

BUDGET DOCUMENT | TOWN OF SUTTON

A COMMUNITY COMPACT CABINET INITIATIVE

SEPTEMBER 2017



DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

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DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Christopher C. Harding
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

September 20, 2017

Board of Selectmen
4 Uxbridge Road
Sutton, MA 01590

Dear Board Members,

I am pleased to present the enclosed report on budget document best practices for the Town of Sutton as part of the Baker-Polito Administration's Community Compact Cabinet initiative. This collaborative program strives to create clear mutual standards, expectations, and accountability for both the state and municipalities. It is my hope that this report provides guidance on creating a transparent, thorough, and accessible budget document, as together we seek to build better government for our citizens.

If you have any questions regarding the report, please contact Zack Blake, Technical Assistance Bureau Chief, at (617) 626-2358 or blakez@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin
Senior Deputy Commissioner

INTRODUCTION

At the request of the board of selectmen, the Division of Local Services Technical Assistance Bureau (TAB) developed a budget document and guide for the Town of Sutton. Along with a financial forecast produced in August 2017, TAB has now completed the second of two projects requested by Sutton under the Community Compact Cabinet (CCC) initiative (www.mass.gov/CCC). A comprehensive budget document is a best practice that allows local officials to show expenditure allocations in the context of available revenues, highlight community priorities, and explain plans for contending with budgetary pressures and anticipated difficulties in the upcoming year.

A community of 9,133 residents, Sutton is governed by a five-member board of selectmen and open town meeting. The selectmen-appointed town administrator is assigned responsibility for preparing Sutton's annual operating budget (\$33.3 million in FY2016) and capital plan in accordance with provisions set out in its charter and bylaws. Although the incumbent effectively manages these processes, through this CCC request, town officials sought to enhance the annual budget document's communication impact for residents, maximize its potential as a policy and management tool, and remedy inefficiencies presently involved in its development.

Sutton's budget process begins in August, when the select board holds a public meeting to discuss priorities, goals, and objectives. Shortly thereafter, the town administrator develops preliminary revenue estimates with input from the financial team. A joint meeting of the selectmen, finance advisory committee, and school committee to discuss and establish budget priorities takes place at the beginning of December.

The town administrator separately solicits capital budget requests (in early November) and operating budget requests (early December) from departments, in both cases sending out instructions and standardized request forms. Before distributing the operating budget forms, the town administrator types line-item budget data from the current year into them, along with his revenue projections. Department heads are required to complete and return both types of requests within a month of receipt, and although many transmit these electronically, some complete the forms in hard copy.

The town administrator rates and prioritizes capital requests based on a scale that considers legal obligation, public safety, economic efficiency, multiyear project component, departmental priority, and energy efficiency. He then presents a preliminary, five-year capital plan to the finance advisory committee for feedback before developing a funding plan for submission to the selectmen. After

receiving the operating budget requests in mid-January, over the next few weeks, the town administrator pastes and data enters the submitted figures into budget master spreadsheets and schedules meetings with department heads.

By mid-February, the town administrator submits operating and capital budgets to the selectmen for review. By the end that month, he presents budget proposals to the finance advisory committee, along with an extensive, thoughtful budget message and PowerPoint showing the town's priorities, trends, and challenges, and how the budget meets them. The finance advisory committee conducts budget hearings attended by the town administrator, who responds to questions and provides supplemental information as it becomes available. The committee then provides its recommendations on the town administrator's operating and capital budgets and publishes them in a report at least a week before town meeting.

Given the consistent planning practices, frank and open discussions, and good cooperation among the selectmen, finance advisory committee, school committee, and departments, Sutton's budget process runs fairly smoothly and to the overall satisfaction of town officials. However, there is significant room to improve the budget document. At present, it consists only of a revenue projection summary, series of departmental operating budgets, town administrator budget message, and five-year capital plan and budget. Lacking are Sutton's annually determined priorities and formal financial policies, which are essential in developing the final budget proposal. The annual budget is a municipality's most important annual tool for communicating to residents and businesses the town's priorities and challenges. As such, building a more comprehensive, open and transparent budget document is important for gaining taxpayers' confidence.

