

CAPITAL PLANNING REVIEW | TOWN OF TOLLAND

A COMMUNITY COMPACT CABINET INITIATIVE

FEBRUARY 2020



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

100 Cambridge Street, Boston, MA 02114-9569

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DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Kevin W. Brown
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

February 20, 2020

Board of Selectmen
Town Hall
241 West Granville Road
Tolland, MA 01034

Dear Board Members,

I am pleased to present the enclosed Capital Planning Review for the Town of Tolland 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 our guidance provides direction and serves as a resource for local officials as we 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

Supporting a Commonwealth of Communities

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INTRODUCTION

At the request of the board of selectmen, the Division of Local Services Technical Assistance Bureau reviewed the Town of Tolland's capital planning practices. This project was sponsored through the Community Compact Cabinet, whose goal is to encourage the implementation of municipal best practices that promote good governance by fostering efficiency, accountability, and transparency in local government. As a best practice, a capital improvement program establishes a community commitment to invest in its facilities, fleet, and infrastructure and emphasizes that proposed capital projects, their timing, and their financing best meet the government's policies and plans.

Our report begins with a brief profile of Tolland followed by an analysis of its financial trends, a description of the town's current capital planning structure, and recommendations for implementing an easy-to-understand yet comprehensive capital-planning framework. Included as attachments, we provide supporting manuals, schedules, and other documentation to facilitate implementation of these best practices.

COMMUNITY PROFILE

The Town of Tolland is a rural, 33 square mile community located in the southwest corner of Hampden County on the Connecticut border. Bisecting the town as its only major thruway is scenic Route 57, with nearly half of the land north of it comprised of the Tolland State Forest and the Farmington River watershed, while the Granville State Forest occupies a portion to the south. Although the population of Tolland has increased over the past several years, it now has just under 500 residents and remains one of the smallest communities in Massachusetts by population.

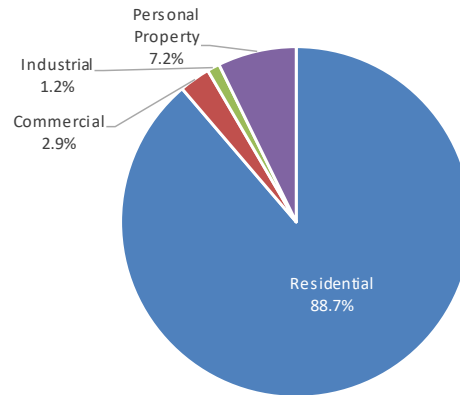
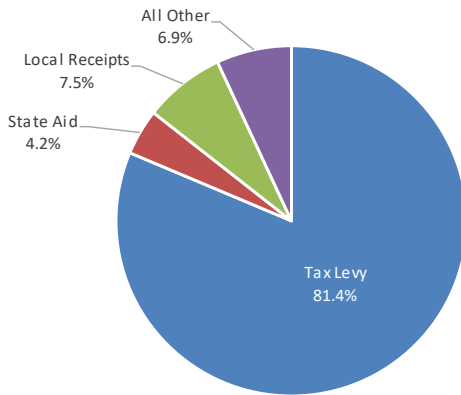
Typical of communities this size, legislative power is vested in open town meeting, while executive authority falls to the elected, three-member board of selectmen. The selectmen are responsible for setting town goals, establishing policy, and managing town affairs. The board of selectmen appoints an assistant to coordinate day-to-day operations and serves as one of the town's few full-time employees, filling the accounting officer position and both the elected treasurer and elected tax collector. Moreover, many employees and volunteers serve in multiple roles to deliver services to the town's residents and visitors. Public education is provided through the three-member Southwick-Tolland-Granville Regional School District (STGRSD), with one elected board member representing Tolland. The board of selectmen appoints a five-member finance advisory committee which coordinates the budget process, proposes capital spending, and advocates on residents' behalf at town meeting as a fiscal watchdog. Community leaders have historically invested in the town's capital needs by dedicating resources to maintaining roads and facilities.

