CIP:

- The Town Administrator will prepare forms and instructions and coordinate development of the capital improvement budget.
- Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts, as appropriate.
- Capital projects should be prioritized based upon criteria established by the Town.
- Federal, state or private grants or loans should be used to finance only those capital improvements that are consistent with the Town's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.
- The Town should maintain all assets at a level that is adequate to protect the Town's capital investment, and to minimize future maintenance and replacement costs.
- The Town should endeavor to identify ongoing maintenance needs, preventative maintenance activities and replacement schedules on an annual basis.
- The Town should endeavor to develop and project maintenance schedules in consultation with professional and experienced facilities management personnel and/or qualified consultants.
- The Town should endeavor to identify and fund adequate staffing resources and/or skilled technical contractors to assess the Town's facilities, equipment and building maintenance needs.
- The Town should endeavor to project all equipment replacement and building repair needs for the next five years. Once established, the projection should be updated each year.
- The estimated costs and potential funding sources for each proposed capital project should be identified before it is submitted to Board of Selectmen and the Finance Committee for Town Meeting appropriation.

References:

- *Topsfield Capital Improvement Program*, Edward J. Collins Center for Public Management
- *Massachusetts DOR/Division of Local Services*, Developing a Capital Improvement Program
- *Financial Management Assessment*, Standard and Poor's, June 2006.

5. CAPITAL IMPROVEMENT FINANCING AND DEBT MANAGEMENT

Background: Debt management is essential to the overall financial planning of any municipality. Borrowing funds and repaying over a number of years allows the Town to finance essential projects that the town could not afford to pay from current operating dollars and also spread the cost to citizens who will be benefitting from the capital investment. It is critical to develop policies and guidelines for the issuance, timing and tax impact of current and future debt. For those projects supported by user fees, it is important to identify the impact on user rates as a result of debt service costs.

For the purpose of these policy guidelines, the following definitions will apply:

- **General Fund Debt Service** – All town debt service (non-exempt and Proposition 2 ½ exempt) excluding Water Enterprise Fund debt service. Note that this includes any assessments of debt service for regional entities.

- **General Fund Budget** – The “Total Amount to be Raised” by the town as reported on the tax recapitulation form, less the amount reported as Water Enterprise Fund revenue. Note that this includes any assessed amounts for regional entities.
- **General Fund Debt Service as a % of General Fund Budget** - The percentage of the town’s General Fund Budget that is allocated to General Fund Debt Service.
- **Water Fund Debt Service** – All Water Enterprise Fund debt service for the Water Department capital projects.
- **Water Fund Budget**- The total amount of revenues reported on the tax recapitulation form for the Water Enterprise Fund which is the amount required to provide for a self-supporting water system.
- **Pay As You Go Capital Projects** – Capital projects that are funded with current revenues (typically tax revenue, grants or user fees) and/or reserves (typically free cash or stabilization funds)

Policy Guidelines: Topsfield’s Capital Improvement Program (“CIP”) should be prepared annually by the Town Administrator in accordance with the following policy guidelines:

- **Outside Funding** – State, federal, or private grant funding will be pursued and used to finance the capital budget wherever possible.
- **General Fund Debt:**
 - **Debt Exclusion** – Large capital projects, typically in excess of \$1 million, will be recommended to the Board of Selectmen and Finance Committee for consideration of funding by a Proposition 2 ½ Debt Exclusion. The decision to place a debt exclusion question on the ballot rests with the Board of Selectmen, and Topsfield voters decide whether a debt exclusion is approved. A debt exclusion vote would allow the Town to collect annual revenues sufficient to pay new debt costs, while not impacting funds necessary to maintain the annual town and school operating budgets.
 - **Non-Exempt Debt** – Smaller projects and large capital equipment purchases may be funded by non- exempt debt with a careful review of the timing and impact on the operating budget, while also taking into consideration the need to maintain the town’s investment in its capital infrastructure and equipment.
- **Water Enterprise Fund Debt** – The Water Department operates as an enterprise system and all costs (direct, indirect and debt service) should be covered by water revenues. Water Department projects funded by debt will have a careful review of the timing and impact on water rates. The independently elected Board of Water Commissioners and Water Superintendent will strive to coordinate debt planning activities and borrowing decisions with the Town Administrator, Treasurer/Collector and the Board of Selectmen. Interdepartmental coordination will help to ensure the identification of financial impact(s) on Topsfield’s borrowing capacity and the overall financial condition of the Town.

- **General Fund Debt Service as % of General Fund Budget**– The annual Debt Service requirement should be targeted to be at a level that is no greater than **10%** of the town’s General Fund annual revenues (excluding enterprise funds).

