

# **Comprehensive Financial Management Policies for Town of Hampden**

May, 2019

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## INTRODUCTION

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In order to ensure the growing and continued financial health of the Town of Hampden, provide the public with confidence that Town officials seriously respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the Town has thoughtfully prepared for its future, the financial policies outlined below shall guide the Town. These policies are a living tool and shall be reviewed by the Town Administrator, Advisory Committee and designated staff on an annual basis and updated as necessary.

This document is intended to establish a set of financial management policies and not the procedures that identify the specific methods and actions necessary to carry out these policies. Policies are the terms and conditions which guide and direct the town in making financial management decisions. They are not hard and fast rules so that they may recognize extraordinary situations. Financial management policies are made to support strategies. In many instances, administrative procedures are or will be developed as tools to implement these policies.

### **Objectives:**

***The objectives of the Financial Management Policies are as follows:***

- A. To guide the Board of Selectmen, Advisory Committee, and management staff in evaluating and implementing decisions that have significant impact on the Town.*
- B. To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.*
- C. To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs.*
- D. To regularly evaluate the Town's financial capacity to meet present and future needs.*
- E. 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.*
- F. To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.*
- G. 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.*
- H. To establish an effective system of internal controls that ensures the legal use of financial resources.*
- I. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*

## **A. GENERAL BUDGET POLICIES**

### **A-1 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:**

The Town shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The Town shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The Town will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. The Town will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to avoid making principal payments.

The Town budget shall also support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing.

#### **References:**

*Hampden By-Laws: Art. III, Advisory Committee*

*M.G.L. c.44, §31*

*Achieving a Structurally Balanced Budget, Government Finance Officers Association Best Practice, February 2012*

### **A-2 Submission of Budget and Budget Message**

#### **Background:**

Two important principles of public budgeting are clarity and publicity. 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 this 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:**

The Advisory Committee's budget proposal to Town Meeting shall provide a complete financial plan of all general and enterprise funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents. The budget message from the Advisory Committee shall explain the proposed budget for all Town agencies in fiscal terms and in terms of work programs. It shall outline the proposed 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 in financial policies, expenditures, and revenues, together with the reason(s) for such changes, summarize the Town's debt position, and include such other material as the Advisory Committee deems desirable or the Board of Selectmen and Town Meeting may reasonably require.

The Town shall 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:**

*Hampden By-Laws Article III. ADVISORY COMMITTEE*

**A-3 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 Advisory Committee, and the Board of Selectmen to test various "what-if" scenarios and examine the fiscal impact on future budgets.

**Policy:**

Each year the Town Administrator, in consultation with the financial management team and the Advisory Committee, shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five-year Capital Improvement Program.

The forecast shall 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 shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 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; and, 2) identify the resources needed to maintain required enterprise fund operations and 3) estimate the impact on rate payers.

The Town Administrator, in cooperation with the Advisory Committee and other Town departments, will review fiscal assumptions every year when the forecast is updated and will use information that is timely and accurate in preparation of the forecast. The forecast and the associated assumptions shall be made available to the Board of Selectmen and the Advisory Committee no later than upon submission of the Capital Improvement Plan.

**References:**

*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.

**A-4 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:**

The Town shall maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the Town intends to have during that budget period.

**A-5 Personnel Policies and Labor Contracts**

**Background:**

The Town has approximately 125 full and part time town employees and a total of 3 unions. For the purposes of these policies, the following definitions shall 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:**

Pay plans and pay rates shall be constantly monitored to ensure compliance with labor contracts, personnel policies, and accuracy. 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 publically available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters.

**References:**

*Hampden Personnel Policy and Employment Guidelines*

## **B. ENTERPRISE FUND POLICIES**

### **B-1 Self Sufficiency and Rates**

#### **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:**

Enterprise Funds shall be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by Town Accountant, Treasurer and Department heads.

Rates and fees for enterprise services shall be set at a level to provide for self-supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants.

Enterprise Funds shall 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 to prevent the need for subsidy by the General Fund operating budget. Estimates of capital project costs, debt service, and other liabilities shall be included in this analysis to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency.

*MGL, Chap 44, Sec 53F1/2*

*Enterprise Funds, MA DOR Division of Local Services Best Practice*

## C. RESERVE FUNDS/FUND BALANCE POLICIES

### Background:

Formal written policies that establish 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 and policies can also positively 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.

### C.1 Free Cash

#### Background:

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

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 other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balance 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.

Free cash will not be depleted in any year, so that the following year's calculation will begin with a positive balance. Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs.

Free Cash may be used for certain one-time expenditures, such as major capital projects, emergencies, other unanticipated expenditures, or to replenish other reserves.

**References:**

*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.

