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Town of Stoughton

Financial Policies Manual

December 2022

Introduction

The financial policies set forth in this manual are designed for fiscal management and capital planning of the Town of Stoughton. The guidance within this manual are advisory in nature for all stakeholders and policymakers. No information contained herein shall be construed to supersede applicable federal law, state law, Town of Stoughton Charter or bylaws. Furthermore, it is understood that Stoughton Town Meeting retains the full right to appropriate funds and incur debt following any, and all statutory limits.

In August 2020, Massachusetts Division of Local Services presented to Stoughton's Selectboard methods available for building a Financial Policies Manual. This draft policy by the Finance Committee is for consideration of Stoughton's Selectboard to review and adopt the recommendations herein to achieve best practices.

Governor's Community Compact Cabinet

<https://www.mass.gov/orgs/community-compact-cabinet>

Referenced Best Practice: "Develop, document and implement Financial Policies and Practices including reserve levels, capital financing, and use of Free Cash. Such policies should identify the responsible parties and procedural steps necessary to carrying out the directed strategy or action."

Preface

Stoughton is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. This manual of financial policies provides guidance for local planning and decision making. The policies as a whole are intended to outline objectives, provide direction, and define authority to help ensure sound fiscal stewardship and management practices. Each should be periodically reviewed and updated as necessary.

With these policies, the Town of Stoughton, through its Selectboard, Town Manager with Budget Team, Finance Committee, School Committee, Board of Assessors, and employees, commits to the following objectives:

- Sustaining a consistent level of service and value for residents and businesses
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Promoting the maintenance and improvement of physical infrastructure and capital equipment
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's bond rating

- Promoting transparency and public disclosure
- Assuring accurate and timely reporting

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Free Cash: the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year.

The Town shall set a goal of maintaining its year-end unappropriated free cash balance approximate range of 3% to 4% percent of the annual general fund budget. Town Meeting will appropriate the excess above this target to build reserves or to offset unfunded liabilities. If free cash is appropriated into general fund [operating] budget, the Town Manager will provide a detailed plan to Select Board and Finance Committee on how general fund will remove dependency on free cash within general fund budget. Town Manager's detailed plan on free cash will be presented within any fiscal year free cash is requested for general fund operating budget.

Stabilization Funds (M.G.L. c. 40 § 5B): to be used for emergencies or capital expenditures. This policy includes sum of three Stabilization funds: General, Building Capital, and Fire Apparatus.

The Town shall set a goal of maintaining its year-end Stabilization balance of approximate range of 4% to 7% percent of the annual general fund budget. If cash balance falls below 4% of annual general fund budget, the Town Manager will provide a detailed plan to Select Board and Finance Committee on how fund will be replenished above 4%. Note: Stabilization funds should not be used for the Overlay surplus or Snow Removal account unless all other funding sources are exhausted, and Finance Committee has reviewed specific requests.

Retained Earnings: Water and Sewer Enterprise accounts, separate from general fund. Each fund to maintain minimum balance equal to 3 months of self-sustained operations within Water and/or Sewer Department. To be used for rate stabilization, water and/or sewer infrastructure improvements, and fund future capital projects.

Overlay Surplus: to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. It can be used for other purposes only after it is determined to have a surplus. Board of Assessors will vote to raise an overlay amount on the annual tax recapitulation sheet.

- Current balance in the overlay account
- Three-year average of granted abatements and exemptions
- Potential abatement liability of cases pending before, or on appeal from, the Appellate Tax Board (ATB)
- Timing of the next DLS certification review (scheduled every five years)

[Amended Signed Debt Policy 10/17/17]

Debt Policy Statement

A. Introduction

The use of long-term debt is a common and often necessary way for a municipality to supplement fund balances and current appropriations in financing major infrastructure and equipment needs over a period of years. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens, left unmanaged, can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing strain on future revenues.