Pay As You Go Local Funding – The first source of capital investment should be free cash. Even when a significant balance exists in this account, the Town will be cautious about the amount of funds to be used. Each year, the Town should strive to target 1-2% of the General Fund Budget towards pay-as-you-go capital spending. The Town may use modest amounts from the capital stabilization or other reserves above target levels to fund pay-as-you-go capital needs.

Debt-Financing/Borrowing Guidelines – The Town’s debt-financing and borrowing guidelines aim to establish a list of best practices to be followed in developing the Town’s Capital Improvement Plan and annual and long-term fiscal plans. The guidelines below strive to establish regular guidance for professional staff and Town officials charged with financial oversight and accountability for Topsfield’s financial well-being. Occasionally, alternative action may be deemed necessary to address unforeseen fiscal circumstances or financial conditions that may require alternatives to the stated guidelines.

- The term of borrowing for a capital project will not exceed its estimated useful life.
- The Town will aim to maintain a long-term debt schedule such that at least fifty percent (50%) of its outstanding principal will be paid within ten (10) years to fifteen (15) years.
- For any capital item proposed to be funded by debt, the cost of borrowing, including estimated principal and interest by fiscal year should be projected in a report prepared by the Town Hall Finance Team to be shared with the voters prior to the Town Meeting.
- The strategy of utilizing “level debt service” versus “equal principal and declining debt service cost”, and utilizing short-term versus long-term borrowing, will be analyzed by the Treasurer before borrowing is authorized.
- Refunding opportunities will be evaluated at least annually by the Treasurer to consider the possibility of future interest cost savings.

References:

- *Topsfield Capital Improvement Program*, Edward J. Collins Center for Public Management
- *Benchmarking and Measuring Debt Capacity*, Government Finance Officers Association
- *Topsfield By-Law, Article X, Town Administrator Powers and Duties*

6. GRANTS MANAGEMENT GUIDELINES

Background: The Division of Local Services recommends analyzing current and future impact of grants on operating budget, capital improvement program, and debt management. The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

6-A Grant Administration

Policy Guidelines: The Town will ensure that grants are efficiently and appropriately managed by the respective Boards/Commissions/Committee/Departments who receive the grant. Prior to acceptance of a grant award, the Town will strive to identify and should consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long-term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. Effective grant management helps promote the pursuit of grants that are in the Town's best interest and assure timely reimbursements to optimize cash flow, and to guard against year-end account deficits. As a legal contract, every grant agreement must be fulfilled in accordance with its prescribed terms and conditions, as well as applicable federal, state, and local regulations. Failure in this regard exposes the Town to legal and financial liabilities and compromises future grant funding.

No department should expend grant funds until after a fully executed agreement has been accepted and approved for expenditure by the Board of Selectmen (or the School Committee, when applicable). Further, no grant funds should be used to supplant an existing expense for the purpose of diverting current funds to another use.

The Town Accountant is responsible for consulting with departments on grant budgetary matters, accounting for grants in the general ledger, monitoring grant expenditures in excess of revenues and distributing monthly reports of grant expenditures to departments. The Town Accountant will also maintain a database of all grants and grant activity from inception to closure. The relevant Boards/Commissions/Committee/Departments are responsible to ensure consistency with award requirements and tracking the timeliness of reimbursement requests.

6-B Impact on Operating Budget

Policy Guidelines: When positions are funded by grants, the current and future impact on the operating budget should be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the Town's cost for providing that benefit.

6-C Impact on Capital Improvement Program

Policy Guidelines: When grants are accepted for capital purposes, the Town should include in its capital improvement program any share of costs associated with the grant and project the Town's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the Town's revenue /expenditure forecast.

References:

- *Administering Grants Effectively*, Government Finance Officers Association Best Practice, May 2013.

7. ESTABLISHMENT OF FEES AND CHARGES

Background: The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or other subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

Policy Guidelines: Town fees and charges should be reviewed periodically by the public bodies that set those fees and charges in relation to the cost of providing those services. The Town will compare rates with nearby communities to determine if the fees established are competitive. The Town may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

References:

- *M.G.L. c.140*
- *Emerson College v. Boston, 391 Mass. 415 (1984).*
- *Costing Municipal Services: Workbook and Case Study, MA DOR Division of Local Services' workbook.*
- *Establishing Government Charges and Fees, Government Finance Officers Association Best Practice, February 2014*
- *Division of Local Services, A Guide to Financial Management for Town Officials, p. 20-21.*

8. USE OF ONE TIME REVENUE

Background: The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize service disruptions due to the non-recurrence of these sources. The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as nonrecurring revenue.