BUDGET DOCUMENT FEATURES

The budget document template we designed consists of two Excel workbooks with embedded instructions and multiple worksheets, which we have populated with Sutton's FY2018 budget data. One workbook is to be used by department heads for submitting budget requests to the town administrator, and it contains police department information to serve as a sample. The other, master workbook is for compiling and presenting town-wide budget data.

To maximize informational value, the departmental workbook includes the following elements: an overview tab with the department's mission statement, goals, and objectives; personnel summary tab with a data table and organizational chart; and budget overview tab with data tables and narrative area. The town administrator should review each mission statement with the department head to make sure it is current, clearly explains what the department does and whom it serves, and articulates the benefits of the service or operation. Just as the select board annually develop goals

and objectives with the town administrator by which to assess his achievements, so should the town administrator work with department heads to do the same. Goals are broad statements of purpose, while objectives are the specific, measurable steps necessary to accomplish goals. These should be annually reviewed and updated. In addition, we recommend the town administrator password-protect the workbook's formulas before distributing copies to the departments.

The master workbook contains a template of town-wide budget components, including:

- Table of Contents
- Budget Message
- Forecast
- Budget Calendar and Process
- Organizational Chart
- Personnel Summary
- Revenue & Expenditure Overview
- Revenues Section
- Departmental Budget Sections
- Capital Investment Section
- Financial Policies
- Appendices

Rather than having these components as standalone documents, as has been the case in the past, incorporating them into the budget document helps clearly communicate the short- and long-term considerations taken into account when developing the town's spending plans.

The town already has some formal financial policies, but we advise they be expanded to provide further budget guidance. Sutton's existing free cash and general stabilization policies could be incorporated into a single, broader reserves policy that sets usage conditions for these reserves, as well as for any special purpose stabilization funds, assessor's overlay account, and enterprise fund retained earnings. It should also establish target funding levels for each reserve type. No capital policy exists yet, but the town administrator's annual memo to departments defines a capital item or project as costing \$5,000 or more and having, or extending, useful life at least two years. He also describes his rating and prioritizing process. These details should be incorporated in a policy that also lays out capital financing strategies. We also advise policy decision makers to consider raising the capital criteria thresholds to a cost of at least \$25,000 and lifespan of five years.

With input from the select and finance advisory boards, we recommend the town administrator draft the new policies and submit them for formal adoption by the boards. Subsequently, relevant policy excerpts should be included in the budget document. For guidance, the appendix has sample policies on these topics, and additional financial policies can be found on TAB's [webpage](#) under Community Compact Reports.

BUDGET DOCUMENT WORKFLOW

Used properly, TAB's budget document will eliminate some inefficiencies now involved in Sutton's budget development process. This will require the town administrator to work with the town accountant to electronically generate the departmental workbooks. The first step is to create a Munis report, sorted by department and exported to Excel, of the current fiscal year's data arranged in the lines and columns of the department-level workbook. Next, the town administrator pastes each department's data in turn into individual department workbooks, which he then sends out via email. The town administrator should require all departments to data enter their budget requests into the Excel workbooks. Depending on Sutton's network set-up and the town administrator's preference, department heads could paste their completed workbook files on a shared drive or submit them by email.

The department-level workbooks will provide the source data for the final budget document. Our template uses formulas and linked sheets to automatically summarize line-item data into a final, presentation-ready format. If the town administrator stores the files on a single drive, the totals in the department-level workbooks can be linked to the budget master workbook and thereby avoid data entry errors from one to the other. This standardizes the point of change and keeps data consistent throughout the development process. Any subsequent budget alterations should single out specific line items for reduction or increase.

After town meeting, the town administrator should create an archive of the budget files, and start from copies of them in the subsequent annual budget process. Budget data from the prior year should also be replaced with actual reported activity from Munis. For the new year, in these copies, he can delete the oldest fiscal year's data, shift the other columns' data over, and in doing so create a new, blank column for the upcoming fiscal year and leave the formula-embedded column untouched. All the other workbook tabs carry over to the new fiscal year and can be updated as needed, including mission statements, objectives, personnel information, and budget narratives.