B. Objective

Debt management policies provide written guidelines and restrictions that affect the amount and type of debt issued by a local government, the issuance process, and the management of a debt portfolio. It improves the quality of decisions, provides justification for the structure of debt issuance, and demonstrates a commitment to long-term financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and will likely meet its obligations in a timely manner.

C. Bond Rating

A municipality's bond rating is important because it determines if the municipality has any access to the debt market and the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate.

D. Debt Guidelines

Debt Purpose:

1. The Town may consider issuing debt for any purpose consistent with Massachusetts General Laws.
2. Borrowing for capital improvements, in general, will be confined to those greater than \$25,000 and with a useful life of five (5) or more years. In general, the Town will attempt to finance smaller purchases with operating or other revenues.
3. The Town shall not issue debt to fund current or ongoing operations of the Town or schools, except in the form of Tax Anticipation Notes (TANs) when applicable; in compliance with Federal Massachusetts laws and regulations.

* Debt Amounts:

1. The Town will keep total debt under five percent (5%) of Equalized Valuation (EQV) pursuant to MGL Chapter 44 Section 10.
2. The Town will endeavor to keep total Tax-Supported debt service (i.e. net of debt exclusions and self-supporting debt) to 10 percent (10%) of total general fund revenues or less. *[AMENDED] Or, Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues.*
3. As a control for maintaining consistent capital investment, the Town will seek to replace maturing debt obligations with new issuances so that year-to-year debt service is maintained at a target level representing four (4) to six (6) percent of general fund revenues. The Town will also seek to fund a greater proportion of its debt obligations from within the base annual tax levy, as opposed to using debt exclusions, with the goal of eventually achieving a consistent level of annual, non-excluded debt service equivalent to four (4) percent of general fund revenues.
4. The Town will ensure that enterprise rates and community preservation receipts are sufficient to cover associated self-supporting debt. Enterprise fund rates will be adjusted accordingly.
5. The Town will limit annual increases in any and all debt service to a level that will not materially jeopardize the Town's credit rating.
6. The Town will consider if bank qualification is in the best interest of the Town and if so, will attempt to maintain bank qualification and thereby receive lower interest rates on bonded debt.
7. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.

* Debt Structure:

1. The Town will not exceed the maximum maturity schedules set by Massachusetts General Law Chapter 44 Sections 7 & 8. However, the Town may choose to borrow for periods less than the statutory limit.
2. Bonds will be paid back within a period not to exceed the expected useful life of the capital project or equipment.

* Debt Issuance:

1. The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the official statement, preparation of all required documents and compliance with reporting requirements.
2. The Town will maintain good communications with bond rating agencies about its financial conditions, and exercising full disclosure on every financial report and bond prospectus.
3. The Town will strive to use competitive bidding whenever possible and negotiate sales of bonds only when competitive bidding is not feasible.

* Debt Management:

1. Alternative Financing Strategies:

- a. The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants, federally subsidized loan programs, Massachusetts School Building Authority program and low or zero-interest loans from state agencies, such as the Massachusetts Water Pollution Abatement Trust (MWPAT) and any other appropriate state or federal financing program.
- b. Town will assess the feasibility and appropriateness of funding its capital projects from free cash balances, capital stabilization, general stabilization, or special revenue funds before it considers bonding.
- c. The town will consider if it is appropriate to establish user fees to cover the capital costs of enterprise type services or activities to avoid imposing a burden on the property tax levy.

2. Debt Refunding:

- a. The Treasurer, relying on the advice of financial advisors and bond counsel will generally seek such refunding when the potential for interest savings is significant to offset the costs of doing so. Massachusetts General Law Chapter 44, Section 21A gives

the Treasurer with the approval of the Town Manager the authority to issue refunding bonds in order to reduce interest costs.

b. Advanced refunding opportunities will be regularly reviewed and considered for their merits as they become available and compared to other alternative strategies.