Policy Guidelines: The Town should strive to minimize its use of free cash to fund the annual Town operating budget. To the extent consistent with Town priorities, one-time revenues should be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

9. UNFUNDED LIABILITIES

Background: Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Topsfield and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

9-A Pensions/Retirement

Background: The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State. The Town of Topsfield is a member of the Essex County Retirement System and pays an annual pension assessment to the County. Pursuant to current state law, the Essex County Retirement System has established, effective as of FY2017, a funding schedule to fully-fund this liability by the end of FY2035.

Policy Guideline: In accordance with state law, PERAC regulations and government accounting standards, the Town should strive to continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the County retirement board.

9-B Other Post- Employment Benefits (OPEB)

Background: OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) sets reporting standards and requires that accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Policy Guidelines: While there is currently no legal requirement to fund OPEB, the Town recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations. The Town will endeavor to appropriate \$300,000 per year into the irrevocable trust established under MGL c. 32B, §20.

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment. It applies to the Board of Selectmen and the Finance Committee in their budget decision-making duties, and it also applies to the OPEB-related job duties of the Treasurer and Town Accountant.

In order to determine the funding schedule, the Town will continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement. Careful consideration should be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment.

OPEB Funding Strategies: To address the OPEB liability, decision makers will annually analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town will derive funding for the OPEB trust fund from taxation, free cash, and any other legal form. Achieving full funding of the liability requires the Town to commit to funding its Actuarially Determined Contribution ("ADC") ADC each year, which is calculated based on actuarial projections.

Financial Policy Guidelines to fund the ADC:

- Strive to fund a minimum of \$300,000 per year from Free Cash to the OPEB Trust Fund.
- Strive to add an additional \$20,000 per year to the base contribution until the funding amount reaches \$500,000 per year.
- Target a contribution of \$500,000 per year to the OPEB Trust Fund.
- Once the pension system is fully funded, on a subsequent annual basis, appropriate to the OPEB Trust Fund the amount equivalent to the former pension-funding payment or ADC, whichever is less.

References:

- *MGL c. 32B, §20*
- *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, June 2015.*
- *Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2015.*

10. RISK MANAGEMENT GUIDELINES

Background: In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

Policy Guidelines: The Town's insurance programs will strive to be aimed at covering the potential impact of the types of property loss, personal injury, and liability the Town is exposed to on a regular basis. The Town should strive to develop and maintain a risk management program to protect the Town against the financial consequences of accidental loss of property, liability, fraud and personal injury to the extent possible through effective prevention and loss control policies and practices.

References:

- *Creating a Comprehensive Risk Management Program, Government Finance Officers Association Best Practice, March 2009.*

11. ACCOUNTING/AUDITING/FINANCIAL REPORTING

11-A. Annual Audit

Background: The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial

checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends a competitive selection process and a rotation of auditors provided there is adequate competition among qualified auditors. Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the Town chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

Policy Guidelines: The Town will utilize accounting practices that best conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The Town will have an independent outside audit performed by a certified public accountant each year. The Board of Selectmen will provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the Town government or of any of its officers or employees. The Town will require a Management Letter be provided as part of the independent public accounting firm as a companion document to the annual audit. The Town will either re-advertise for auditing services every five to eight years, or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The Town should strive to have the annual audit begin in November for completion by the end of December.

References:

- *Topsfield By-Law: Ch.II Art VI. Annual Audit*
- *Annual Audits, MA DOR Division of Local Services Best Practice.*

11-B Annual Financial Report

Background: A Comprehensive Annual Financial Report (CAFR) is a set of Government financial statements comprising the financial report of the municipal entity that complies with the accounting requirements promulgated by the General Accounting Standards Board (GASB). GASB provides standards for the content of a CAFR in its annual updated publication *Codification of Government Accounting and Financial Reporting Standards*. A CAFR is compiled by the municipal accounting staff and audited by an external Certified Public Accounting firm utilizing GASB requirements. It is comprised of three sections: Introductory, Financial, and Statistical. It combines the financial information of fund accounting and Enterprise Authorities accounting.

Policy Guideline: The Town should strive to work towards the preparation of a Comprehensive Annual Financial Report (CAFR) that meets the criteria established by the GFOA's Certificate of Achievement in Financial Reporting Program. This program encourages the preparation of a comprehensive report that goes beyond the annual audit report and presents information that enhances government transparency and disclosure.

11-C Monthly Reporting

Background: Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing. It enables the Town to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges.

