

The logo consists of a central vertical green bar. Two horizontal bars cross it: a teal bar on top and a cyan bar on the bottom. Both horizontal bars have a thin white border and a slight drop shadow.

Town of Shutesbury

Municipal Finance Guidelines

Town of Shutesbury • One Cooleyville Road • Shutesbury, MA 01072

413-259-1214 • www.shutesbury.org

October 2018

Contents

- Finance Related Bylaws 1
 - Finance Committee 1
 - Capital Improvement Planning Committee 3
- Municipal Finance Roles & Responsibilities 4
- Annual Budget Calendar 7
- Financial Policies 8
 - Overview 8
 - Budget Guidelines 9
 - Free Cash Policy 10
 - Stabilization Fund Policy 10
 - Finance Committee Reserve Policy 11
 - Departmental Transfer Requests 13
 - Debt Management Policy 14
 - Investment Policy 15
 - Capital Improvement Program Policy 17
 - Audit Policy 18
 - Other Post Employment Benefits Policy 19
 - Departmental Receipts 20
 - Petty cash 22
 - Departmental Expenditures 23
 - User Fee Policy 24
 - Purchasing Policy 25
- Single Family Property Assessment, Tax Bill & Tax Rate History 26
- Municipal Funding Sources 27
 - Recurring Revenue 27
 - Non-Recurring Revenue 29
- Historical Revenue Data 32
- Glossary of Finance Terms 35

Finance Related Bylaws

Finance Committee

Section 1. There shall be a Finance Committee of the Town of Shutesbury consisting of up to seven citizens of the Town, other than incumbents of excluded offices or boards which shall be: The Selectboard, the School Committee, the Elementary School Principal, the Union 28 Superintendent, the Fire Chief, the Police Chief, the Moderator and the Superintendent of Schools. The Moderator shall appoint members for three years with full terms to begin on the first day of July. No Committee member shall serve more than three {3} consecutive full terms. The Finance Committee shall elect its own officers. The Committee shall serve without salary. Any member who shall be appointed or elected to any of the foregoing excluded Town offices or boards shall forthwith upon his qualification in such office or board cease to be a member of Committee. The Committee shall hold scheduled meetings at least once in every two months of the calendar year. A member absent from one third of the meetings in any year of his term may be removed by a majority vote of the Committee after due notice to that member of the impending removal action. Voting or balloting by proxy shall be invalid in the Finance Committee.

Section 2. In the event of any vacancy in its membership, the Finance Committee shall notify the Moderator in writing, and the Moderator shall use best efforts to fill such vacancy within thirty days. Such appointee shall serve the remaining portion of the term of the prior member.

Section 3. The Finance Committee shall consider all matters of business that have a direct financial impact upon the Town which are included in the Articles of any Town Warrant for a Town Meeting and, after due consideration, shall report its recommendation as to each such Article and shall cause the same to be posted on official Town bulletin boards at least seven days in advance of a Town meeting. The recommendations shall be those of a majority of the Committee, but this shall not prevent recommendations by a minority. Minority recommendations, if so requested by the minority shall be reported under the same constraints as those placed on the majority. The Committee shall furnish for the Report for each annual Town Meeting a statement of the doings of the Committee for the fiscal year last closed, with any recommendations as it may deem advisable on matters pertaining to the welfare of the Town. It may issue recommendations on referenda and other matters on any ballot other than the choices of individuals for offices.

Section 4. The Finance Committee shall have authority at any time to examine the books, accounts and management of any department of the Town, and to employ such expert or other assistance as it may deem advisable for that purpose. The books and accounts of all departments and officers of the Town shall be open for the inspection of the Committee or any person employed for it for that purpose. The Committee may appoint sub-committees and delegate to them such of its powers as it deems expedient.

Section 5. The various Town boards, officers and committees charged with the expenditure of Town funds shall prepare detailed requests of the amounts deemed necessary by each of them for the administration of their respective offices or departments for the ensuing fiscal year and shall be requested by the Committee to deliver them to the Committee not later than the first of December of each year. Such requests shall be accompanied by explanatory statements of the reasons for any changes from the amounts appropriated for the same purpose in the preceding year. They shall also prepare estimates of all probable items of income, which may be received by them during the ensuing fiscal year in connection with the administration of their respective departments or offices. Such estimates and statements shall be filed in duplicate with the Chair of the Finance Committee and the chair of the Selectboard.

Section 6. The Finance Committee shall consider the requests and statements filed by the Town boards, officers and committees and may confer with them and may hold hearings if the Committee deems this advisable. The Committee shall then recommend for the town budget of the ensuing fiscal year such sums as it considers necessary and appropriate. In case of any special Town meeting, which is to consider a request for further expenditure than is contained in an existing Town budget, the Committee shall then recommend such sums, if any, as it considers necessary and appropriate for such purpose.

Section 7. A quorum of members will be a majority of the appointed members at the time of any meeting. Each vote taken shall require a quorum and a majority vote of the quorum to be effective.

Capital Improvement Planning Committee



Section 1. The Selectboard shall establish and appoint a committee to be known as the Shutesbury Capital Improvement Planning (SCIP) Committee, composed of one member from the Finance Committee, one school representative, the Town Treasurer and two members at large. In the event that the Town Treasurer is not a resident of Shutesbury, the Finance Committee shall have two representatives and the Treasurer will be an ex-officio staff member without the right to vote. The Town Administrator shall be an ex-officio staff member without the right to vote. The committee shall choose its officers.



Section 2. The Committee shall study proposed projects and improvements involving major non-recurring tangible assets and projects which 1) are purchased or undertaken at intervals of not less than three years; or 2) have a useful life of at least three years; or 3) cost over \$5,000. All officers, boards and committees including the Selectboard and School Committee, shall, by February 1 of each year, give the Committee, on forms prepared by it, information concerning all anticipated projects requiring Town Meeting action during the ensuing six years. The Committee shall consider the relative need, impact, timing and cost of these expenditures and the effect each will have on the financial position of the Town. No appropriation shall be voted for a capital improvement requested by a department, board, committee or commission unless said proposed capital improvement is considered by the Committee's report, or the Committee shall first have submitted a report to the Selectboard explaining the omission.



Section 3. The Committee shall prepare an annual report recommending a Capital Improvement Budget for the next fiscal year, and a Capital Improvement Program including recommended capital improvements for the following five fiscal years. The report shall be submitted to the Selectboard and Finance Committee for approval. The Committee shall submit its approved Capital Budget to the Annual Town Meeting for adoption by the Town.



Section 4. Such Capital Improvement Program, after its adoption, shall permit the expenditure on projects included therein of sums from departmental budgets for surveys, architectural or engineering advice, options or appraisals; but no such expenditure shall be incurred on projects which have not been so approved by the Town through the appropriation of sums in the current year or in a prior years. Planning for capital improvements beyond the time frame of the Capital Improvement Program shall be considered as a capital improvement, shall be listed in the Capital Improvement Program as such and shall be approved prior to expenditure of funds.