**C-2 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. The total of all stabilization fund balances shall not exceed 10% of a municipality's equalized values.

**C-2a General Stabilization Policy:**

The Town shall maintain a General Stabilization Fund of not less than 7% of the prior year's tax levy for the purpose of extraordinary or unforeseen expenditures. Until this target has been reached, a minimum of \$25,000 will be appropriated each year to this fund. The Town will endeavor to leave the stabilization fund balance unspent, 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 ensure that it is restored through the appropriation of revenues such as free cash and/or one-time revenues.

**C-2b Capital Stabilization Policy:**

The Town shall maintain a special purpose Capital Stabilization Fund that shall serve as a funding source for the Town's capital improvement plan, including any associated debt service. The Town shall have a goal to maintain a Capital Stabilization Fund equal to 3 % of the prior year's tax levy. Until this target

has been reached, a minimum of \$25,000 will be appropriated each year to this fund. Each year, as pay as you go capital is expended from the Fund, the Town shall replenish the fund to the targeted policy goal.

**References:**

*M.G.L. c. 40 §5B*

*Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.*

## D. 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.

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Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

### Policy:

Each year, the CIP Committee shall submit a five-year capital improvement plan to the Selectmen and Advisory Committee by the end of October.

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 \$25,000 in cost. All Officers, Boards, Commissions, and Committees shall, by the end of September of each year, submit to the CIP Committee information concerning all anticipated Capital Projects and Purchases requiring Town Meeting action.

At a minimum the following principals 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 improvement will be projected and included in operating budget forecasts, as appropriate.
- Federal, state, or private grants or loans shall 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.
- All assets shall be maintained at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.
- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.

- Capital projects shall be prioritized based upon criteria establish by the Town.
- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to Board of Selectmen and Town Meeting for appropriation.

**References:**

*Hampden Capital Improvement Program Bylaw.*

*Massachusetts DOR/Division of Local Services, Developing a Capital Improvement Program*

*Financial Management Assessment, Standard and Poor's, June 2006.*

## **E. 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 policies, the following definitions shall apply:

- General Fund Debt Service – All town debt service (non-exempt and Proposition 2 <sup>1</sup>/<sub>2</sub> exempt) excluding enterprise debt service.
- General Fund Budget – The total amount raised by the town as reported on the tax recapitulation form less the amount reported as enterprise revenue.
- General Fund Debt Service as a % of General Fund Budget - The percentage of the town's general fund budget that is allocated to debt service for capital investment.
- 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:**

The Hampden capital improvement program (CIP) shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- Debt Exclusion – Large projects, typically in excess of \$1 million, shall be funded by a Proposition 2 <sup>1</sup>/<sub>2</sub> debt exclusion vote in order to collect annual revenues sufficient to pay the new debt costs and not impact funds necessary to maintain the annual town and school operating budgets.
- General Fund Debt – Smaller projects may be funded by non- exempt debt with a careful review of the timing and impact on the operating budget while also maintain the town's investment in its capital infrastructure and equipment.
- General Fund Debt Service as % of General Fund Budget– The annual Debt Service requirement should not exceed 10% of the town's general fund annual revenues (excluding enterprise funds).



Pay As You Go Local Funding – The first source of capital investment shall 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. After establishing a base of approximately \$300,000, the Town shall increase its capital investment by the same rate a regular budget growth. The Town will use modest amounts from the capital stabilization or other reserves above target levels to fund pay-as-you go capital needs in order to meet urgent needs above the 5 percent Net Capital Investment target. In the event that annual deposits into the capital stabilization fund change significantly, the Town will revisit this capital funding policy.

Debt-Financing/Borrowing -

- The term of borrowing for a capital project shall not exceed its estimated useful life.
- The Town will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years to 15 years
- The Town will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source.
- For any capital item funded by debt, cost of borrowing, including estimated principal and interest by fiscal year shall be projected in report.
- The strategy of utilizing “level debt service” versus “level principal and declining interest cost” shall be analyzed before borrowing is authorized.
- Refunding opportunities will be evaluated annually to consider the possibility of future interest cost savings. The Town will consider a refunding of existing bonds should present value savings equal or exceed 2-6% of the amount of the bonds being refunded.

**References:**

*Benchmarking and Measuring Debt Capacity*, Government Finance Officers Association

## **F. GRANTS MANAGEMENT POLICIES**

### **Background:**

DLS 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.

### **F-1 Grant Administration**

#### **Policy:**

The Town shall 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 shall 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 the 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 shall expend grant funds, until after a fully executes agreement has been accepted and approved for expenditure by the Board of Selectmen (or the School Committee, when applicable). Further, no grant funds shall 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 Boards/Commissions/Committee/Departments is responsible to ensure consistency with award requirements and tracking the timeliness of reimbursement requests,

### **F-2 Impact on Operating Budget**

#### **Policy:**

When positions are funded by grants, the current and future impact on the operating budget shall 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.