Policy Guideline: The Accounting Department will produce and distribute to Department heads monthly budget-to-actual reports. If financial problems are indicated, the Accountant will review with the Town Administrator a monthly report of revenues and expenditures at the line item level.

11-D Cash Collections

Background: One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Treasurer/Collector's office, accounting office, legal counsel, tax assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

Policy Guidelines: The Town should collect all revenue using fair and consistent methods, exercising all powers provided to it under law. On or before September 1st, the Town should strive to commence tax title proceedings against all properties that owe property taxes to the Town.

The Treasurer/Collector will establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector will pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other Town officials to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector should execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the Town.

References:

- *Topsfield By-Laws: Ch.XXV Delinquent Taxpayers: License and Permits*
- *Revenue Collection*, Government Finance Officers Association Best Practice.

11-E. Reconciling Cash and Receivables

Background: Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the Accountant. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and an Accountant is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

Policy Guidelines: Within thirty days after the end of each month, the Treasurer/Collector should internally reconcile the cashbook to all bank statements, and the Treasurer/Collector should internally reconcile all receivable balances with the receivable control. The results of these activities should be forwarded to the Accountant's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Accountant will reconcile the variances (e.g., missing

information, errors, and timing differences). The Town should reconcile revenues and expenditures for each fiscal year within one to two months of the end of the fiscal year.

References:

- Treasurer's Manual 2009; Collector's Manual 2008: *Massachusetts Collectors & Treasurers Association*
- *Reconciling Cash and Receivables*, MA DOR Division of Local Services Best Practice February 2016

11-F. Cash Flow Forecasting and Budgeting

Background: The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may require temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessarily coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year. The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity.

Policy Guideline: The Treasurer/Collector will endeavor to develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

References:

- *Cash Flow Forecast in Treasury Operations*, Government Finance Officers Association Best Practice, February 2011.

12. PROCUREMENT AND PURCHASING

Background: The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B, and other related regulations. The State Inspector General's office has oversight of public purchasing laws and has published a comprehensive guide to Chapter 30B requirements.

Policy Guideline: The Town should follow the guidance contained in the Inspector General's "*The Chapter 30B Manual: Procuring Supplies, Services and Real Property*" in order to comply with the requirements of M.G.L. Ch. 30B. To supplement this guidance, the Town's Purchasing Agent will maintain a concise manual on purchasing procedures for department heads or others involved in Town purchasing or procurement.

References:

- *Topsfield Purchasing Procedures Manual*
- *Topsfield By-Laws: Article XXIV Procurement Contract*
- *Topsfield By-Laws Article X Town Administrator Powers and Duties*
MGL Ch. 30B Uniform Procurement Act

13. TREASURER INVESTMENT POLICIES

13-A. General Fund, Stabilization Fund and OPEB Trust Fund

Background: A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds. The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks. When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

Policy Guidelines: The Treasurer-Collector is responsible for developing and maintaining the policies for investing Town funds and will make all decisions regarding their management. The Treasurer/Collector will invest Town funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer/Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer Collector will submit a report of investments on a regular basis to the Town Administrator, and any respective Town Boards or Committees, as applicable.

References:

- *M.G.L. Ch. 40, §5; M.G.L. Ch. 44, §54, §55A, §55B; and M.G.L. c. 44B, §7*
- *Topsfield Investment Policy Statement for General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds 2017*
- *Topsfield OPEB Trust Investment Policy Statement 2017*
- *Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.*
- *Creating an Investment Policy, Government Finance Officers Association Best Practice, 2010.*
- *Financial Management Assessment, Standard and Poor's, June 2006.*

13-B. Post-Issuance Tax Compliance

Background: Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

Policy Guideline: The Treasurer/Collector should review post-issuance compliance procedures annually and implement revisions as deemed appropriate in consultation with bond counsel and Financial Advisor.

References:

- *Topsfield Post-Issuance Tax Compliance Procedures for Tax-Exempt Obligations and Other Tax-Benefited Obligations*

APPENDIX A:

SELECTED GLOSSARY OF TERMS

Available Funds: Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

Betterments ("*Special Assessments*"): Whenever part of a community benefits from a public improvement, or betterment (e.g., water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost which may be paid in full, or apportioned over a period of up to 20 years. In this case, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment is paid.

Block Grant: A Block Grant is a Federal grant of money awarded by formula under very general guidelines that allow grantees broad latitude in spending activities. Recipients are normally state or local governments.

Bond: A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

Bond and Interest Schedule Record ("*Bond Register*"): The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date and all other pertinent information concerning the bond issue.

