

Town of Winchendon, Massachusetts

Financial Policies

STATEMENT OF PURPOSE

The Finance Committee and the Board of Selectmen recognize the need to establish financial guidelines to maintain a fiscally sound operating position for the Town by promoting Winchendon's ability to balance its budget on a current basis, maintain reserves for emergencies, and have sufficient liquidity to pay bills on time to limit short-term borrowing costs.

The financial management goals and policies set forth in this document are intended to increase and sustain the financial strength and stability of the Town of Winchendon. They reflect a combination of policies and practices either required by state/federal statute or regulation, the Winchendon Town Charter, Town bylaws and local preferences. Articulation of these policies and goals is essential to long-term financial planning that sets realistic boundaries on what the Town of Winchendon can accomplish and helps direct resources to the highest priorities.

These policies are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators and advisors. It is fully understood that 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, if fiscally prudent.

These policies are designed to ensure the Town's sound financial condition now and in the future. Sound Financial Condition may be defined as:

"Cash Solvency" - the ability to pay bills in a timely fashion;

"Budgetary Solvency" - the ability to annually balance the budget;

"Long Term Solvency" - the ability to pay future costs;

"Service Level Solvency" - the ability to provide needed and desired services.

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.

The following policies are divided up into six categories for ease of reference. These categories are: 1. Accounting Auditing and Financial Planning; 2. General Fund which includes the Operating Budget, Reserve Policies and Revenue Policies; 3. Debt Management; 4. Enterprise Funds; 5. Gifts and Grants; and 6. Investment Policy.

I. ACCOUNTING, AUDITING, AND FINANCIAL PLANNING

1. The Town will utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB). The Town will comply with all GASB Statements including tracking, reporting and depreciating capital assets and accounting for Other Post-Employment Benefits (primarily health insurance) to retired employees.
2. An annual audit will be performed by an independent public accounting firm. An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.
3. A Management Letter, a by-product of an annual audit, shall be provided by the independent public accounting firm no later than March 1 and reviewed by an Audit Committee. The Audit Committee shall be comprised of one representative from the Board of Selectmen, School Committee, and Finance Committee, along with two citizens, ideally with finance experience, selected by the Board representative members. The Audit Committee will meet with the Town's independent auditor to review the independent audit of the Town's financial statements. The Audit Committee shall meet at least annually with the Select Board and report its findings, and how it has discharged its duties and met its responsibilities.
4. The Town should enter into multiyear agreements of three to five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), 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. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
5. A five-year financial projection shall be prepared annually by the Town Manager, projecting revenues and expenditures for all operating funds. This projection shall be used as a planning tool in developing the following year's operating budget and capital improvements plan. 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, departmental user

fees) will generally not exceed 100% of the prior year's actual collections without firm evidence that revenues are achievable.

II. GENERAL FUND

- A. Operating Budget.** The Town shall annually adopt a balanced budget where operating revenues are equal to operating expenditures. Any increase in expenditures, decrease in revenues, or combination of the two that would result in an unbalanced budget will require a budget revision, rather than spending unappropriated surpluses or designating reserves to support ongoing operations. Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy.

The operating budget shall serve as the annual financial plan for the Town. It will serve as the policy document of the Town Manager for implementing Town goals and objectives. The budget shall provide the staff the resources necessary to accomplish Town Meeting determined service levels. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Town Meeting. The Town's annual budget will be presented by the Town Manager to the Board of Selectmen and the Finance Committee by Department, with a logical breakdown of programs and line-item detail. A separate summary budget document will also be presented for discussion and review by the Town Meeting and the public. This document will focus on policy issues and will summarize expenditures at the personnel, operating and maintenance, capital levels and any other levels deemed necessary for presentation purposes.

Budget control is maintained at the Department level. In no case may expenditures of a particular fund exceed that which is appropriated by the Town Meeting without a budget amendment. Any anticipated line item shortages should have a budget transfer request prepared in advance. Requests for transfers will be reviewed by the Town Manager. The Town Manager may approve transfer requests within line items within Departments. Transfers between line items within Departments require approval of the Board of Selectmen and the Finance Committee. Transfers from the Reserve Fund must be approved by the Finance Committee. Budget accountability rests primarily with the operating Departments of the Town. The Town Accountant will ultimately be responsible to ensure that the Departments are appropriately expending funds.

- B. Reserve Policies.** Reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5 – 15% of general fund operating revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses.