APPENDIX I:

SAMPLE FINANCIAL RESERVES POLICY

PURPOSE

To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, Sandwich can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

APPLICABILITY

This policy pertains to short- and long-range budget decision making and applies to the Board of Selectmen, Town Administrator, and Finance Advisory Committee in those duties. It also applies to the related job duties of the Town Accountant and Board of Assessors.

POLICY

The Town of Sutton commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall reserves in the level of eight to ten percent of the annual operating budget. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

A. Free Cash

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it.

The Town shall set a year-to-year goal of maintaining its free cash in the range of three to five percent of the annual budget. To achieve this, the Town Administrator will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much practicable, the Town will limit its use of free cash to funding one-time expenditures (such as capital projects, snow and ice deficits, or emergencies) and will appropriate any excess to reserves or to offset unfunded liabilities.

B. Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Sutton has three stabilization funds as detailed below.

General Stabilization: The Town will endeavor to maintain a minimum balance of eight percent (minus debt exclusion debt budget) of the current general operating budget in the general stabilization fund. The Town will annually appropriate a minimum of one percent of general fund operating revenues to the general stabilization fund until the target minimum balance is met. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the five percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Further, the Town Administrator and Town Accountant will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Capital Stabilization: The Town will endeavor establish and appropriate annually to the capital stabilization fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. Doing so enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs.

Special Education (SPED) Stabilization Fund: The Town will endeavor to maintain a minimum of \$200,000 in its SPED stabilization fund. Withdrawals from SPED stabilization are only used for unanticipated shifts in special education costs that cannot be supported by current general fund appropriations. When withdrawals are made from the fund, the Town Administrator and Town Accountant will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

C. Retained Earnings

The Town has two enterprise funds: sewer and transfer station. By accounting for the revenues and expenditures of each of these operations in individual funds segregated from the general fund, the Town can identify their true service delivery costs—direct, indirect, and capital—and recover these through user fees. Under this accounting, the Town may reserve each operation's generated surplus (referred to as retained earnings).

For each enterprise fund, the Town will maintain a reserve amount at 20 percent of the operation's total budget, at minimum, but any reserve may be significantly higher if major infrastructure improvements are necessary. These reserves shall be used to provide rate stabilization and to fund major, future capital projects. To maintain the target reserve levels for each enterprise requires the directors of the golf, sanitation, and marina operations to periodically review, and when necessary, adjust user rates.

D. Overlay Surplus

The overlay is a reserve the Town uses to offset uncollected property taxes and other unrealized revenue resulting from property tax abatements and exemptions.

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Administrator and the Town Accountant an update of the overlay reserve with data that includes, but is not

limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare those balances surplus and available for use in the Town's capital improvement plan or any other one-time expense.

REFERENCES

[M.G.L. c. 40, § 5B](#)

[M.G.L. c. 59, § 25](#)

[M.G.L. c. 44, § 53F½](#)

DLS Best Practices: [Free Cash](#), [Reserve Policies](#), [Special Purpose Stabilization Funds](#)

DLS Informational Guideline Releases 08-101: [Enterprise Funds](#), 17-23: [Overlay and Overlay Surplus](#), and 17-20: [Stabilization Funds](#)

Government Finance Officers Association Best Practices: [Fund Balance Guidelines for the General Fund](#) and [Working Capital Targets for Enterprise Funds](#)

EFFECTIVE DATE

This policy was adopted on [date].

APPENDIX II:

SAMPLE CAPITAL PLANNING POLICY

PURPOSE

To effectively maintain the Town's infrastructure and protect the value of its capital assets, this policy outlines guidance for planning, reviewing, and coordinating capital improvements. Adherence to this policy will help the Town meet its capital needs despite limited resources.

APPLICABILITY

This policy establishes a framework for long-term capital improvements, sets guidelines and expectations for all Town departments in planning for and requesting capital projects, and outlines consensus budgetary goals for the Board of Selectmen and Finance Advisory Committee.