In comparing Tolland against 19 other peer communities (found in the Appendix), the town has the third smallest population, yet ranks in the top three for residential property value. The town’s tax levy and total operating budget are lower than most of these communities. Due to its robust property values, Tolland has the distinction of having the lowest average single-family tax bill in its peer group and ranks amongst the lowest in the state. The town exceeds most of its peers in dollars spent on debt service and leads the group in debt service as a percentage of total budget. The following two sections review the specifics of Tolland’s revenues and expenditures as background to the capital planning process.

Revenues

Tolland’s operating revenue has steadily increased over the last several years. During this period, the town has maintained its services, established strong reserves, and funded capital purchases.

Tolland relies on four sources of revenue to fund its annual operating budget. The primary source of the \$2 million FY2020 budget is the property tax levy, accounting for 81.4%, with the remaining 4.2% from state aid, 7.5% from local receipts, and 6.9% from all other available funds.



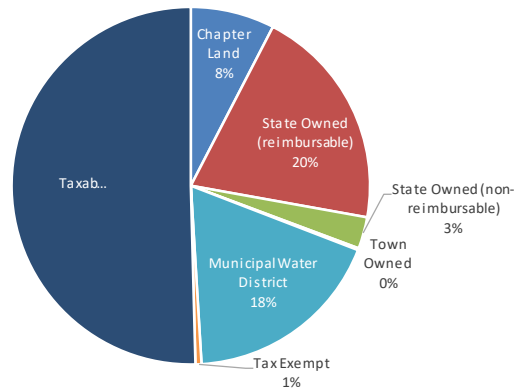
FY2020 REVENUE – TOTAL REVENUE = \$2,087,813 FY2020 TAX LEVY – TOTAL LEVY = \$1,698,568
Source: Division of Local Services – Municipal Finance Trend Dashboard

Property Tax Levy: The real estate portion of the tax levy consists of property classified as residential, open space, commercial or industrial. The non-real estate portion is personal property, which generally includes goods, equipment, furniture and other movable objects. Tolland’s residential class currently accounts for close to 89% of the total assessed value, with nearly 60% of the 501 single-family residential parcels being second homes. The remaining 11% is divided between commercial, industrial, and personal property. Over the last 10 years, the tax levy has increased \$646,000, or 61%. However, the overall tax burden on residents has shifted by more than

5% to the commercial, industrial and personal property classes due in part to the installation of a 3.8-megawatt solar power facility.

As with Tolland’s neighbors, the town’s natural beauty comes from the many acres of forest, recreation, and other restricted land; however, this constrains its ability to generate tax revenue. As seen in the table below, 50% of the town’s land acreage is taxed as chapter land or tax exempt. Chapter lands include forest, agricultural/horticultural, and recreation parcels that are classified in accordance with [MGL c. 61, 61A](#) and [61B](#) which results in reduced assessments and corresponding tax obligations. Tax-exempt land includes state lands, (for some of which the town receives reimbursement through the cherry sheet), town-owned properties, and non-profit parcel owners such the MA Audubon Society and a house of worship.

Classification	Acreage	% of Total
Chapter Land	1,533	8%
State Owned (reimbursable)	4,098	20%
State Owned (non-reimbursable)	579	3%
Town Owned	34	0%
Municipal Water District	3,677	18%
Tax Exempt	110	1%
Taxable	10,198	50%
Total Acreage	20,229	100%



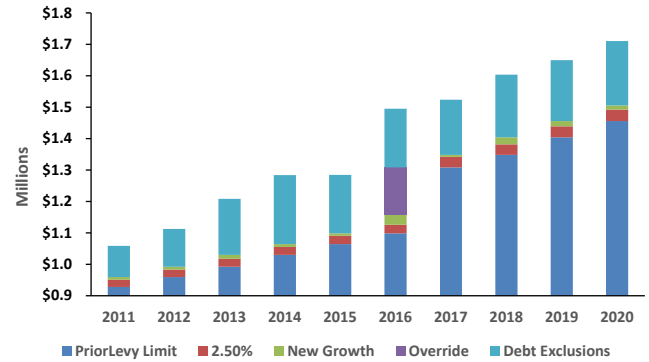
Land Tax Classifications

Source: Town of Tolland Assessor CAMA

Tolland’s annual growth in the tax levy limit increases automatically by 2.5% over the previous year’s levy limit plus an allowance for new growth. New growth represents additional value added to the property tax base from new construction and development. A community may also vote to increase its levy limit permanently through an override or temporarily through a debt exclusion or capital outlay exclusion. Because of Tolland’s limited ability to expand the tax base, the town pursued these local options to increase the levy and manage its finances and meet capital needs. Over the last 10 years these include an override in FY2016 for general expenses and to provide seed funding for its annual road repair program and numerous debt exclusions to finance building improvements and specific capital acquisitions.