Section 5. The Committee's approved report, shall be published and made available with the distribution of the Finance Committee report. The Committee shall deposit its original report to the Town clerk.

Municipal Finance Roles & Responsibilities

Selectboard

Members of a Selectboard are the chief executive officers of the Town. Among statutory powers, the Selectboard sets policy, and through its decisions gives overall guidance to the direction of town government. Even when policies and fees originate in town departments, they should be recommended to the Selectboard for approval. Selectboard review and sign-off is also typically part of the annual budget process and after the start of the fiscal year on July 1, the Board approves the disbursement of town funds through vendor and payroll warrants. Additionally, the town can only borrow funds with Selectboard approval.

Finance Committee

Virtually all Massachusetts towns are required by state law ([MGL Chapter 39 §16](#)) to form a Finance Committee, which has a statutory charge to “consider any or all municipal questions for the purpose of making reports or recommendations to the town (i.e., town meeting).” With the adoption of bylaws, the town can provide that committee members are elected or assign an appointing authority. Bylaws can also refine or enhance the role of the Finance Committee. The Finance Committee also controls a town reserve fund ([Chapter 40 § 6](#)) to provide only for “extraordinary or unforeseen expenditures” and with the Selectboard shares authority to make certain budget line-item transfers between May 1 and July 15 of each year.

Capital Improvement Committee

Generally, a capital improvement committee (CIC) reviews, evaluates and prioritizes all capital expenditure requests and makes a report of its spending recommendations in accordance with town formally adopted policies or bylaws. Policies or bylaws also assign appointing authority for a CIC, and define its size and member composition. Other provisions might define a capital expenditure, address a capital budget process and evaluation criteria, and direct to whom the CIC will submit its recommendations.

Town Administrator

Not all towns have a Town Administrator, but among those that do, budget development responsibilities are paramount. Typically, the Administrator will initiate the budget process by developing revenue projections, establishing a calendar and distributing guidelines to departments and others with spending authority, which may be over the signature of the Selectboard or Finance Committee. He/she receives and reviews appropriation requests and drafts a balanced town budget, which is presented to the Selectboard and Finance Committee in accordance with accepted town practice. During the course of

the fiscal year, the Town Administrator monitors spending and makes recommendations to the Selectboard and Finance Committee when corrective action is warranted.

Town Meeting

It is a fundamental right and responsibility of Town Meeting to approve annual town spending. Recurring operating expenses are presented in the line-item budget, while other one-time or periodic spending requests are typically proposed in separate articles. The budget format, or level of budget detail, presented to Town Meeting is dictated by historical practice or decisions of the budget formulators. Property tax increases beyond the limits of Proposition 2½ through an Override, a Debt Exclusion or a Capital Exclusion requires Town Meeting approval. Only Town Meeting can authorize the incurrence of debt by 2/3s vote or the creation of a Stabilization Fund by 2/3s vote. Only Town Meeting can authorize, by majority vote, the establishment of an Enterprise Fund or a Revolving Fund. In every instance, Town Meeting must be provided with detail on any proposed expenditure it requests. With its approval of the annual budget, Town Meeting implicitly approves appropriation funding sources.

Accountant

The accountant has a legal obligation to oversee all financial activity of a municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statutes and regulations to monitor and protect town assets. To fulfill this responsibility, the office prepares vendor and payroll warrants and in doing so verifies that funds are available to cover the cost, that the spending purpose is lawful and that no fraud is evident. The Accountant maintains a general ledger where receipts, expenditures and activity in various funds are recorded; regularly reconciles cash and debt with the Treasurer and receivables with the Collector; produces a monthly expenditure reports, periodic revenue reports and other reports as requested by the Selectboard, Finance Committee and Town Administrator.

Treasurer

The Treasurer's duties are strictly regulated by state law. She/he is the community's cash manager and, as such, has custody of all municipal money. Included is the responsibility to make certain that town receipts are deposited into appropriate bank accounts and monitor balances to ensure that sufficient funds are available to cover town obligations as they become due. To fulfill these responsibilities, the treasurer maintains a cashbook, debt schedule, check registers, and various logs to track balances for General Revenue, grants, trusts as well as other special revenue funds. As a financial control, the Treasurer is obligated to reconcile cash balances and debt schedules against activity and then with the Accountant's records on a regular basis. The Treasurer maintains tax title accounts, conducts sales of land and prepares documents to petition for foreclosure. Finally, as directed by state law, the Treasurer invests town funds and manages debt to ensure asset safety and liquidity to meet cash flow needs and to maximize investment income.

Collector

A municipality's Tax Collector possesses the authority to collect real and personal property taxes, excises, betterments and certain other charges added to and committed as taxes. Collections need to be accurately counted, posted to taxpayer accounts, and either turned-over to the Treasurer or deposited daily. Delinquent accounts need to be pursued and then moved efficiently into the Treasurer's tax title accounts. To be successful, a Collector must maintain an up-to-date receivable control that is regularly reconciled to internal records and then with the Accountant's General Ledger. She/he regularly produces credit reports and determines when refunds are legitimately due residents. In accordance with state law, the office responds to requests for municipal lien certificates. In most communities, the collector manages the contractual agreement with a Deputy Collector, who assists with delinquent motor vehicle accounts.

Assessors

The assessors' office is responsible for valuing all the town's real and personal property, assigning annual tax payments to owners, and generating the commitment authorizing the Collector to collect real estate tax and motor vehicle excise payments.

To ensure that residents are taxed equitably and accurately, the office maintains and updates property records with information received in response to mailings, from deeds and through on-site property. Upon resident application, assessors act on and track personal exemptions and tax abatements. They estimate new growth and conduct classification hearings. The Assessors set the tax rate, recommend the annual overlay reserve and provide levy information for use in the Tax Recap Sheet submitted to the State Division of Local Services (DLS). The office is also required by DLS to document an annual property value adjustment analysis and to prepare for State certification of property values every three years.

Department Heads

A department head may or may not have staff, may be elected or appointed, may be an individual or a board, committee and commission that oversee a municipal operation, service or program. In all cases, the department head must annually submit an appropriation request itemizing anticipated costs for salaries, wages and expenses needed to provide municipal services in the next fiscal year. Those with spending authority are expected to meet budget formulators, as requested, to justify their request. On July 1, departments are authorized to spend their appropriations, but only for the purposes defined by line-items or in separate articles approved by Town Meeting. When authorized, departments may also expend certain revenues without Town Meeting appropriation approval. In any event, departments have a legal obligation to not overspend an appropriation.

Annual Budget Calendar

At the start of each fiscal year, the Town Administrator works with the Finance Committee (FinCom) to develop and distribute to all departments and the Selectboard a calendar of dates and task to be completed for the upcoming annual budget process.

