

Town of Middleborough Financial Policy and Procedures

Purpose and Benefit of Financial Policy:

- Provides historical basis for future decisions
- Provides for consistent guidelines for financial activities
- Sets a foundation for financial decision making
- Provides definitions for key financial terms

Objectives of the Financial Policy

- To provide effective financial management within the Town that conforms with generally accepted accounting principles (GAAP) and Massachusetts General Laws (MGL);
- To provide public confidence in municipal financial management;
- To protect and enhance the Town's credit rating and prevent defaults on municipal debt;
- To provide essential public safety, municipal and education services at the most efficient cost;
- To provide safeguards to ensure the quality and integrity of municipal financial systems;
- To hire and retain qualified professional financial managers;
- To minimize the Town's financial risk due to unforeseen emergencies;
- To protect and maintain the Town's capital assets.
- To enhance transparency of Financial Policies and Procedures to the public.

The goal of this financial policy is to control expenditures and build reserves. This policy includes guidelines which are intended for use by the Town Manager/ Board of Selectmen in preparing budgets, by the Finance Committee in reviewing and recommending budgets, and by Town Meeting in evaluating and approving budgets.

In order to achieve these objectives the Middleborough Board of Selectmen has adopted the following financial procedures.

A. ACCOUNTING AND AUDITING POLICIES

1. The Town will utilize accounting practices that conform to GAAP, as set forth by the Government Accounting Standards Board (GASB) and MGL.
2. An annual audit will be performed by an independent public accounting firm in a timely basis.
3. The Town will maintain strong financial controls to ensure compliance with town meeting actions, Town Charter, Town bylaws and state regulations.
4. The Town will produce timely payroll and accounts payable warrants ensuring that vendors and employees are paid on a regular basis.

B. ANNUAL BUDGET

1. The annual budget should be prepared such that all current operating expenditures will be paid for with current operating revenue. Operating expenses should be supported solely by ongoing recurring revenue sources, including taxes, state aid, local receipts, inter-fund transfers, and fees. The annual budget should not be funded with non-recurring revenue sources, such as stabilization. All accounts in the annual budget should be adequately funded to minimize the use of non-recurring revenue sources once the annual budget has been funded, and to prevent the deferral of expenses, particularly capital costs, to future years.
2. Operational overrides may be considered if the costs of municipal and/or educational services outstrip recurring revenues. All other available options, excluding the use of reserves, should be considered in advance of proposing an operational override for consideration by the Board of Selectmen.

C. REVENUE

1. The Town will strive to maintain and increase a healthy commercial tax base to supplement residential tax revenues by encouraging economic development.
2. The Town will thoroughly analyze any unexpected and unusual one-time revenue sources. One-time revenue sources include unanticipated state funds, legal settlements, and sale of town assets. These funds should be used toward meeting financial reserve goals and capital needs. These funds should not be used for funding general fund operating budgets.
3. The Town will thoroughly analyze any new recurring revenue sources before appropriation. New recurring revenue sources include significant new growth, increased state

aid or other permanent revenue sources. These funds shall be considered, particularly in the first year, toward meeting financial reserve goals and capital needs before being utilized for funding general fund operating budget needs.

D. RESERVES

1. The Town should maintain reserves to protect the Town from unforeseen, extraordinary needs of an emergency nature. Prudent stewardship of the Town requires such planning and protection for the Town's financial health.

2. Reserves as discussed in this section include expendable reserves (free cash, stabilization funds) and non-expendable reserves (unreserved fund balance).

3. The amount the Town has in its reserves plays a major role in maintaining and/or improving its bond rating. Bond rating agencies consider reserve balances of 5-10% of operating revenues adequate to maintain good financial condition. A temporary decline or reduction in reserves due to capital investment or emergency expenditure may not be considered by rating agencies as a cause for concern, but a continual decline or reduction in reserves may indicate a problem in meeting current expenditures and revenue targets, in subsidizing the current operating budget, utilizing reserves for purposes not planned or any combination of these circumstances.

