TOWN OF WHITMAN, MASSACHUSETTS
FINANCIAL MANAGEMENT POLICIES

Introduction

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Whitman's resources. These principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a point of reference for all policymakers, administrators, and advisors. Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits such as Proposition 2 ½.

The principles outlined in this policy are designed to ensure the Town's sound financial condition now and in the future. Sound Financial Condition shall be defined as:

- *Cash Solvency* - the ability to pay bills in a timely fashion.
- *Service Level and Budgetary Solvency* - the ability to provide needed and desired services while annually balancing the budget.
- *Long Term Solvency* - the ability to pay future costs.

It is equally important that the Town maintain flexibility in its finances to ensure the Town is in a position to react and respond to changes in the economy and to new service challenges without measurable financial stress. At the same time the Town must also guard against Capital Depreciation by planning and ensuring there are sufficient funds available to reinvest in its Fixed Assets and Infrastructure.

A. ACCOUNTING, AUDITING, AND FINANCIAL PLANNING

1. The Town will utilize accounting practices that conform to generally accepted accounting principles as set forth by the Government Accounting Standards Board (GASB).

2. An annual audit will be performed by an independent certified public accounting firm. A report on the fairness of financial statements is the main element of the audit.

3. As part of the annual audit engagement the Town may include random testing of departmental and/or revolving fund income and expenses, to test for compliance, adherence to internal controls, potential mis-statements of fact, and any other items normally reviewed during the course of an audit.

4. The Town should enter into multi-year agreements of at least three years in duration when obtaining the services of independent auditors. Such multi-year agreements can take a variety of different forms consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit.

5. A Management Letter, a by-product of an annual audit, shall be provided by the independent public accounting firm to be reviewed by the Town Administrator and Board of Selectmen.

6. Revenue forecasts for property tax, local receipts, and state aid shall be conservative, using generally accepted forecasting techniques and appropriate data. Revenue deficits will be avoided at all costs. To avoid any potential for such a deficit, estimates for local receipts (i.e. inspection fees, investment income, and departmental user fees) generally will not exceed 85% of the prior year's actual collections without evidence that higher revenues are achievable.

B. GENERAL FUND

1. All current operating expenditures should be paid for with current operating revenues.

2. Debt will not be used to fund current operating expenditures.

3. The Treasurer/Collector and Town Administrator will carefully and routinely monitor all amounts due the Town. A proactive policy of collection will be followed for all receivables, including property taxes. A target of 98% property tax collection rate by fiscal year end will be anticipated.

4. The Town will be informed and aware of all grants and other aid that may be available. All potential grants and other aid shall be carefully examined for

matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that the Town's participation in such grants will be beneficial and cost-effective. When positions are funded with grants, a portion of the grant funding should be allocated to recover the cost of employee benefits if allowed by the granting agency, however, careful consideration will be made of the Town's ability to document the employee benefits to the granting agency during the application process. When positions are funded with grants, those positions will be eliminated when grant funding expires.

5. Town officials, Department Heads, appropriate committees, and others involved in personnel matters should be mindful of the current costs and future liabilities associated with providing current and post-employment benefits to employees.

6. Fees and user charges are to be reviewed at least annually by all departments. Any approved changes to fees and user charges will then be brought to the Board of Selectmen or other committee, as appropriate, for a fee hearing and final adoption.

C. RESERVES

1) Reserves are an important part of the Town's resources. The primary objective of the Town's reserves policy is to provide the Town with the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses. The Town utilizes the following reserves:

   a) STABILIZATION FUND (Chapter 40 § 5B) - The Town will endeavor to maintain a Stabilization Fund large enough to buffer the General Fund from the impact of two to three years of reduced state aid and/or declining local receipts. The Stabilization Fund should be maintained at 5% to 10% of General Fund operating expenditures net of exempt debt. Appropriations from the Stabilization Fund may be made for any lawful purpose (Chapter 40, §5) and may only be made by a two-thirds vote of Town Meeting. Interest earned on Stabilization Fund balances will be retained in the Stabilization Fund. If and when the Town draws monies from the Stabilization Fund, the Town should also present a plan for replenishing the fund.

   b) FREE CASH - The Town will strive to generate a certified Free Cash balance equal to 3% to 5% of General Fund operating revenues net of exempt debt. Operating revenues shall be defined as Taxation + State Aid + Local Receipts. The Free Cash balance is required to fund the following priorities:

      i) The Town of Whitman Capital Improvement Plan requires an annual funding of between 40% to 60% of Free Cash.
      ii) The Town of Whitman must continue to provide funding for OPEB on an annual basis.
      iii) Remaining amounts of Free Cash should generally be used to pay off short-term debt, and for non-recurring emergency expenditures.
      iv) The depletion of Free Cash, whenever possible, should be avoided since

having a balance of Free Cash each June 30 enables the following year's calculation to begin with a positive balance.

2) A strong financial position for the Town, as described in 1 above, is vital for maintaining favorable ratings from the bond-rating agencies. Favorable ratings mitigate the Town's borrowing expenses.

3) One-time revenues will generally be used for capital improvements, additions to reserve funds, or as legally restricted to a specific purpose.