POLICY

The Town will maintain its physical assets by providing funding in the operating budget to protect its capital investments and minimize future maintenance and replacement costs. To provide and preserve the infrastructure needed for achieving the highest levels of public services and quality of life possible within available financial resources, the Town will maintain an annually updated, five-year plan for capital improvements. The Town will emphasize preventive maintenance as a cost-effective approach to capital reinvestment and replace exhausted goods as necessary.

The Town Administrator is charged to oversee Sutton's capital improvement program (CIP). This involves identifying and prioritizing projects, analyzing funding, and creating a long-term financial plan achievable within the Town's budget limitations.

A. Definition of a Capital Improvement

A capital improvement is a tangible asset or project estimated to cost over [current: \$5,000; recommended: \$25,000] and to have or extend [current: two; recommended: five] or more years of useful life. These include:

- Real property acquisitions, construction, and long-life capital equipment
- Major improvements to physical infrastructure, including streets, sidewalks, stormwater drains, water distribution systems, and sanitary sewer systems
- Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
- Planning, feasibility studies, and designs for potential capital projects
- Items obtained under a long-term capital lease
- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years that, when aggregated, have total costs exceeding the capital threshold

B. Inventory

To support a systematic acquisition and replacement schedule, the Town Administrator will work with the Town Accountant to annually update and maintain a detailed inventory of all capital

assets, which shall include dates built, acquired or last improved, original cost, current condition, expected and remaining useful lifespans, depreciated value, extent of use, and any scheduled replacement or expansion dates.

C. Evaluation of Capital Projects

As part of the annual budget process, the Town Administrator will solicit capital project requests from department heads. The Town Administrator will then evaluate and prioritize the requests using the criteria below:

1. Eliminates a hazard to public health and safety
2. Required by state or federal laws or regulations
3. Uses outside financing sources, such as grants
4. Stabilizes or reduces operating costs
5. Replaces a clearly obsolete facility, makes better use of an existing facility, or relieves an overburdened situation
6. Maintains or improves productivity or existing standards of service
7. Supports adopted plans, goals, objectives, and policies of the Town
8. Directly benefits the Town's economic base by protecting and increasing property values
9. Provides new programs having social, cultural, historic, economic, or aesthetic value

D. Multiyear Capital Plan

The Town Administrator will annually update and propose for adoption by the Selectmen and Finance Advisory Committee a five-year capital improvement plan, including the upcoming fiscal year's capital improvement budget and a four-year projection of capital needs and expenditures that details their estimated costs, descriptions, and anticipated funding sources.

Throughout the year, the Town Administrator will monitor active capital projects to ensure they remain properly funded and will report any capital plan amendments to the Board of Selectmen.

E. Capital Financing

To provide reserve monies for the CIP, the Town will maintain a capital improvement special purpose stabilization fund. Doing so enables Sutton to pay outright for moderate-range capital and other maintenance expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs. The target maintenance level for this reserve shall be 15 to 25 percent of the Town's annual operating budget.

Options to finance projects with short useful lifespans shall include current revenues, the capital stabilization fund, and short-term debt. Long-term debt is an appropriate funding source for projects with very high dollar amounts and lifespans of 10 years or more.

The CIP shall be prepared and financed in accordance with the following policies:

- Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.
- The annual operating costs of each proposed capital project, as well its debt service costs, shall be identified before any long-term, bonded capital project is recommended.
- Short-term debt may be used to fully finance purchases with useful lifespans under 10 years.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.

F. Capital Project Closeouts

The Town will endeavor to close out all capital projects within six months of completion or discontinuation. As they are closed out, the Town Accountant will do the following:

- For bonded projects with residual balances, the Town Accountant and Treasurer/Collector will propose reallocating any balances for other applicable capital projects.
- For projects funded with available revenue (tax levy or reserves) having residual balances, the Town Accountant will propose reallocating the balances for other capital projects or will close the balances to the appropriate fund surplus.

REFERENCES

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 33B](#)

Division of Local Services Best Practices: [Presenting and Funding Major Capital Projects](#) and [Special Purpose Stabilization Funds](#)

EFFECTIVE DATE

This policy was adopted on [date].