### **F-3 Impact on Capital Improvement Program**

#### **Policy:**

When grants are accepted for capital purposes, the Town shall 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.

## **G. POLICIES REGARDING ESTABLISHMENT OF FEES**

### **G-1 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:**

Town fees and charges shall be reviewed periodically in relation to the cost of providing the service. 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.*

## **H. USE OF ONE TIME REVENUE**

### **H-1 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 services 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:**

The Town shall reduce its use of free cash for the operating budget by at least \$50,000 each year until it ceases using one-time revenue sources for recurring costs in the annual Town operating budget. Onetime revenues shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

## **I. 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 Hampden and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

### **I-1 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 Hampden is a member of the Hampden County Regional Retirement System and pays an annual pension assessment to the County. A funding schedule is in place to fully-fund this liability by the end of FY2037.

#### **Policy:**

In accordance with state law, PERAC regulations and government accounting standards, the Town shall 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.

#### **References:**

*M.G.L. c.32*

### **I-2 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) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

**Policy:**

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 \$25,000 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 Advisory 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 shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement. Careful consideration shall 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 annual required contribution (ARC) each year, which is calculated based on actuarial projections. Among strategies to consider for funding the ARC:

- Transfer unexpended funds from insurance line items to the OPEB trust fund.
- Appropriate amounts equal to the Town's Medicare Part D reimbursements.
- Determine and commit to appropriating an annual portion of free cash.
- Appropriate an annually increasing percentage of yearly revenues.
- 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 the ARC, whichever is less.

**References:**

*Hampden OPEB Policy statement*

*MGL c. 32B, §20*

*Statement No. 43, Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, April 2004.*

*Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2004.*

*GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.*

## **J. RISK MANAGEMENT POLICIES**

### **J-1 Risk Management Program**

#### **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:**

The Town's insurance programs shall 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 shall 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.



## **K. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES**

### **K-1 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 that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

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:**

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).

*Annual Audits*, MA DOR Division of Local Services Best Practice.

## **K-2 Comprehensive 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:**

The Town shall 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.

## **K-3 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:**

The Accounting Department shall 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.

## **K-4 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:**

The Town shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before September 1<sup>st</sup>, the Town shall commence tax title proceedings against all properties that owe property taxes to the Town.

The Treasurer and the Tax Collector shall 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's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer and the Tax Collector shall aggressively 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 shall 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:**

*Hampden By-Laws: Ch.XXV Delinquent Taxpayers: License and Permits*

*Revenue Collection, Government Finance Officers Association Best Practice.*

**K-5 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:**

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

The Town shall 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 and Collector's Manual 2008: *Massachusetts Collectors & Treasurers Association*

*Reconciling Cash and Receivables*, MA DOR Division of Local Services Best Practice February 2016

**K-6 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:**

The Treasurer/Collector will 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.

## **L. PROCUREMENT AND PURCHASING POLICIES**

### **L-1 Procurement and Purchasing Policy**

#### **Background:**

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 306, and other related regulations. The State Inspector General's office has oversight of public purchasing laws and has published a comprehensive guide to Chapter 306 requirements.

#### **Policy:**

The Town shall 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. 306. To supplement this guidance, the Town's Chief Procurement Officer Purchasing will maintain a concise manual on purchasing procedures for department heads or others involved in Town purchasing or procurement.

#### **References:**

*MGL Ch. 30B Uniform Procurement Act*

## **M. TREASURER INVESTMENT POLICIES**

### **M-1 Investment Policies – General Fund, Stabilization Fund, OPEB Trust Fund, Other Town Funds**

#### **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:**

The Treasurer is responsible for developing and maintain the policies for investing Town funds and will make all decisions regarding their management. The Treasurer shall 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 will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer will submit a report of investments on a regular basis to the Town Administrator.

#### **References:**

*M.G.L. Ch. 40, §5; M.G.L. Ch. 44, §54, §55A, §55B; and M.G.L. c. 44B, §7*

*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, October 2010.

*Financial Management Assessment*, Standard and Poor's, June 2006.

## **M-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations**

### **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:**

The Treasurer/Collector shall review post-issuance compliance procedures at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel or Financial Advisor.

### **References:**

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

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## APPENDIX 1: 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 has been 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 a town meeting or city council.

**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 or rates, 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 from 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 §53F<sup>1/2</sup>, 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 [IGR 08-101](#)

**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 2<sup>1/2</sup>). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2<sup>1/2</sup> 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 FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 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. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and 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 into or from the stabilization fund.