Not Later than:

Tasks:

November 15	Completion of preliminary revenue projections by Financial Administrator. Review and sign-off by Finance Committee
December 1	Distribution of the operating budget Appropriation Request Letter together with any Expenditure Request Form to all departments, boards, committees, commissions or individuals with spending authority
December 31	Deadline for submission of all Expenditure Requests to the Town Administrator, who assembles all requests into a master copy of a working budget document
January 31	Town Administrator forwards a copy of the working budget to each FinCom members
February 1	FinCom begins analyses, meetings and deliberations
March 7	FinCom reviews annual expenditure recommendations with Selectboard
April 1	Deadline for Selectboard to accept the annual budget for the Town Report and for the Town Meeting Warrant
April 15	Deadline for FinCom approval of all other Town Meeting warrant articles
April 15	Selectboard approve the Town Meeting warrant for public notice purposes
May	Annual Town Meeting

Financial Policies

Overview

The purpose of financial policies is to provide the Town with a sound underlying foundation for fiscal decision-making and with guidelines that will:

- remain consistent from year- to-year and thereby enhance stability and continuity in government;
- promote sound annual budget practices and accountability in government;
- advance the achievement of long-term town-wide goals, including capital investment;
- provide for the maintenance of reserves so that the town is well-positioned to address emergency or unforeseen events;
- protect the town's bond rating and in turn reduce its borrowing costs and thereby minimizing the burden on taxpayers;
- instill confidence among residents that taxpayer dollars and other town resources are spent wisely and responsibly;
- encourage actions intended to help retain and enhance the character of the town and quality of life in it for residents.

Review and Approval of Policies

Finance-related policies shall first be submitted to the Finance Committee for its review, which shall then present its recommendation to the Selectboard . A proposed financial policy shall take effect upon the formal approval of the Selectboard. Town financial policies shall be reviewed periodically in accordance with the same process. Administrative procedures and policies described under Employee Guidelines should have the sign-off of the Treasurer/Collector and Accountant as appropriate. Otherwise, recommendations originate can from a department head or an appointed or elected board or committee which oversees a department or programs.

The Finance Committee is charged, each year during the budget process, to determine whether the operating and capital budget recommendations presented to it for review comply with the financial policies of the Town.

While Financial Policies are intended to encourage consistent, well-guided fiscal decisions from year-to-year, it is recognized that unforeseen or extraordinary circumstances can arise. In these instances, deviation from adopted Financial Policies may occur, but decision-makers will nonetheless strive to remain faithful to the overall goals and objectives set by the Town.

Budget Guidelines

Implementation of a well-founded budget process is a measure by which residents often gauge the performance of municipal government. The budget document itself is a mechanism for communicating town revenue setting policies, spending priorities and financial goals. A consistent budget process sets clear expectations for department heads and valuable predictability for residents from year-to-year.

In the first instance, the budget process is directed by town bylaws, which supersede policies and state, in part:

Section 3: ...The Finance Committee shall consider all matters of business that have a direct financial impact upon the Town which are included in the Articles of any Town Warrant for a Town Meeting and, after due consideration, shall report its recommendation as to each such Article...

Section 6: The Committee shall then recommend for the town budget of the ensuing fiscal year such sums as it considers necessary and appropriate.

To compliment town bylaws and further enhance budget guidelines, it is the policy of the Town that:

- The annual budget development process will be consistent from year-to-year and the roles and responsibilities of all involved will be clear;
- A balanced annual operating budget will be presented to Town Meeting for its approval;
- Efforts will be directed to produce an operating budget which is structurally balanced, that is, where recurring revenues are projected to fully fund recurring expenditures;
- One-time, or non-recurring, revenue will not be used to support recurring expenditures, but will be reserved for capital, emergencies or other one-time spending purposes;
- Revenue projections will be conservative with the intent to maintain Free Cash levels;
- Revenue and expenditure decisions shall account for possible cash fluctuations and other potential fiscal events, whether positive or negative;
- Departmental appropriation requests in the spring will represent amounts needed to fund respective programs and services for the entire ensuing fiscal year;
- No department, board, committee, commission or person with spending authority will knowingly incur an appropriation deficit, which is not already permitted by law;

Reserves

The establishment and maintenance of adequate financial reserves are essential in providing the Town with financial flexibility and security. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific purposes, or in some cases, to serve as a revenue source for the annual budget. Levels of reserved fund balance and unrestricted fund balance in the General Fund are monitored by credit rating agencies in evaluating creditworthiness that impacts the Town's bond rating and consequently, its cost to fund major capital projects through long term borrowing. While committing to minimum reserve levels is prudent and sound, the town's financial position is further strengthened when it demonstrates its ability to exceed target levels.

Therefore, the Town establishes the following policies for funding and maintaining reserves.

Free Cash Policy

Free cash refers to the remaining year-end balance of the Town's General Fund determined to be unreserved and undesignated, and not offset by deficits. Primary sources of Free Cash are revenues in excess of projections and unexpended departmental appropriations as of June 30. Free Cash is available for appropriation only after it is certified by the State Department of Revenue's Division of Local Services based on a balance sheet and other documents submitted by the Town. Healthy Free Cash is a widely accepted measure of good financial standing and an important indicator of whether the Town is living within its means.

Therefore, it is the policy of the Town

- To support responsible budgeting and spending of expense accounts which may result in Free Cash and to strive toward an annual certified Free Cash level of ten (10) percent or greater of annual General Fund revenues.
- To restrict the use Free Cash, to the extent possible and practical, to one-time expenditures and to build or replenish the Town's Stabilization Funds.
- To refrain, under normal circumstances, the use of Free Cash to fund the operating budget or other recurring expenditures.

Stabilization Fund Policy

The Town's General Stabilization Fund is a non-recurring financing source established under the provisions of MGL Chapter 40, Section 5B and can be used for any lawful purpose. It is most often intended as a reserve to provide long-term financial stability, to finance capital

expenditures and protect against emergencies costs. A Special Purpose Stabilization Fund, also authorized by Section 5B, is established to target a specific spending purpose. Both enhance the Town's credit worthiness and fiscal flexibility.

Towns can appropriate, without limit, into a Stabilization Fund by majority vote of Town Meeting, but spending from a fund requires a 2/3s Town Meeting vote. Under Chapter 281 of the Acts of 2016, Towns may also, by 2/3s Town Meeting vote, dedicate all or a percentage not less than 25 per cent of a particular fee, charge or other receipt to any stabilization fund, except receipts reserved by law, taxes or excises. Through an override option, Towns can also raise and direct tax dollars to a Special Purpose Stabilization Fund.

It is the policy of the Town to:

- Maintain a General Stabilization Fund balance of five (5) percent or greater of the Town's annual General Fund revenues.
- Utilize General Stabilization Fund money primarily for major emergency or unforeseen costs;
- Build balances in any Special Purpose Stabilization Fund, currently the Capital Stabilization Fund, with the intent to meet projected expenditures in accordance with a capital improvement plan.

Finance Committee Reserve Policy

A Town reserve fund is allowed under the provisions of MGL Chapter 40, Section 6 only for extraordinary and unforeseen expenditures on approval of the Finance Committee. Any year-end reserve fund balance that remains unspent potentially flows to Free Cash.