4) EXCEPTIONS: Dire fiscal conditions may affect the year-to-year implementation of this policy; deviation should be determined as fiscally responsible. The allocations and priorities stated in this section do not mean that additional funds cannot be allocated to the Stabilization and other reserves from Free Cash; it means these are the minimum amounts recommended from the certified Free Cash amount.

D. CAPITAL PLANNING

1. There shall annually be developed a Capital Improvement Budget and 5-Year Plan.

2. The Capital policy of the Town is as follows:

    a. Definition of a capital project: a capital project is a tangible asset or project with an estimated useful life of five (5) years or more, and a cost of $20,000 or more. Among the items properly classified as capital improvements are:
        i. New public buildings, or additions to existing buildings, including land acquisition costs and equipment needed to furnish the new building or addition for the first time;
        ii. Alterations, renovations, or improvements to existing buildings that extend the useful life of the existing buildings by at least ten (10) years;
        iii. Land acquisition and/or improvement, unrelated to a public building, but necessary for conservation or park and recreation purposes;
        iv. Equipment acquisition, replacement, or refurbishment, including but not limited to vehicles, furnishings, and information technology systems' hardware and software or other items that combined in purpose together make it a capital project;
        v. New construction or major improvements to the Town's physical infrastructure, including streets, sidewalks, stormwater drains, the water distribution system, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a capital improvement;
        vi. A feasibility study, engineering design services, or consultant

services which are ancillary to a future capital improvement project.

b. Guidelines for prioritizing capital projects (not necessarily in priority order):
    i. Imminent threat to the health and safety of citizens, employees, or property (e.g. ambulance, police radios, self-contained breathing apparatus for firefighters);
    ii. Maintenance and improvement of existing capital assets (e.g. major repairs to buildings as identified by the Town's Facilities Manager, replacement of worn-out vehicles and equipment, park and play area renovations);
    iii. Requirement of state or federal law (e.g. asbestos cleanup program mandated by federal law in 1986, removal of gas tanks, etc.);
    iv. Improvement of existing infrastructure (e.g. streets and sidewalks, water and sewer programs);
    v. Improvements which aid work productivity (e.g. equipment replacement, computer hardware/software);
    vi. Correcting an overburdened situation (e.g. Town Hall renovations, cemetery expansion program);
    vii. Newly identified need (e.g. new recreation fields);
    viii. Priority level as assigned by relevant Department (Very High, High, Medium, Low); and
    ix. Consistency with and in furtherance of long-term planning objectives of the Town.

3. Any capital project as defined in 2a and 2b that requires an appropriation shall be reviewed and included in the Capital Improvement Budget and Plan regardless of funding source (i.e. Community Preservation Act funds, Trust Funds, etc.).

4. The first year of the five-year Capital Improvement Plan will be the basis of a formal fiscal year appropriation request during the annual budget process.

5. The capital program will be funded with a combination of property taxes, Enterprise and other available funds of the Town, debt exclusion funding, Community Preservation Act funds, and grant funds from the federal and state governments.

6. The annual budget should include a Capital Program that includes debt service obligations and cash-funded capital projects funded from current revenues of 2%-5% of the estimated property tax levy limit. This does not include capital projects funded by debt exclusions (debt excluded from Proposition 2 1⁄2 limits). If in any year funds for the Capital Program recommended to Town Meeting are below the target allocation of 2%-5% of the estimated property tax levy limit, a plan will also be presented to replenish funding of the capital program to this range within a reasonable timeframe.

7. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.

8. The annual operating cost of a proposed capital project, as well as debt service costs, will be identified before any long-term bonded capital project is recommended.

E. <u>DEBT MANAGEMENT</u>

1. The minimum requirement for debt financing shall be a capital item with a value of at least $100,000.

2. Long-term debt will be issued only for objects or purposes authorized by state law.

3. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed. Long-term debt should not be incurred without a clear identification of its financing sources. State law strictly regulates both the purposes for which cities and towns can borrow and the time periods for which these borrowings can occur. Borrowing purposes and maximum loan durations are set out in Chapter 44 §7&8, and, for Massachusetts School Building Authority purposes, Chapter 70B.

4. General Fund debt service, exclusive of debt funded from dedicated revenues raised by ballot-approved debt exclusions (non-exempt debt), shall remain between 1% and 2.5% of General Fund operating revenues. Roll-off of non-exempt debt will NOT be moved to the operating budget. The aggregate of non-exempt General Fund debt service, capital outlay, and recurring warrant articles shall be constant and increased by 1.5% each year as an inflationary factor so as to provide budget stability with respect to capital and ongoing needs of the Town.

5. Whenever possible, the long-term financing of projects should be bundled into larger debt issuances to allow for more favorable terms and lower issuance costs.

6. Excluded debt service costs should generally be less than 12% of tax levy at all times. If above 10% the Town Administrator should develop a plan to bring the excluded debt level to the 10% level as soon as possible.

7. The Town will maintain its practice of aggressively paying down long-term debt.

8. The Town will meet the requirements of M.G.L. Chapter 44 Section 7. Total debt for projects listed in that section will not exceed 5% of Equalized Valuation.

9. The Town will meet the requirements of M.G.L. Chapter 44 Section 8. Total debt for projects listed in that section will not exceed 10% of Equalized Valuation.