4. The Town's goal is to fund the Stabilization Fund at a minimum of 3% of general fund operating revenues. In the short term, the Town shall strive to annually maintain the Stabilization Fund with a balance of one million dollars (\$1,000,000) The Town should strive to annually transfer the balance of free cash after the appropriation of capital or other one time expenses from free cash to the Stabilization Fund

5. Reserve funds should be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; an unexpected liability created by Federal or State legislation, funding of previous fiscal year expenses, immediate public safety or health needs, opportunities to achieve long-term cost savings, or planned capital investments, and related debt service. Reserves should not be used to fund recurring budget items. In the event that it is necessary to fund the operating budget with reserves, the budget in the next fiscal year should contain an appropriation of the same amount to the Stabilization Fund

6. Funds should be allocated from reserves only after an analysis and utilization plan has been prepared by the Town Manager or School Superintendent and presented to the Board of Selectmen or School Committee and Finance Committee for their agreement and sponsorship on the Town Meeting warrant.

E. GENERAL OBLIGATION DEBT

1. Long-term debt should be issued only for capital projects or assets that have a long useful life. Debt should be issued to pay for the cost of significant infrastructure or capital projects, such as land and equipment purchases, building construction or remodeling, and road construction.
2. Long-term debt should not be incurred without a clear identification of its financing sources. Debt issued on behalf of the water, sewer or trash enterprise funds should be supported by user fees or charges from those funds.
3. The term of long-term debt should not exceed the expected useful life of the capital asset being financed, but under no circumstances should the Town schedule debt for repayment in a term greater than thirty (30) years. This ensures cost savings to the community and seeks to avoid committing future generations to large debt obligations. This policy recognizes that capital needs continue and that new debt will continue to be identified and issued.
4. The minimum requirements for debt financing shall be an expenditure of at least \$5,000 and a useful life in excess of five (5) years.
5. General fund nonexempt debt service, net of grant funding, should not exceed 5% of general fund revenues so as to provide appropriate funding for other Town services. Total general fund debt, exempt and non-exempt, exclusive of grant funding, should be maintained at no greater than 10% of net general fund operating revenues so as to balance total debt costs and tax implications with other services.
6. Maintaining or improving the Town's bond rating will result in interest savings over the life of any borrowing. Moody's Investors Service cites stabilization of financial position at levels consistent with current rating category, restoration of structurally balanced operations, and replenishment of available reserves as the three key factors in improving the Town's bond rating. The Town should strive to utilize financial planning practices that enhance its financial positions, thereby stabilizing or improving the Town's bond rating.

F. CAPITAL PLANNING

1. The Town should maintain its physical assets by providing funding in the operating budget to protect the Town's capital investments and to minimize future maintenance and replacement costs. The Town's physical resources are a major component of the Town's overall financial assets and represent a significant investment of public funds. As such, the Town should strive to maintain and update its capital assets.
2. The Town should develop a multi-year plan for capital improvements to be known as the 'Five-Year Capital Budget' which will be updated on an annual basis.
3. Capital items shall be defined as follows:

Expenditures of at least \$5,000 and having a useful life of more than five (5) years;
Projects consisting of real property acquisitions, construction, capital asset improvements, long-life capital equipment, or major maintenance/repair of an existing capital item, as distinguished from a normal operating expenditure;

Items obtained over a long-term lease;

Multiple purchases of similar items with values a total value of over \$5,000 should be aggregated and the total considered a capital expense.

4. The Town should strive to budget in coming years three percent (3%) of the general fund operating budget, net of debt on capital maintenance and equipment. The Town understands the need to invest in capital stock on an ongoing basis and should attempt to fund such investments in coming years. Annual delays in reinvesting in the Town's capital assets and equipment can often lead to delaying major problems that result in larger investments of financial resources to correct. The Town Manager/Board of Selectmen should continue to stress the importance of capital reinvestment and will carefully balance the financing of capital with annual operating expenses.

5. The funding source of capital projects must be identified and analyzed before any long term bonded capital project is recommended. Funding sources for capital projects must be analyzed so as to balance the resources available within Proposition 2 ½.

6. Capital project funding should also be reviewed in relation to impact on property tax limitations.

Projects paid with current tax revenues should identify impact on the annual tax rate and/or tax bill.

Projects funded with long-term debt and *not exempted* from Proposition 2 ½ should identify impact on annual operating budgets.