It is the policy of the Town that:

- The Finance Reserve shall be funded at no less than one (1) percent of General Fund, unless economic circumstances or anticipated fiscal events justify otherwise.
- Any request for a reserve fund transfer must first be submitted to the Town Administrator, who shall so submit a form to the Finance Committee at its next regular meeting;
- The Town Administrator shall review all requests giving consideration to alternative courses of action and shall without unreasonable delay submit requests to the Finance Committee, with recommendations, if any;

- Approval of a finance reserve transfer request must be sought in advance of the expected expenditure in order to avoid an appropriation deficit;
- The Finance Committee may not approve any transfer request for a purpose that has already been placed before Town Meeting and not approved by it.
- The Finance Committee may accept and approve a transfer request if, in its discretion, the time delay and cost of calling a special town meeting to approve a line-item transfer is not justified.

Departmental Transfer Requests

Departments may request additional funds for the current fiscal year only for costs that arise or are unanticipated due to emergency or unforeseen circumstances.

All requests for fund transfers must be submitted first to the Town Administrator, who shall recommend action to the Selectboard and the Finance Committee. The Town Administrator's recommendation shall consider:

- Whether alternatives exist for addressing the cited circumstances and cost; and
- Whether the transfer request:
 - should be directed to the Finance Committee for a transfer from its reserve (MGL c.40 §6);
 - should be addressed as a line-item transfer to be submitted to the Selectboard for approval in conjunction with the Finance Committee after May 1 and before July 15. (MGL c.44 §33B(b));
 - should be addressed as a line-item transfer to be submitted to the Annual or a Special Town Meeting for approval (MGL c.44 §33B).

Debt Management Policy

Debt, when well-managed, is an effective way to finance capital improvements or to cover short-term cash flow issues. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries to share in the cost of that improvement. Prudent and disciplined borrowing can free-up funds to support services and provide as means to maintain and enhance town assets that contribute to the quality of life in Shutesbury.

The issuance of debt is highly regulated by state law, which also assigns responsibility for borrowing decisions and for managing the Town's debt schedule to the Town Treasurer. In addition, the Town may only borrow with Town Meeting authorization and on approval of the Selectboard.

The level of debt incurred by a town is a local decision and reflects the Town's commitment to capital investment. That commitment is measured by a Debt Ratio, that is, General Fund debt service (including debt funded from debt exclusions) as a percent of General Fund revenues. A low Debt Ratio (under five percent) suggests that the town is not keeping up with its capital needs. In the absence of a major project, a high ratio (above 10 percent) may be viewed as diverting too many resources to capital.

Therefore, to ensure sound debt management decisions, it is the Town policy that:

The Town will comply with the provisions of MGL Chapter 44 §§ 7 & 8 which set-out the purposes for which municipalities can borrow and the time periods for which borrowings can occur and with Chapter 44 §10, which establishes a limit on how much the Town can borrow.

The payback period for any borrowing shall not exceed the expected useful life of the capital asset being financed.

The requirements for debt financing shall be an expenditure of at least \$5,000.00_ and a useful life in excess of five (5) years for only those projects not able to be financed from current revenues.

And, as control mechanisms:

- The Town will strive to maintain a Debt Ratio above five (5) percent, but in no instance above 10 percent.
- The Town will strive to hold the average maturity on all bond authorizations and issuances to ten years or less.
- The Town will make efforts to adopt debt service payment schedules where fifty (50%) of principal in each issuance is paid-off half-way through the term of the bond.

Investment Policy

Massachusetts General Laws require each Town, acting through its treasurer, to invest all public funds, with the exception of funds needed to meet cash flow demands. Statutes set out for treasurers, as well, investment rules and guidelines for various town funds.

It is the intent of the Town of Shutesbury and its Town Treasurer to comply with all the investment requirements and guidelines in state law and regulations. Therefore, it is the policy of the Town:

- To pursue investment objectives that

Protect the safety of investment principal and preservation of capital through the mitigation of credit risk and interest rate risk;

Ensure portfolio liquidity in order that sufficient funds are available to meet all operating requirements that may be reasonably anticipated, but not at the risk of forfeiture of accrued interest earnings or loss of principal; and

Achieve a fair market average rate of return.

- To negotiate the optimum balance between collateral protection and yield level through legal investment vehicles that include in unlimited amounts: the Massachusetts Municipal Depository Trust (MMDT); U. S. Treasury Bonds; U. S. Agency obligations; fully collateralized bank accounts of certificates of deposit; in F.D.I.C. protected bank accounts of certificates of deposit up to \$250,000; and in unsecured bank deposits subject to strict asset limitations.
- To manage short term investment decisions in accordance with the requirements of MGL c.44 §55;
- To build diversification into the Town's portfolio a) in terms of maturity and b) in terms of instrument type and issuer, with the exception of U. S. Treasury obligations and agencies, state pools and investments fully collateralized.
- To set performance expectations that the Treasurer, and any assistant Treasurer, act in strict adherence with the state conflict of interest law under MGL c.268A.
- To make overall investment decisions in accordance with "prudent person" standards under MGL c. 203C or as otherwise allowed by state law.

Capital Improvement Program Policy

The tangible (capital) assets of the Town, in the form of public buildings, facilities and infrastructure, rolling stock and machinery, and equipment including technology are central to efficient operations and the services provided to residents. When well-preserved, they add to the quality of life in the Town. Consequently, a program that maintains the condition and functionality of these assets; enhances their value and lifespan; and that advocates new investment as need arises is an important, ongoing responsibility of town government.

Therefore, the Town commits through these policy statements a capital improvement program that:

- Assigns responsibility for reviewing of all capital expenditure requests during the next fiscal year and for making recommendations to the annual and any special Town Meeting;
- Defines a capital improvement as a tangible asset or project with an estimated useful life of five (5) years or more, and a cost of \$5,000 or more;
- Outlines a timetable and process for receiving capital requests from town departments, boards, committees and commissions;
- Develops criteria, objective and otherwise, for evaluating long-term capital needs.
- Explores all potential funding sources including impacts on future property taxes and annual operating budgets;
- Uses short and long-term debt only in conformance with the Town's debt management policy;
- Assigns responsibility to develop and update a long range Capital Improvement Plan (CIP). This shall identify proposed purchases, acquisitions and projects; the anticipated year of expenditure; an estimated cost; and a potential funding source.

Audit Policy

The purpose of this policy is to underscore the Town's commitment to the completion of periodic independent audits, and in doing so, to strengthen public confidence that:

- The Town's year-end financial statements are reliable, accurate, and complete;
- Internal financial controls are in place and executed to protect community assets;
- Departmental procedures are sound;
- Credit rating agencies have evidence that the Town's financial condition is healthy
- The Town has a management tool for measuring performance.

Therefore, it is the policy of the Town, that

- An audit of the Town's year-end financial statements shall occur regularly;
- The principal person engaged to complete the audit is a Certified Public Accountant with Massachusetts municipal audit experience;
- When securing a new audit contract, the Town will make an effort to circulate a request for proposals or will solicit requests from multiple, selected audit firms or individuals.
- The Town will put forward its best efforts to address, with corrective action, comments and issues presented in the auditor's management letter.