1. **Free Cash.** The Town will endeavor to maintain a certified Free Cash balance equal to at least 5% of general fund operating revenues. Free Cash reserves are the remaining, unrestricted funds from operations of the previous fiscal year; these include unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in budget line-items. The Free Cash balance is an important indicator of whether the Town is living within its means. Free Cash in excess of the goal reserve amount should be used for non-recurring emergency expenditures or appropriated to a stabilization fund or used to provide property tax relief.
2. **Stabilization Fund.** The Stabilization Fund is the Town's main reserve fund designed to provide financial stability for the Town while improving the Town's credit worthiness and flexibility. The Stabilization Fund should be maintained between 5 and 10 percent of the general operating budget.

The Town shall allocate at least 10% of its Free Cash to the Stabilization Fund annually whenever the balance of the Fund is less than the 10% of the Town's general operating budget.

Appropriations from the Stabilization Fund may be 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. The Stabilization Fund will not be used to fund recurring budget items.

3. **Capital Stabilization Fund.** The Town shall maintain a Capital Stabilization Fund in order to establish a balance that may be used to offset future capital projects and other capital needs. Every attempt shall be made to include funding in the annual General Budget funding for the Capital Stabilization Fund equal to at least 10% of the estimated property tax levy. This reserve will also be funded with any unspent appropriations from completed capital projects. The Capital Stabilization Fund will be used to address needs outlines in the five-year Capital Improvement Plan.
4. **Post Employment Benefits Reserve Fund (OPED).** A separate Trust Fund shall be established to provide a reserve fund for future retiree post-employment benefits. The Governmental Accounting Standards Board's (GASB) Standard 45 requires the actuarial calculation of the value of future post-employment benefits that the Town will need to pay. The Town Manager shall include in the annual general operating budget

an allocation to the OPEB Trust Fund. The allocation shall be 5% of the cost of health insurance in any given year.

- 5. Finance Committee Reserve Fund.** The Town's Reserve/Contingency account will be budgeted annually at an amount to be recommended by the Town Manager and approved by the Town Meeting. When financially feasible the budget should be recommended at a minimum amount of 0.4 percent of the Town's General Fund Budget. This account will be available for unanticipated, unbudgeted expenditures and will require Finance Committee approval to spend. The purpose of this account is to provide some flexibility for unforeseen events without the necessity to spend from the Town's reserves.
- 6. Contractual Separation Liabilities Fund.** Town Employees are eligible for certain contractual buy-back benefits upon separation from employment. These buy-back benefits are for unused vacation or sick leave. The Town shall maintain a Fund to mitigate the impact of these unfunded pay-outs on the operating budget. The Town will allocate \$50,000 from Free Cash annually until the total fund equals the total liability of the contractual buyouts to the Town.

C. Revenue Policies. The Town will strive to develop and maintain a diversified and reliable revenue stream so as to avoid becoming overly dependent on any single type of revenue. Efforts will be directed to optimize existing revenue sources while periodically reviewing potential new revenue sources.

1. The Collector /Treasurer 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 95% property tax collection rate by fiscal year end will be achieved.
2. The year-to-year increase of actual revenue from the property tax levy shall generally not exceed 2.5% pursuant to the limitations of Proposition 2 ½.
 - a. Excluding the value gained through new construction (new growth);
 - b. Excluding expenditure increases funded outside the tax limit cap.
3. Property values shall be re-appraised or re-certified every three years.
4. Charges for services and other revenues shall be reviewed on a regular on-going basis at least every three years. Charges shall be adjusted as necessary to respond to changes in the cost of providing services.

5. The Town will strive to be informed and aware of all grants and other aid that may be available to us. 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 our 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.

III. DEBT MANAGEMENT

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries of a capital investment to share in the cost of that improvement. Properly managed debt helps to preserve the Town's credit rating, provides flexibility in current and future operating budgets, and provides the Town with long-term assets that maintain or improve our quality of life.

1. The requirements for long-term debt financing for capital improvements shall be an expenditure of at least \$25,000 and a useful life in excess of five (5) years for only those projects not able to be financed from current revenues.
2. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and, in no case, shall it exceed twenty years. Long-term debt should not be incurred without a clear identification of its financing sources.
3. General Fund debt service, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed 10% of General Fund revenues.
4. The Town will attempt to maintain a long-term debt schedule so that at least 50% of outstanding principal will be paid within 10 years. Debt service costs include annual principal and interest payments.
5. Short Term debt may be used to provide interim cash flow, to facilitate the timing of bond sales, to avoid locking in high long-term interest during periods of market turmoil or to partially finance projects whose final cost is uncertain. It is not used to defer the operating budget impact on bonded debt service or to speculate on market rates. Interest and issuance costs for short term debt will be included in the capital request and will be charged to the project.

6. The Town's Finance Committee will annually provide its opinion on the potential effect of current and anticipated future borrowings on the Town's financial profile.