Fiscal Year	Prior Year Levy Limit	2.50%	New Growth	Override	Debt Exclusions	Maximum Limit
2011	928,024	23,201	7,978	-	99,433 b	1,058,636
2012	959,203	23,980	9,381	-	120,112	1,112,676
2013	992,564	24,814	12,336	-	178,491 c	1,208,205
2014	1,029,714	25,743	8,725	-	219,657 d	1,283,839
2015	1,064,182	26,605	7,446	-	186,600	1,284,833
2016	1,098,233	27,456	32,755	150,000 a	186,338	1,494,782
2017	1,308,444	33,306 *	6,315	-	175,930	1,523,995
2018	1,348,065	33,702	22,329	-	199,652 e	1,603,748
2019	1,404,096	35,102	16,833	-	193,553	1,649,584
2020	1,456,031	36,402	13,146	-	205,139 f	1,710,718

- * Includes \$580 amended new growth
- a Includes \$50,000 general operating and \$100,000 road repair program overrides
- b Pre-existing DPW equipment excluded for the first year
- c One DPW issue rolled off and added the initial \$118,783 amount for the public safety complex
- d Addition of the initial \$43,902 amount for the school building project
- e Remaining DPW issues rolled off and added the initial \$27,452 amount for the library/town hall renovation
- f Library/town hall renovation rolled off and added the initial \$36,650 amount for an excavator



LEVY LIMIT GROWTH

Sources: Division of Local Services – Tax Recap and Debt Exclusion (DE-1)

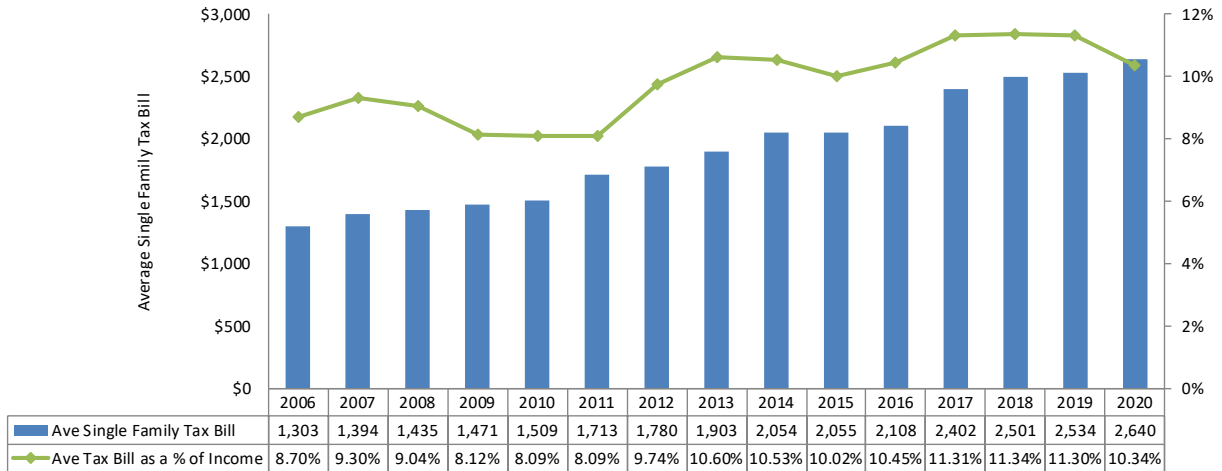
As the town’s levy has grown, so too has the average single-family tax bill which has increased by \$927, or 54%, over the same 10-year period. This increase in the average single-family tax bill fluctuated widely throughout the period due to increasing budgets and the timing of capital projects funded by debt exclusions and the operational overrides. Despite the growth in Tolland’s operating budget, its average single-family tax bill as a percentage of value is among the lowest in its peer group and across the state.