Other Post Employment Benefits Policy

Other Post Employment Benefits (OPEB) refer to non-pension benefits that town employees earn while actively working, but do not receive until they retire. The largest OPEB cost is for health insurance, but coverage for dental, vision, prescription drugs, etc. can be included as well. In 2004, the Governmental Accounting Standards Board (GASB Statements 43 & 45) directed that towns identify and account for these liabilities. More recently, whether a Town has a policy for addressing OPEB has become a concern of auditors and bond rating agencies.

Therefore, in order to avoid any potential detrimental impact OPEB costs might have on the Town's annual operating budget; to help ensure positive audit results; and to protect the Town's bond rating, it is the policy of the Town to:

- Continue to maintain the Town's OPEB liability trust fund created in accordance MGL, Chapter 32B, §20.
- Arrange for the completion of an OPEB actuarial analysis every three years as required by GASB Statements 43 & 45.
- To make efforts to appropriate an amount each year into the OPEB liability trust fund.
- To work toward the development of contribution schedule that projects full OPEB funding.

Departmental Receipts

All revenues received for the Town of Shutesbury by any department, board or committee must be accurately accounted for and then turned over to the Town Treasurer in accordance with the town's turnover procedures.

Receipts include, but are not limited to, taxes, excises, fees, penalty charges, grants and gifts, whether received in the form of cash, coin, check or other draft, wire or other electronic funds transfer.

Turnover to Treasurer

State law (MGL Chapter 41, §35 and 60, §2) requires the treasurer to receive and take charge of all money belonging to the town. Therefore, ALL receipts must be deposited weekly with the Town Treasurer in person. All receipts belong to the general fund of the Town unless there is a law that specifies otherwise (MGL Chapter 44, Section 5)

Original deposit receipts are to be given to the Treasurer along with a "Schedule of Departmental Payments to Treasurer" form. A copy of the "Schedule of Departmental Payments to Treasurer" form must be given to the Town Accountant, as well. After verification, two copies will be signed by the Treasurer with one returned to the department, to be kept on file, and the other given to the Town Accountant. It is proof that the funds were received and credited to the proper revenue account.

All Departments that collect fees for services must turn over the entire fee to the Town Treasurer. Compensation to town employees will be made in the next payroll, i.e. Fire Inspection Fees, Board of Health Permits and Dog Licenses. All Departmental purchases, regardless of payment method, must be approved through a Vendor or Payroll Warrant process. Under no circumstances may a department pay expenditure with over-the-counter fees it collects.

Departmental record

A Detail of Receipts must be maintained by each department receiving payments.

Departments shall insure that the documentation from the receipt process allows for proper final accounting of the revenues, i.e., the amounts and accounts to be credited.

Exceptions

Certain miscellaneous receipts such as school lunch fees, photocopy fees and trash sticker fees do not have to be broken down by individual.

Deposits

All monies must be deposited at least once a week.

Revenue Report

The Town Accountant will provide a revenue report on a quarterly basis. The report needs to be checked by each department to make sure that monies have been credited into the proper revenue account for your department.

SURETY

All department staff receiving or otherwise permitted to handle funds on behalf of the town must be covered by a surety bond. Accordingly, department heads must submit to the Treasurer the names of all such staff

SECURITY

All collections in the possession of a Department must be held in a location that is secure from potential fire and theft. At the very least, funds in excess of \$100 must be secured overnight; funds less than \$100 must be secured overnight in a locked space.

Petty cash

Petty Cash may be assigned to a department or a town employee only if so authorized by the Town Treasurer. In addition, the following Petty Cash policies shall apply:

- The balance in a Petty Cash fund may not at any time exceed \$150.00 per person or per department;
- Petty Cash is for official town business only, specifically, for making over-the-counter change or for reimbursements of amounts under \$25 for a lawful departmental purchase by an employee.
- Petty Cash shall not be used for an employee's personal use or benefit, even if the intent is to reimburse the fund. There shall be no cashing of personal, third party or payroll checks from petty cash.
- Petty Cash must be kept in a secure place, i.e., a safe, a locked file cabinet or locked desk drawer.
- Petty Cash shall be available for audit at any time by the Accounting Department or auditors.
- Petty Cash balances shall be restored to originally issued amounts and certified to the Treasurer before June 30th of each year.
- All disbursements from Petty Cash be documented by an original hard copy receipt, or in the case of making over-the-counter change, a signed note.
- The Treasurer may replenish the Petty Cash fund, without separate appropriation, when presented with original receipts and signed notes by the department head evidencing full, or near full, expenditure of the prior balance. Petty Cash may not be replenished using over-the-counter or other town receipts departments collect.

Departmental Expenditures

On July 1 each year, following approval of the Town's annual budget, departments and boards, committees and commissions that oversee departments and who receive an appropriation are permitted to begin spending funds for lawful purposes.

State law (Chapter 41, §56) all disbursements of Town funds must be reviewed by the Town Accountant and approved by a majority of the Selectboard. Further, state law requires that payroll and vendor payments may only be made after services are rendered to and goods are received by the Town.

State law, approved as Chapter 218 of the Acts of 2016, allows any multi-member board, committee, and commission heading a department, including select boards, to designate one of its members to review and approve bills or payment for vendor and payroll warrants, with a report provided at the next meeting.

Accordingly, it is the policy of the Town:

- Vender and Payroll warrants shall be processed and payments shall be disbursed every two weeks in accordance with a schedule established by the Accountant prior to the start of the fiscal year.
- Vendor payments for goods or services shall be processed on submission of an original invoice addressed to the Town and signed by the department head. Electronic invoices received from vendors may be submitted only if acceptable to the Town Accountant and in accordance with guidelines she/he establish.
- No department, board, committee or commission with spending authority shall knowingly create a deficit by making a purchase or create town liability in excess of funds available in the department account to be charged.

User Fee Policy

User fees are a local receipt that reflects departmental charges and voluntary payments by residents and others for permits, licenses, program participation and other services provided to them by the Town. In regard to User Fees, it is the Town policy that:

- As the chief executive officers of the Town, the Selectboard shall review and approve all fees.
- Town fees will be periodically reviewed by the Selectboard or by the elected board, committee or commission that oversees a department or program, which shall recommend any adjustment to the Selectboard.
- Individual fees shall be set so that total anticipated annual receipts reasonably cover the estimated yearly Town cost to provide or administrate the program or service.
- All fees collected by departments, officers, boards, committees and commissions must be turned-over to the Treasurer in accordance with the Town's Turnover procedures.

Purchasing Policy

(As of December 2016)

It is the responsibility of all department heads and all others with spending authority to understand procurement rules under MGL Chapter 30B as they apply to municipalities. In general, Chapter 30B establishes the following rules for routine departmental purchases of goods and services (not associated with a construction project):

- Under \$10,000 - “sound business practices”¹ should be used with the award going to vendor offering the best price.
- Between \$10,000 and \$50,000 – Request three written quotations from at least three vendors who customarily provide the supply or service based on a written purchase description that the jurisdiction provides to each vendor. Procurement officers must keep a record of the names and addresses of all persons from whom quotations were sought, the written purchase description, the name of each person submitting a quotation, and the date and amount of each quotation. The award goes to a responsive² and responsible³ vendor offering the best price.