Bond Anticipation Note ("*BAN*"): Short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal repayment begins after two years (MGL Ch. 44§17). Principal payments on school related BANs may be deferred up to seven years (increased in 2002 from five years) if the community has an approved project on the Massachusetts School Building Authority (MSBA) priority list. BANs are full faith and credit obligations.

Bond Authorization: The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor, or selectmen. (See Bond Issue)

Bond Buyer: A daily trade paper containing current and historical information of interest to the municipal bond business.

Bond Counsel: An attorney or law firm engaged to review and submit an opinion on the legal aspects of a municipal bond or note issue.

Bond Issue: The actual sale of the entire, or a portion of, the bond amount authorized by town meeting.

Bond Rating (Municipal): A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poor's, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

Bonds Authorized and Unissued: Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes, but must be rescinded by town meeting or the city council to be removed from community's books.

Capital Assets: All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost. (See Fixed Asset)

Capital Budget: An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy, and identify those items that were not recommended. (See Capital Asset, Fixed Asset)

Capital Improvements Program: A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Capital Outlay: The exchange of one asset (cash) for another (capital asset), with no ultimate effect on net assets. Also known as "pay as you go," it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

Capital Outlay Expenditure Exclusion: A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a community-wide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling

Chapter 90 Highway Funds: State funds derived from periodic transportation bond authorizations and apportioned to communities for highway projects based on a formula under the provisions of MGL Ch. 90 §34. The Chapter 90 formula comprises three variables: local road mileage (58.33 percent) as certified by the Massachusetts Highway Department (MHD), local employment level (20.83 percent) derived the Department of Employment and Training (DET), and population estimates (20.83 percent) from the US Census Bureau. Local highway projects are approved in advance. Later, on the submission of certified expenditure reports to MHD, communities receive cost reimbursements to the limit of the grant.

Contingent Appropriation: An appropriation that authorizes spending for a particular purpose only if subsequently approved in a voter referendum. Under MGL Ch. 59 §21C (m), towns may make appropriations from the tax levy, available funds or borrowing, contingent upon the subsequent passage of a Proposition 2½ override or exclusion question for the same purpose. If initially approved at an annual town meeting, voter approval of the contingent appropriation must occur by September 15. Otherwise, the referendum vote must occur within 90 days after the town meeting dissolves. The question may be placed before the voters at more than one election, but if not approved by the applicable deadline, the appropriation is null and void. If contingent appropriations are funded through property taxes, DOR cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

Debt Authorization: Formal approval by a two-thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL Ch. 44 §§1, 2, 3, 4a, 6-15.

Debt Burden: The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion: An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit: The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, cities and towns can receive approval to increase their debt limit to 10 percent of EQV.

Debt Policy: Part of an overall capital financing policy that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing. Debt policies should be submitted to elected officials for consideration and approval.

Debt Service: The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

Enterprise Fund: 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 community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities 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. See DOR IGR08-101

Free Cash (Also "*Budgetary Fund Balance*"): Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

General Obligation Bonds: Bonds issued by a municipality for purposes allowed by statute that are backed by the full faith and credit of its taxing authority.

Levy Limit: A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion. (See Levy Ceiling)

Massachusetts School Building Authority ("MSBA"): Administers the state program that reimburses cities, towns, and regional school districts varying percentages of their school construction costs depending on the wealth of the community or district and the category of reimbursement. Projects that received their first reimbursement payment prior to July 26, 2004 will continue to get annual state payments to offset the related annual debt service. Thereafter, cities, towns, and regional school districts will receive a lump sum amount representing the state's share of the eligible project costs... (See DOR IGR 06-101)

New Growth: The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY17 is based on new construction, etc. that occurred between January and December 2015 (or July 2015 and June 2016 for accelerated new growth communities). In the fall of 2016, when new growth is being determined to set the FY17 levy limit, the FY16 tax rate is used in the calculation.

Non-Recurring Revenue Source: A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year. (See Recurring Revenue Source)

Principal: The face amount of a bond, exclusive of accrued interest.

Receipts Reserved for Appropriation: Proceeds that are earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, parking meter proceeds may be appropriated to offset certain expenses for parking meters and the regulation of parking and other traffic activities.

Sale of Cemetery Lots Fund: A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

Sale of Real Estate Fund: A fund established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL Ch. 44 §63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the city or town is authorized to borrow for a period of five years or more.

Short-Term Debt: Outstanding balance, at any given time, on amounts borrowed with a maturity date of 12 months or less.

Special Exclusion: For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest apportioned over a period of time, not to exceed 20 years.

Special Revenue Fund: Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

Stabilization Fund: A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. Any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money from a stabilization fund. A majority vote of town meeting is required to appropriate money into a stabilization fund.