TOWN OF DUXBURY, MASSACHUSETTS
FINANCIAL MANAGEMENT POLICIES & OBJECTIVES
Finance Committee 2013

Introduction

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Duxbury's resources. In addition, 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 policy-makers, administrators and advisors. Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject of course 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 may 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 that the Town is in a position to react and respond to changes in the economy and to new service challenges without measurable financial stress.

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). The Town will comply with GASB Statement 34 and continue to track, report, and depreciate capital assets as required. The Town will comply with GASB Statement 45 regarding accounting for Other Post-Employment Benefits (primarily health insurance) to retired employees.
2. An annual audit will be performed by an independent certified public accounting firm. The audit will provide an examination of Duxbury's financial systems, procedures, and data. A report on the fairness of financial statements and on local compliance with statutes and regulations are the main elements of the audit. The audit serves as a valuable management tool for evaluating the fiscal performance of Duxbury.
3. The Town should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear 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. The Town should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. It is preferable to replace the auditing firm, or the audit team leader at a minimum, at the end of the audit contract, as a control mechanism.
4. 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 organized by the Moderator and be comprised of representatives from the Board of Selectmen, School Committee, Library Trustees, Fiscal Advisory Committee, and Finance Committee, and two members of the public with appropriate experience appointed by the Moderator. The Audit Committee may meet independently with the auditor to review the Management Letter. The Audit Committee shall meet with the Finance Director, Town Accountant, Town Treasurer, and the Town's independent auditor to review the independent audit of the Town's financial statements. After reviewing the annual audit and the Management Letter, the Audit Committee shall meet at least annually with the Board of Selectmen and report its findings, and how it has discharged its duties and met its responsibilities.
5. A five-year financial projection shall be prepared annually by the Town Manager in conjunction with the Finance Director, 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) generally will not exceed 85% of the prior year's actual collections without firm evidence that 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 Collector/Treasurer and Finance Director 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 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. When positions are funded with grants, it should be presumed those positions will be eliminated when grant funding expires, unless arrangements are made before the position is filled to find alternate funding sources for that position.
5. Fees and user charges should be reviewed annually by the Fiscal Advisory Committee.

C. TRUST FUNDS

1. Trust funds are an important part of the Town's resources. The primary objective of the Town's trust funds 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.
   a. 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 % of general fund operating expenditures. 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.
   b. The Town will endeavor to maintain a certified Free Cash balance equal to at least 2% of General Fund operating revenues. Free Cash in excess of that amount should be used for non- recurring emergency expenditures, or appropriated to a trust fund for future capital projects and equipment purchases.
   c. Other trust funds maintained by the Town include the Cemetery Perpetual Care Trust and the Health Claims Trust. These funds are used by the Town to meet significant changes in demand for those services. Smaller trust funds maintained by the Town are listed in the Town's Annual Report.
   d. The OPEB Trust Fund should have a goal of an annual contribution of 5% of the Town's expenditures for retiree benefits.
   e. The Operational Reserve Fund should be funded at 0.2% of general fund operating

expenses. Other funds maintained by the Town are the Pension Reserve Fund and the Unemployment Compensation Fund, which are maintained by the Town to meet significant changes in demand for these items without impacting the annual budget.

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 be used for capital improvements, additions to trust funds, or as legally restricted to a specific purpose.

D. CAPITAL PLANNING

1. Section 3.B.5 of the Duxbury Town Government Act states that "the Town Manager shall develop a capital improvement program to be presented to the Selectmen, Finance Committee, Fiscal Advisory Committee, School Committee and Library Trustees in time to be included in the Finance Committee report and Fiscal Advisory Committee report to the next annual town meeting."

2. Policies proposed for the Fiscal Advisory Committee are listed below. These policies shall be reviewed by the Fiscal Advisory Committee annually.

a. Definition of a capital project: a capital improvement is a tangible asset or project with an estimated useful life of five (5) years or more, and a cost of $25,000 or more. Among the items properly classified as capital improvements are:

1. 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;
2. Alterations, renovations, or improvements to existing buildings that extend the useful life of the existing buildings by at least ten (10) years;
3. Land acquisition and / or improvement, unrelated to a public building, but necessary for conservation or park and recreation purposes;
4. 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;
5. New construction or major improvements to Town's physical infrastructure, including streets, sidewalks, storm water drains, the water distribution system, and the sanitary sewer systems. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a capital improvement;
6. 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):

1. Imminent threat to health and safety of citizens, employees or property (e.g., ambulance, police radios, self- contained breathing apparatus for firefighters);

2. Maintenance and improvement of capital assets (e.g. major repairs of buildings (as outlined by the Town's Facilities Manager), replacement of vehicles and equipment, park and play area renovations);
3. Requirement of state or federal law (e.g. asbestos cleanup program mandated by federal law in 1986, removal of gas tanks, etc);
4. Improvement of the infrastructure (e.g. streets and sidewalks, water and sewer programs);
5. Improvement/maintenance of productivity (e.g. equipment replacement, computer hardware / software);
6. Improvement of an overburdened situation (e.g. Town Hall renovations, cemetery expansion program);
7. Newly identified need (e.g. recreation fields);
8. Priority assigned by Department (Very High, High, Medium, Low); and
9. Consistency with and in furtherance of long-term planning objectives of the Town.

3. The Fiscal Advisory Committee will update and readopt annually a five- year capital improvement plan, including the upcoming annual capital improvement budget and a five-year projection of capital needs and expenditures which details the estimated cost, description and anticipated funding sources for capital projects.
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. On or before November 15 of each year, the Town Manager and Finance Director, after consulting with the School Superintendent and the Library Director, and with input from the Town's Facilities Manager, will submit a capital program to the Fiscal Advisory Committee. The proposed program will detail each capital project, the estimated cost, description and funding source.
6. The capital program will be funded by a combination of property taxes, enterprise and other available funds of the Town, debt exclusion funding, and grant funds from the federal and state governments.
7. 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. This does not include capital projects funded via 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, a plan will also be presented to replenish funding of the capital program to this range within a reasonable timeframe.
8. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
9. 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. DEBT MANAGEMENT

1. The requirements for debt financing shall be an expenditure of at least $100,000 and a useful life in excess of five (5) years for only those projects not able to be financed from current revenues,.
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 MSBA purposes, Chapter 70b.
4. General Fund debt service, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed 5% of General Fund expenditures.
5. Excluded debt service costs should be less than 12% of tax rate at all times. If above 10%, the Finance Director should develop a plan to bring the excluded debt level to the 10% level as soon as possible, through rapid amortization.
6. The Town will maintain its practice of aggressively paying down long-term debt.
7. The Town will meet the requirements of MGL Ch. 44, Section 7. Total debt for projects listed in that section will not exceed 5% of Equalized Valuation
8. The Town will meet the requirements of MGL Ch. 44, Section 8. Total debt for projects listed in that section will not exceed 10% of Equalized Valuation.