A written contract is required⁴. It must be signed by the vendor and Town representative authorized to sign contracts. The original of all contracts must be submitted to the Town Accountant. Departments must retain a copy.

- Over \$50,000 – purchases must be competitively bid or solicited through a Request for Proposals (RFP), unless the goods and services are (1) exempt from bidding under MGL Chapter 30B, (2) found on the State Procurement list, or (3) evidence of a sole source is documented.

Before initiating a bid or RFP process, the department head with spending authority must consult with the Town’s Chief Procurement Officer (CPO) Town Administrator.

The State Office of the Inspector General enforces Chapter 30B and provides guidance on its website at www.mass.gov/ig.

¹ Sound business practice is “ensuring the receipt of favorable prices by periodically soliciting price lists of quotes.” MGL c.30B §2.

² A responsible bidder or offeror is “a person who has the capability to perform fully the contract requirements, and the integrity and reliability which assures good faith performance” MGL c.30B §2.

³ A responsive bidder or offeror is “a person who has submitted a bid or proposal which conforms in all respects to the invitation for bids or request for proposals.” MGL c.30B §2.

⁴ “All contracts in the amount of \$10,000 or more shall be in writing, and the governmental body shall make no payment for a supply or service rendered prior to the execution of such contract.” MGL c.30B §17(a).

Single Family Property Assessment, Tax Bill & Tax Rate History

FY	SF Assd Val	Parcels	Avg Assd Val	Avg tax bill
2008	203,426,400	778	261,474	4,157
2009	203,395,400	780	260,763	4,532
2010	190,418,400	781	243,814	4,574
2011	191,887,600	784	244,755	4,741
2012	193,976,800	785	247,104	4,833
2013	193,981,800	784	247,426	5,015
2014	191,965,700	784	244,854	5,044
2015	190,786,700	783	243,661	5,246
2016	191,295,050	780	245,250	5,415
2017	179,998,250	741	242,913	5,529

Tax Rate

FY	Rate
2008	15.90
2009	17.38
2010	18.76
2011	19.37
2012	19.56
2013	20.27
2014	20.60
2015	21.53
2016	22.08
2017	22.76

Municipal Funding Sources

Recurring Revenue

The General Fund is the Town's primary pool of money out of which day-to-day operating expenses are paid. Under state law, all money received by the Town is regarded as General Fund revenue and must be deposited to the General Fund (bank) account unless statutes permit or direct otherwise. For town budgeting purposes, General Fund revenue is divided into four categories: property taxes, state aid, local receipts and all other.

Property Taxes

Real property includes vacant land, improved land and building uses categorized and assessed as residential or open space (combined), commercial or industrial. Personal property refers to movable items including business furniture, equipment and machinery, and residential furnishings in second homes. Each year the Assessors assign values to real and personal property, applying adjustments when justified by market changes. They calculate individual owners' tax obligation once the tax rate is approved by the State through the Tax Recap approval process.

The Town's ability to raise tax revenue grows each year through the normal operation of Proposition 2½ and increase in the Town's Levy Limit. The amount of tax revenue (the Tax Levy) actually raised is an annual decision determined through the budgeting process..

State Aid

Annual Cherry Sheet distributions are assigned to Education and General Government. Education aid for the Town includes funds to support local school (Chapter 70), charter school tuition reimbursements and school choice receiving tuition. Under General Government, the town receives Unrestricted General Government Aid, reimbursements for Veterans' benefits and personal exemptions, payments to account for state owned land and library aid. Historically, state aid to local schools is the largest portion of financial support the town receives from the State.

Local Receipts

Listed as Estimated Receipts on the Town's Tax Recap sheet, this group of revenues is predominantly motor vehicle excise income. Also included are investment income, hotel/motel tax, permit and license fees, rentals, and charges. Local receipts are a major contributor to Free Cash, specifically when year-end actual revenue are in excess of estimates that were used to support the Town budget.

Other

All other revenue sources used to support the Town's annual budget fall in to the "Other" category. The use of Free Cash for operations is reflected in this category as well as money drawn from Special Revenue Funds.

Chapter 90

Chapter 90 funds are a State distribution to towns for road surface and road related work on a reimbursement basis. Accepted spending purposes incidental to road work include land acquisitions, engineering services, landscaping, drainage systems, bridges, sidewalks and traffic signals. Funds may also be expended on bikeways, salt sheds and garages as well as machinery, equipment and tools.

Chapter 90 distributions are subject to the authorization and issuance of State Transportation bonds. The amount of funds received by a town is based on a formula that incorporates road miles, population and employment. The percentages that apply to all towns are 58.33 percent, 20.83 percent and 20.83 percent, respectively. Past allocations to Shutesbury are shown in the chart on pg. 28.

Override

When, in a Town Meeting and then a town-wide ballot vote, residents approve a Proposition 2½ Override, they are allowing a permanent increase in property taxes to fund operations. In the first year, the increase is allocated to specific purposes and departments. In subsequent years, the additional revenue becomes mixed in with other General Fund money. An amount equivalent to the increase can each year be appropriated to stabilization funds. Or, the amount of the Override can reflect future annual debt service payment the town expects to incur.

The voters of Shutesbury have approved eight Overrides, the last of which occurred in 2008 adding \$200,000 to the tax base.

Excess Levy Capacity

Proposition 2½ places limits on the maximum amount of total tax revenue a town can collect from its property owners. That "Levy Limit" is allowed to increase each fiscal year by 2½ percent plus the tax revenue associated with New Growth up to a \$25/1000 limit. During the annual budget process a local decision is made whether to raise in taxation the maximum allowed under the law or to tax a lesser amount. The difference between a lesser amount and the maximum allowed is "Excess Levy Capacity."

Excess Levy Capacity reflects efforts to slow property tax increases, but it is also a reserve and a revenue source. All or a portion of whatever amount the town chooses not to raise in one year can be captured

in a subsequent year or years. The use of Excess Levy Capacity is implicitly approved by Town Meeting when it approves the annual budget.

The Excess Levy Capacity in the current fiscal year approximates the additional amount of tax revenue available in the ensuing fiscal year. The use of Excess Levy Capacity results in a property tax increase above and beyond what might occur as a result of the annual Levy Limit growth under Proposition 2½.

Non-Recurring Revenue

Non-recurring revenue sources represent income that once spent are not routinely or automatically replenished. Consequently, the most prudent use of non-recurring revenue is to finance non-recurring expenses like capital improvements, emergency costs and unforeseen needs.

Free Cash

Free cash refers to the Town's remaining year-end General Fund balance which is determined to be unreserved, undesignated and not offset by deficits. Primary sources of Free Cash are year-end revenues in excess of projections and unexpended departmental appropriations as of June 30. Free Cash is available for appropriation after July 1 and only after it is certified by the State Department of Revenue's Division of Local Services based on a balance sheet and other documents submitted by the Town.

