Town of Littleton
Financial Management Policy

Purpose

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

Scope

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

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

Overview

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

- Funds needed to provide the necessary balances must be appropriated prior to any appropriations for operations;
- 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;
- The Finance Director will provide annual projections and suggested levels for additions to the stabilization fund, capital stabilization fund, OPEB, debt service and capital needs and use of current year certified free cash.

Financial Guidelines

These recommended guidelines for the management of Free Cash, the Stabilization Fund(s) and Debt Management should serve as a platform for the annual budget message. The principles contained in these guidelines must be incorporated in the recommendations by the FinCom in each year's budget and used as the basis for any projections of the Town's future financial condition.

The following sections outline the longer-term financial goals of the Town. In some cases, the attainment of certain levels of funds or percentages may not be attainable in the short-term. Specific short-term goals are outlined in the Planning section of this document.

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 2.5% of the operating budget in order to provide a reserve for unexpected financial crisis during the year. Further, the undesignated fund balance should not be relied upon as a mechanism for funding the Town's operating budget.

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

1. Maintain a minimum UFB balance of 2.5% of the Total Operating Budget;
2. Benchmark balance (e) is 5% of the Total Operating Budget;
3. Benchmark balance must be met before funding of items f-h;
4. Appropriate amounts above the 2.5% minimum threshold in the following order:

	Use	Description
a.	Stabilization	appropriate amounts from the UFB to maintain the minimum balance of the Stabilization fund as detailed in the section below;
b.	Capital Projects	appropriate amounts up to 2% of the operating budget for capital items for which long-term borrowing is authorized or for other expenditures of a non-recurring nature;
c.	OBEB Additional contribution	Appropriate amounts up to 10% of the excess balance of the benchmark identified in item (e) to the OPEB fund.
d.	Other Reserve Additional Contributions	Appropriate amounts up to 10% of the excess balance of the benchmark identified in item (e) to augment other reserves such as stabilization or capital stabilization funds;
e.	Benchmark balance	the remaining balance of the UFB must meet the 5% threshold as defined above before any additional funds may be appropriated;
f.	Extraordinary	use the UFB to fund extraordinary deficits that cannot be

	Use	Description
	Deficits	funded either by budgetary transfers or by the reserve fund, and would otherwise be carried to the following year;
g.	Additional Capital Projects	use UFB to fund additional capital projects (see item b above);
h.	Budgetary Uses	Exception only – with approval of Board of Selectmen and Finance Committee upon the recommendation of the Finance Director.

Stabilization

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

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

Therefore the following policy is recommended:

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

3 A minimum appropriation to the Capital Stabilization fund will be made annually in the amount of at least 1% of the total General Fund Capital Plan.
    a. Withdrawals from the Capital Stabilization fund will be made in accordance with the Capital / Facility Maintenance section of this policy.

Debt Management

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

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

Recommended Guidelines for Non-Dedicated Revenue Supported Debt

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

These guidelines achieve the following:

- Capital needs are not displaced by the fiscal demands of current operations.
- Borrowing is controlled.
- The cost of interest is minimized.
- The capability to borrow is quickly restored.

Financial Planning

Proper financial planning is essential for the Town in order to continue to provide the services necessary for its citizens in the least costly manner possible. Decisions made to alleviate issues in one budget cycle may carry impacts several years down the road. The Town will maintain a budget forecast at a minimum of 3 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.

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.

- Early retirement incentives will not be offered by the Town.
- 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.
- If appropriate, additional contributions may be made to the retirement system in an effort to decrease the Town's unfunded liability.
- At a minimum, the Snow and Ice budgets should be crafted using a five year rolling average expenditure total.

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

Capital / Facility Maintenance

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 following guidelines must be adhered to;

- A five-year capital plan will be maintained in detail by department and projected funding source;
- Capital purchases will be accomplished either as a capital exclusion item, a raise and appropriate article when funds within the levy are available, or an appropriation from the UFB.
- Capital purchases may not be made from the capital stabilization account until all available funds within the levy, (no less than the previous fiscal year), and available funds from the UFB have been allocated.
- 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.
- 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 OPEB and not allowed to supplement operating expenses.

- Infrastructure maintenance budgets (such as Roadway Improvement); capital spending or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.

Exclusions

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.

Use of Revenues/Available Funds

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

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

Policy Review

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