Projects funded with long-term debt that are *exempted* from Proposition 2 ½, via *debt exclusion* or *override*, should identify impact on annual tax rate and/or tax bill.

Projects funded via *capital outlay expenditure exclusion* should identify impact on the current annual tax rate and/or tax bill.

G. OFFSET RECEIPTS AND ENTERPRISE FUNDS

1. The Town should establish and maintain offset receipts and enterprise funds pursuant to MGL Chapter 40, Section 39 and Chapter 44, Section 53F 1/2, respectively, wherever possible in order to ensure annual operation and maintenance needs are met and such services are funded in an equitable manner.

2. The term of debt for offset receipts and enterprise funds generally should not exceed the useful life of the asset, and in no case should the term exceed thirty (30) years.

3. Short-term debt, including internal borrowing and tax-exempt commercial paper, should be used when authorized for interim financing of enterprise fund capital projects. The term of

short-term debt may not exceed seven years. Total short-term debt should generally not exceed ten percent (10%) of outstanding long-term debt.

4. Ongoing routine, preventive maintenance should be funded on a pay-as-you go basis.

GLOSSARY OF TERMS:

Bond Anticipation Note (BAN): Short term debt instrument used to generate cash for initial project costs with the expectation that the debt will be replaced later by permanent borrowing. Typically issued for less than one-year, BANs may be reissued for up to seven years, provided that principal repayment begins after two years (MGL ch 44, s 17).

Bond Rating: A credit rating assigned to a municipality by a credit rating agency to help investors assess the future ability, legal obligation, and willingness of the municipality to make timely debt service payments. The rating helps prospective investors to determine the level of risk associated with a given fixed income investment.

Capital Outlay Expenditure Exclusion (MGL ch 59 s 21c ss I ½): A temporary increase in the tax rate, approved via referendum vote to fund a capital project or make a capital acquisition. 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 for that year only.

Debt Exclusion (MGL ch 59 s21C ss K): An action taken by a community through a referendum vote to raise the funds necessary to pay for debt service costs for a particular project from the property tax levy, but outside the limits of Proposition 2 ½. The amount is raised above the tax levy for the life of the debt only.

Department of Revenue (DOR): State department responsible for collecting a wide variety of taxes, providing taxpayer support, and administering programs related to municipal finance through the Division of Local Services.

Excise Tax: (MGL ch 60A, s 1 et seq.) A locally imposed annual tax to owners of motor vehicles registered to an address within the community. The excise tax is based on a valuation of \$25.00 per \$1,000 of car valuation, and is considered to be a local receipt.

Enterprise Fund (MGL ch 44, s53 ½): A separate accounting and financial reporting mechanism for municipal service for which a fee is charged in exchange for goods and services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered by user charges and the portion that is subsidized by the tax levy, if any.

Fees: Costs charged for services provided as allowed per MGL.

Free Cash: Remaining, unrestricted funds from operations, including unexpended free cash from the previous fiscal year, actual receipts in excess of revenue estimates on the tax recapitulation sheet, and unspent amounts in budget line items. Free cash is certified annually by the Division of Local Services, usually in advance of the Fall Annual Town Meeting. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash.

Gift: A sum of money or item donated to the Town or the public schools to be used either freely or toward a particular purpose.

Generally Accepted Accounting Principles (GAAP): Uniform minimum standards and guidelines for financial reporting that serve to achieve a level of standardization.

Government Accounting Standards Board (GASB): The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

Grant: A sum of money awarded by the state or federal government and occasionally by private individuals or companies to be spent for a particular purpose.

Inter-fund Borrowing: An advance between funds in order to fund debt that will either be repaid or externalized through BANs or permanent debt by the close of the fiscal year.

Inter-fund transfer: An amount that is transferred to general fund revenue from special revenue and enterprise funds to offset costs associated with those funds that are paid for by the general fund.

Levy Ceiling: One of two levy restrictions imposed by Proposition 2 ½. Real and personal property taxes imposed in any year may not exceed 2 ½ percent of the full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital outlay expenditure exclusion, or a debt or special exclusion.

Levy Limit: The other of two levy restrictions imposed by Proposition 2 ½. Real and personal property taxes imposed by a city or town may only grow by 2 ½ percent over the prior year's tax levy, plus new growth plus any overrides or exclusions.