Although town's frequently use Free Cash as a revenue source for the annual budget, it is regarded as non-recurring revenue due to its potential volatility. As a rule, Free Cash levels correspond to the swings in local, regional and national economic conditions are subject to budget practices and unforeseen revenue deficits.

Over 4 years since FY2015, the Town's certified Free Cash has averaged \$1,175,153 and a robust 18.9 percent of annual revenues. At \$1,276,793 and 20.4 percent of revenues in FY2018, Free Cash remains high despite a continuing trend of increasing use.

Stabilization

The Town's General Stabilization Fund is a "savings" account authorized by MGL Chapter 40, §5B. Money is appropriated into the fund and can be subsequently appropriated out to finance any lawful purpose. Town Meeting can appropriate into the fund by a majority vote, by a 2/3s vote is required to spend from the Stabilization Fund. Stabilization is regarded as a one-time, non-recurring revenue source and as a result is not intended to support town operations.

Special Purpose Stabilization Funds

Special Purpose Stabilization Funds are authorized by MGL Chapter 40, §5B and allow towns to earmark money for specific purposes. A two-thirds Town Meeting vote is required to appropriate money into a special purpose fund and to spend from the fund. Towns may also raise the additional tax revenue and direct it to a special purpose fund. To do so requires a Town Meeting vote and town-wide vote at inception. Thereafter, the Selectboard vote annually whether to continue the tax increase.

The Town of Shutesbury has established four Special Purpose Stabilization Funds: Ambulance, Capital, Town Garage and Elementary School.

Special Revenue Funds

State law has created exceptions to the rule that all local receipts must be deposited to the town's General Fund. Statutes allow municipalities to set aside specifically defined income in Special Revenue Funds. Once deposited to a fund, the revenue can only be expended for purposes specifically defined, also in state law. The use of Special Revenue Funds is reflected in the "Other" category among revenue sources and is reported on the Tax Recap Sheet on Form B-2.

Borrowing within the Town Levy

The town always has the option of borrowing through notes, bonds or a combination of both to fund projects or purchases. Borrowing within the Levy means that the town has the capacity to pay issuance costs and debt service using its anticipated General Fund revenue and that it intends not to raise additional tax income to cover the expense.

This approach works in tandem with a town debt management policy that, among other things, sets a debt ratio – which is annual debt service as a percentage of annual General Fund revenue. As debt service declines over time, the town might authorize further borrowing to bring the ratio back up to the limit.

Borrowing with a Debt Exclusion

A Debt Exclusion is a means to raise tax revenue, above and beyond Proposition 2½ limits, to pay debt service when borrowing, authorized by 2/3s Town Meeting vote, is the funding source for a capital expenditure. Debt Exclusions are most often used in relation to large projects (i.e., a school) or major purchases (i.e., a fire truck). The tax increase only takes effect if approved in a town-wide ballot vote by a majority and only remains for as long as the borrowing term.

Capital Outlay Exclusion

If funds are not available from other sources, the town may raise in one year, all the property tax revenue needed to cover the cost of a major or less-than-major purchase through a Capital Outlay

Exclusion. The Town benefits by avoiding the issuance costs and interest expense associated with borrowing. A Town Meeting and town-wide ballot vote is needed to approval the exclusion.

Historical Revenue Data

<http://www.mass.gov/dor/local-officials/municipal-databank-and-local-aid-unit/databank-reports-new.html>

Primary Recurring Revenue

FY	Tax Levy	State Aid	Loc Rec	All other	Total
2008	3,584,175	973,725	549,500	246,558	5,353,958
2009	3,926,827	1,033,767	562,198	241,233	5,764,025
2010	3,994,738	971,960	566,100	136,349	5,669,147
2011	4,123,468	924,173	571,220	222,607	5,841,468
2012	4,212,254	912,113	601,309	221,640	5,947,316
2013	4,364,506	935,524	566,750	76,153	5,942,933
2014	4,382,720	944,182	618,875	223,818	6,169,595
2015	4,557,258	822,145	619,320	268,922	6,267,645
2016	4,686,776	816,005	658,700	418,914	6,580,395
2017	4,842,416	837,697	654,347	249,460	6,583,920

Property Taxes (Levy) by Class

FY	Res	Open Space	Coml	Ind	Pers Prop	Total Levy
2008	3,504,007	0	23,989	8,979	47,201	3,584,176
2009	3,826,080	0	29,836	9,814	61,096	3,926,826
2010	3,882,760	0	31,959	10,594	69,425	3,994,738
2011	4,008,560	0	31,206	10,938	72,763	4,123,467
2012	4,082,556	0	29,412	10,312	89,974	4,212,254
2013	4,231,004	0	34,224	10,686	88,592	4,364,506
2014	4,256,723	0	29,939	10,613	85,445	4,382,720
2015	4,421,718	0	33,915	11,897	89,728	4,557,258
2016	4,547,945	0	35,600	12,201	91,029	4,686,775
2017	4,700,910	0	37,765	12,577	91,163	4,842,415

Chapter 90

FY	Amount
2010	103,453
2011	106,653
2012	136,772
2013	136,218
2014	135,402
2015	202,941
2016	135,329
2017	135,622
2018	135,152
avg	136,394

Source: massdot.state.ma.us/highway->DoingBusinessWithUs->LocalAidPrograms->Chapter90Program->Chapter90Apportionment

Excess Levy Capacity

FY	Levy Limit	Max Levy Limit	Total Levy	Excess	% of Max	Ceiling
2008	3,461,348	3,586,751	3,584,176	2,575	0.07	5,635,495
2009	3,784,935	3,928,751	3,926,826	1,925	0.05	5,648,485
2010	3,911,597	4,037,700	3,994,738	42,962	1.06	5,323,478
2011	4,033,850	4,146,490	4,123,467	23,023	0.56	5,321,978
2012	4,171,965	4,271,239	4,212,254	58,985	1.38	5,383,760
2013	4,301,932	4,387,833	4,364,506	23,327	0.53	5,382,963
2014	4,427,255	4,416,712	4,382,720	33,992	0.77	5,318,835
2015	4,577,790	4,605,633	4,557,258	48,375	1.05	5,291,754
2016	4,719,004	4,754,872	4,686,775	68,097	1.43	5,306,585
2017	4,869,307	4,875,106	4,842,415	32,691	0.67	5,318,998

Free Cash

FY	Cert Amount	Budget	% of Budget
2008	360,338	5,353,958	6.7%
2009	507,886	5,764,025	8.8%
2010	569,829	5,669,147	10.1%
2011	736,912	5,841,468	12.6%
2012	878,898	5,947,316	14.8%
2013	1,071,839	5,942,933	18.0%
2014	1,194,211	6,169,595	19.4%
2015	1,276,793	6,267,645	20.4%
2016	993,167	6,580,395	15.1%
2017	1,176,791	6,583,920	17.9%