3. Debt Residual Balance:

a. Projected cash flow estimates will be required prior to borrowing to make sure that funds are available when needed.

b. Post-Issuance Tax Compliance Procedures will be followed to ensure that previously issued bonds do not lose their tax-favored status and the Town does not need to pay any arbitrage rebate.

c. For those previously authorized bonded projects with residual balances, the Town Manager shall propose the reallocation of these balances for other capital projects in conformance with Massachusetts General Law Chapter 44, Section 20.

d. For those previously authorized projects funded with available revenue (tax levy or reserves), that have residual balances in excess of \$5,000, the Town Manager shall propose the reallocation of these balances for other future capital projects in conformance with Massachusetts General Law Chapter 44 Section 33B. This practice will avoid abnormally inflating general fund surplus with one-time surplus.

e. For those previously authorized projects funded with available revenue (tax levy or reserves), with residual balances of less than \$5,000, the Town Accountant shall be authorized to close these balances to the appropriate fund surplus.

E. Ethics

The Treasurer/Collector and Assistant Treasurer/Collector shall refrain from any personal activity that may conflict with the proper execution of the debt program or which could interfere with what is in the best interest of the Town.

F. Reporting and Review Requirements

* The Statement of Indebtedness is a form listing all authorized debt and is required annually by the Bureau of Accounts (BOA) from each municipality.

* Municipal debt information from all municipalities is summarized in the Debt/Financial Indicators section of the Databank Reports <http://www.mass.gov/dor/local-officials/>

* Each bonding will require an Official Statement. The Treasurer will provide all necessary information to the Town's Financial Advisor in order to complete the Official Statement.

* The Town's Debt information is also provided in the Consolidated Annual Financial Report (CAFR). Annual debt service requirements are budgeted as part of the annual budget approval process.

* A debt model will be presented at Annual Town Meeting reflecting debt as of June 30th of preceding fiscal year.

* This policy will be reviewed at least annually.

G. Legal References

* Massachusetts General Law, Chapter 44, Section 7; Cities and towns; purposes for borrowing money within debt limit

* Massachusetts General Law, Chapter 44, Section 8; Cities and towns; purposes for borrowing money outside debt limit

* Massachusetts General Law, Chapter 44, Section 10; Debt limit

* Massachusetts General Law, Chapter 44, Section 20; Proceeds from sale of bonds; restrictions on use; disposition of premiums

* Massachusetts General Law, Chapter 44, Section 21A; Refunding bonds; issuance; present values

H. Definitions

Bank Qualified Bond – A bond that banks are allowed to deduct 80% of their carrying costs of the debt. This occurs when a municipality issues no more than \$10 million dollars in a calendar year.

Continuing Disclosure – Continuing disclosure consists of important information about a municipal bond that arises after the initial issuance of the bond.

Debt Limit – the amount a city or town can borrow. The debt limit is set at 5% of the equalized valuation (EQV) pursuant to MGL Chapter 44 Section 10. The debt limit can be raised up to 10% with the approval of the Municipal Finance Oversight Board (MFOB).

Direct Debt – debt payable from general revenues including capital leases.

Equalized Valuation (EQV) – the full and fair cash value of all taxable property for a municipality reported by the commissioner of revenue to the general court.

Municipal Finance Oversight Board (MFOB) – is an entity authorized to oversee the issuance of certain debt by municipalities. It is made up of the attorney general, the state treasurer, the state auditor, and the director of accounts in the department of revenue or their designees.

Net Direct Debt – direct debt plus overlapping debt.

Official Statement – is a statement published by an issuer of a new municipal security describing itself and the issue. It communicates to the potential investor all the information reasonably necessary to make a prudent investment decision.

Overlapping Debt – debt shared with another municipality or entity.

Self-supporting debt – is general obligation debt which has a predetermined funding source. This includes enterprise debt that will be paid for by enterprise rates or fees, Community Preservation debt what will be paid for by community preservation receipts.

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