IV. ENTERPRISE FUNDS

1. The Town shall establish and maintain enterprise funds pursuant to Chapter 44 §53 to ensure annual operation and maintenance needs are met and services are financed in an equitable manner. The Town currently administers the following enterprise funds: Water, Sewer and Transfer Station.
2. The term of debt for enterprise funds shall not exceed the useful life of the asset and in no case shall the term exceed 30 years, or other such limits pursuant to Massachusetts General Laws.
3. Rates for enterprise funds shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt, and to ensure appropriate levels of working capital. Fees should be reviewed annually in relation to the cost of providing the service.
4. Water and sewer main replacements, treatment facilities, pump stations, transportation, and other infrastructure should be scheduled so as to avoid major increases in water and sewer rates and other user fees.

V. GIFTS AND GRANTS

1. All grants shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.
2. All gifts and grants shall be evaluated for suitability and consistency with Town policies. They shall be formally accepted by the Board of Selectmen after review and recommendation by the Town Manager. Gifts and grants of funds are governed by Massachusetts General Law CH. 44 sec.53A. Gifts of tangible property are governed by Massachusetts General Law CH. 44 sec. 53 A1/2.

VI. INVESTMENT POLICY *(Initially Adopted by the BOS, 3/28/11)*

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of the Town of Winchendon. This investment policy is designed to safeguard funds on behalf of the Town, to assure the availability of operating and capital funds when needed, and provide an investment return competitive with comparable funds and financial market indices.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

Safety requires all municipal funds be deposited and/or invested so principal is not at risk. M.G.L. Chapter 44, Sections 54 to 55B and Chapter 167, Section 15A (the Legal List) specify those institutions and length of deposit available. Investment transactions shall be undertaken in a manner to ensure the preservation of capital and minimize credit risk and interest rate risk. Safety is the highest priority.

Liquidity requires those funds to be available to meet the obligations of the municipality. The funds shall be available to meet reasonably anticipated cash flow requirements. Liquidity is the next priority.

Yield requires investments and deposits be managed with the objective of attaining the highest possible yield throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Investment income is an important source of revenue to a municipality. Yield is important after taking into consideration safety and liquidity.

- The Town of Winchendon is permitted to invest general fund cash not needed for current uses in CD's and "treasuries and agencies" not to exceed a one year term.
- When possible, deposits should be made to institutions maintaining FDIC and DIF insurance or commercial institutions offering collateralization of funds above the FDIC limits.
- Trust funds may be invested in any legal investments taking into consideration future cash needs. The preferred investments are FDIC insured certificates of deposit and US Treasury and US Agency bonds. When possible maturities should be "laddered" to ensure a frequently availability of funds.
- A trust fund investment advisor may be used in an effort to improve yields and reporting as long as the company's procedure adheres to this policy.
- Investments in stocks and preferred stocks and bonds shall adhere to the legal list and not exceed 20% of the total portfolio nor an amount greater than the non-expendable trusts. These investments are long term and care should be taken to preserve principal value.
- The Town of Winchendon is to subscribe to a quarterly bank rating publication (such as Veribanc) to monitor the health of banks to ensure the Town's deposits are not at risk.
- The Town shall use MMDT (Massachusetts Municipal Depository Trust) to hold excess cash not needed for current payroll and expense during the economic cycles when MMDT pays a high rate of return. The MMDT is a fully liquid investment fund created by the Commonwealth for itself and all political subdivisions as a legal means to invest available cash in a diversified portfolio of high quality money market instruments.

- Each month a listing of all depositories and their balances is to be compiled and made available for review. Quarterly a listing of trust fund investments is to be prepared and made available.
- When possible the trust fund's investment maturities should be structured to coincide with an official capital plan outlining scheduled expenditures.
- All investments and deposits should be reviewed as to eliminate Category 3 classification. GASB 40 requires footnotes to the financial statements listing the amount of risky deposits and investments.
- The Town will minimize Custodial Credit Risk (loss due to the failure of the security issuer) by limiting investments to those approved by the Commonwealth of Massachusetts Commissioners of Banks known as the "legal" list.
- The Town will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in foreign currency are not permitted.
- The Treasurer shall at all times comply with the "Prudent Person" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."
- The Treasurer shall refrain from personal business activity that would conflict with proper execution of the investment program, or impair one's ability to make impartial investment decisions.
- This policy is to be reviewed from time to time, such as the time a new law or regulation change might impact it.

These financial policies become effective immediately.

Approved: May 23, 2016

Barbara Anderson, Chair

Audrey LaBrie, Vice Chair

Michael Barbaro, Selectmen

Amy 'Salter, Selectwoman

Austin Cyganiewicz, Selectmen