General Stabilization Fund

FY	Balance	Budget	% of Budget
2008	361,164	5,353,958	6.7%
2009	330,183	5,764,025	5.7%
2010	334,558	5,669,147	5.9%
2011	368,229	5,841,468	6.3%
2012	341,700	5,947,316	5.7%
2013	414,050	5,942,933	7.0%
2014	534,243	6,169,595	8.7%
2015	896,724	6,267,645	14.3%
2016	928,997	6,580,395	14.1%

Special Purpose Stabilization Funds

Fund	Balance as of:	19-Jun-17
------	----------------	-----------

Capital
 School Technology
 GM?
 WPC

New Growth

FY	Res NG value	Res NG applied to Levy Limit	Total NG value	Total applied to Levy Limit	Res NG as % of Total	Prior Year Levy Limit
2008	3,295,168	58,687	3,376,361	60,133	97.6	3,318,259
2009	1,368,300	21,756	2,330,356	37,053	58.72	3,461,348
2010	1,274,620	22,153	1,727,893	30,031	73.77	3,784,935
2011	1,053,200	19,758	1,304,019	24,463	80.77	3,911,597
2012	996,888	19,310	1,924,053	37,269	51.81	4,033,850
2013	555,201	10,860	1,292,502	25,282	42.96	4,171,965
2014	784,300	15,898	876,900	17,775	89.44	4,301,932
2015	1,715,600	35,341	1,934,660	39,854	88.68	4,427,255
2016	1,006,290	21,665	1,243,356	26,769	80.93	4,577,790
2017	1,354,000	29,896	1,464,140	32,328	92.48	4,719,004

Debt Service (P&I)

FY	(purpose-->)
2017	
2018	
2019	
2020	
2021	

Glossary of Finance Terms

(Source: State Division of Local Services at <http://www.mass.gov/dor/docs/dls/publ/misc/dlsmfgl.pdf>)

Audit Committee

A committee appointed by the selectmen, mayor, or city council, with specific responsibility to review a community's independent audit of financial statements and to address all issues relating to it as well as those outlined in the accompanying management letter.

Audit Management Letter

An independent auditor's written communication to government officials, separate from the community's audit. It generally identifies areas of deficiency, if any, and presents recommendations for improvements in accounting procedures, internal controls and other matters.

Audit Report

Prepared by an independent auditor, an audit report includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations. It is almost always accompanied by a management letter.

Available Funds

Balances in the various fund types that represent non-recurring revenue sources. As a 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).

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 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.

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 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.

Capital Improvements Program

Thus is 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.

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 debt exclusion, a community calculates its annual levy limit under Proposition 2½, and 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.

Enterprise Fund

An enterprise fund, authorized by MGL Ch. 44 §53F½, 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.

Equalized Valuations (EQV)

The determination of an estimate of the full and fair cash value (FFCV) of all property in the Commonwealth as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL Ch. 58 §10C, is charged with the responsibility of biannually determining an equalized valuation for each city and town in the Commonwealth.

Fixed Assets

Long-lived, tangible assets such as buildings, equipment and land obtained or controlled as a result of past transactions or circumstances.

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. (See Available Funds)

GASB 34

A major pronouncement of the Governmental Accounting Standards Board that establishes new criteria on the form and content of governmental financial statements. GASB 34 requires a report on overall financial health, not just on individual funds. It requires more complete information on the cost of delivering services and value estimates on public infrastructure assets, such as bridges, road, sewers, etc. It also requires the presentation of a narrative statement analyzing the government's financial performance, trends and prospects for the future.

GASB 45

This is another Governmental Accounting Standards Board major pronouncement that each public entity account for and report other postemployment benefits (See OPEB) in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

Informational Guideline Release (IGR)

A DLS publication that outlines a policy, administrative procedure, or provides a law update related to municipal finance. Refer to online listing of IGRs.

Levy

The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2½ provisions.

Levy Ceiling

A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of

the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes capital exclusion, debt exclusion, or a special exclusion. (See Levy Limit)

Levy Limit

A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ 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)

Line-Item Transfer

The reallocation of a budget appropriation between two line-items within an expenditure category (e.g., salaries, expenses). Employed as a management tool, line-item transfer authority allows department heads to move money to where a need arises for a similar purpose and without altering the bottom line. Whether or not line-item transfers are permitted depends on how the budget is presented (i.e., format) and what level of budget detail town meeting approves.

Local Acceptance Statute

A requirement placed within the language of a General Law that a community affirmatively accept the statute by town meeting or city council action or referendum before availing itself of the provisions of the particular law.

Local Aid

Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

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 are shown on the tax rate recapitulation sheet. (See Estimated Receipts)

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)

OPEB (Other Postemployment Benefits)

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will

not be received until after their employment with the government ends. The most common type of these postemployment benefits is a pension. Postemployment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as OPEB. (See GASB 45)

Override

A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride)

Override Capacity

The difference between a community's levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

Personal Property – Movable items not permanently affixed to, or part of the real estate. It is assessed separately from real estate to certain businesses, public utilities, and owners of homes that are not their primary residences.

Recurring Revenue Source

A source of money used to support municipal expenditures, which by its nature can be relied upon, at some level, in future years. (See Non-recurring Revenue Source)

Reserve Fund

An amount set aside annually within the budget of a city (not to exceed 3 percent of the tax levy for the preceding year) or town (not to exceed 5 percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted by the city council upon recommendation of the mayor.

Revolving Fund

Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be re-authorized each year at annual town meeting or by city council action, and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

Schedule A

A statement of revenues, expenditures and other financing sources, uses, changes in fund balance and certain balance sheet account information prepared annually by the accountant or auditor at the end of the fiscal year. This report is based on the fund account numbers and classifications contained in the UMAS manual.

Single Audit Act

For any community that expends \$750,000 or more per year in federal grant awards, the Single Audit Act establishes audit guidelines that reduce to only one the number of annual audits to be completed to satisfy the requirements of the various federal agencies from which grants have been received.

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. (See DOR IGR 04-201)

Tax Rate Recapitulation Sheet (Recap Sheet)

A document submitted by a city or town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (in order to issue the third quarterly property tax bills before January 1)

Turnover Sheet

A form, completed by municipal departments, that accompanies the physical transfer of departmental revenues, or bank deposit slips reflecting revenues, to the treasurer.

Underride

A vote by a community to permanently decrease the tax levy limit. As such, it is the exact opposite of an override. (See Override)

Undesignated Fund Balance

Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash. (See Designated Fund Balance)

Uniform Procurement Act

Enacted in 1990 and most recent amended in 2016, MGL Ch. 30B establishes uniform procedures for local government to use when contracting for supplies, equipment, services and real estate. The act is implemented through the Office of the Inspector General. (See Massachusetts Certified Public Purchasing Official).

Unreserved Fund Balance (Surplus Revenue Account)

The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a "stockholders' equity" account 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. (See Free Cash)

User Charges/Fees

A municipal funding source where payment is collected from the user of a service to help defray the cost of providing the service. Note that any increases in the fees must satisfy the three tests set forth in the so called Emerson case. (See Emerson College v. Boston, 391 Mass. 415 (1984)).