Local receipts: Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals and charges. Annual estimates of local receipts appear on the Tax Recapitulation Sheet.

New Growth: The additional tax revenue generated by new construction, renovations, and other increases to the property tax base during the calendar year.

Non-Recurring Revenue Sources: One-time local receipts that are not assigned a specific category on page 3 of the Tax Recapitulation Sheet. Examples of non-recurring revenue sources are certain general purpose grants, and one-time state aid payments.

Non-Renewal Program (Mark & clear – RMV (MGL Ch 60 Sec 2)): Upon request, the Registry of Motor Vehicles marks the license of delinquent excise payers or parking ticket scofflaws for non-renewal until outstanding balances are paid.

Override: (MGL Ch 59 s 21C ss G): Process established by Proposition 2 ½ which allows the taxpayers of a community to increase tax revenue by permanently increasing the levy limit through a referendum. The override question on the election ballot must state a purpose for the override and the dollar amount

Personal Property Tax: The tax on movable items not permanently affixed to, or part of the real estate. It is assessed separately from real estate to certain businesses and public utilities.

Proposition 2 ½: (MGL Ch 59, s 21C): Statute which limits property tax increases by municipalities to an annual limit of 2.5% of the total levy over the previous year plus new growth. It was passed by initiative petition in 1980, and went into effect in 1982.

Rating Agency: A company that assigns credit ratings for issuers of certain types of debt obligations as well as the debt instruments themselves. The two agencies used by municipalities are Standard and Poor's (S&P) & Moody's.

Recurring Revenue Sources: Local receipts which are collected annually that are not assigned a specific category on page 3 of the Tax Recapitulation Sheet. Examples of recurring revenue sources are tax title payments, annual agreements with other towns, and Medicare/Medicaid payments.

Reserve Fund (MGL Ch 40, S 6): An amount set aside within the budget of a town to provide a funding source for extraordinary or unforeseen expenditures. Funds are released based on recommendation of the Town Manager, approved by the Finance Committee.

Revenue Anticipation Note (RAN): A short term loan issued to be paid off by revenues, such as tax collections and state aid.

Stabilization Fund: A fund designed to accumulate amounts for capital and other future spending purposes, although it may appropriated for any lawful purpose (MGL Ch 40, Sec 5B).

State Aid: Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Most aid programs are considered to be general fund revenues and may be spent for any purpose, subject to appropriation. Aid programs that are not considered general fund revenues include Chapter 90 funds, school choice in, and sewer rate relief.

Tax Anticipation Note (TAN): A short term note issued to provide cash to cover for operating expenses in anticipation of tax proceeds.

Tax Levy: The amount that a community raises through real and personal property taxation. The tax levy can be any amount up to the levy limit, which is re-established every year through Proposition 2 ½. The annual budget is based on the tax levy, coupled with projected state aid, local receipts and transfers in/out.

Tax Recapitulation Sheet: A worksheet submitted by a city or town to the Department of Revenue to calculate and set the tax rate. It consists of four pages (With numerous supporting documents); the tax rate summary (page 1), the total amounts to be raised (page 2), local receipts (page 3), and certifications and appropriations of funding (page 4). The compilation of data on this worksheet calculates the tax rate, and determines if the rate is under or over the levy limit. The tax rate cannot be set if the city or town exceeds the levy limit.

Tax Title: A collection procedure that secures a community's lien on real property and protects the Town's right to payment of overdue taxes. Otherwise, the lien expires five years after the January 1 assessment date if the property has been transferred to another owner. If

the amounts remain outstanding on a property after issuing a demand for overdue property taxes and publishing a notice of tax taking, the treasurer/collector may take the property for the city or town. The Treasurer/Collector may initiate foreclosure proceedings six months after the instrument of taking is recorded.

Trust Fund: A sum of money donated or transferred to a municipality with specific instructions on its use.

Unreserved Fund Balance: The amount by which cash, accounts receivable and other assets exceed liabilities and restricted reserves. It is akin to “stockholder’s equity” on a corporate balance sheet. It is not, however, available for appropriation in full, because a portion of the assets listed as “accounts receivable” may be taxes receivable and uncollected.

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