Fiscal Year	Tax Levy	Annual Change in Tax Levy	Average Single Family Value	Average Single Family Tax Bill	Annual Increase	Average Tax Bill as a % of Value
2011	1,051,582	124,118	314,812	1,713	204	0.54%
2012	1,094,333	42,751	296,728	1,780	67	0.60%
2013	1,203,926	109,593	282,296	1,903	123	0.67%
2014	1,283,668	79,742	283,711	2,054	151	0.72%
2015	1,283,600	(68)	295,720	2,055	1	0.69%
2016	1,334,023	50,422	306,399	2,108	53	0.69%
2017	1,505,142	171,119	297,290	2,402	294	0.81%
2018	1,593,190	88,048	292,122	2,501	99	0.86%
2019	1,627,447	34,257	299,181	2,534	33	0.85%
2020	1,698,568	71,121	296,628	2,640	106	0.89%
10-year Difference:	\$ 646,985		10-year Difference:	\$ 927		
				10-year Average:	\$ 113	
				5-year Average:	\$ 117	

AVERAGE SINGLE-FAMILY HOME VALUES AND TAXES

Sources: Division of Local Services – Municipal Finance Trend Dashboard and Tax Recapitulation Sheet

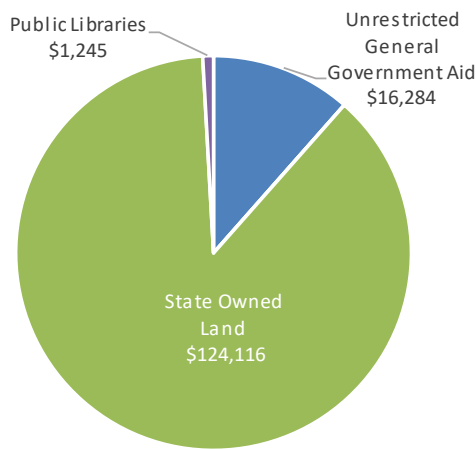
Additionally, over the last 15 years the average single-family tax bills on a per capita income basis have only increased 1.6%. This indicates that the relative cost of town services has not expanded at the same rate as the budget.



AVERAGE SINGLE-FAMILY TAX BILL AS A PERCENTAGE OF INCOME

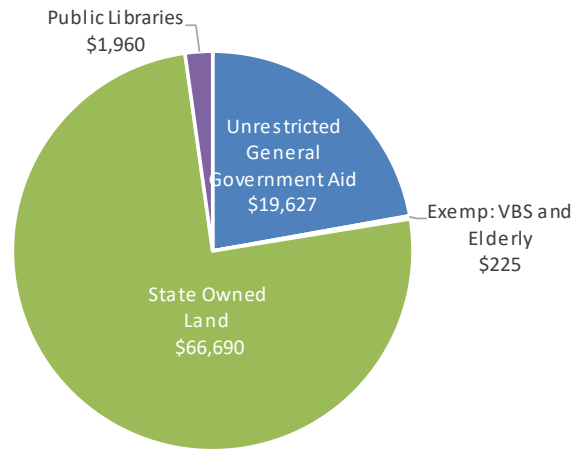
Source: Division of Local Services – Municipal Finance Trend Dashboard

State Aid: For most communities, the largest component of state aid is traditionally education assistance, which in Tolland’s case goes directly to the STGRSD. Tolland’s largest source of state aid comes from state-owned land reimbursements for forgone tax revenue on particular state-owned parcels. In FY2011, Tolland’s reimbursement for the state-owned land was reduced by half and has not recovered since. The town’s reimbursement depends on two factors: 1) the ratio of the value of the community’s eligible properties to that of all state-owned land in the program and 2) the annual appropriation. Tolland’s land has not only lost value, the state has increased the overall amount of owned land (thereby increasing the total value) without a significant increase in the total appropriation.



FY2010 STATE AID – TOTAL \$141,645

Source: Division of Local Services – Cherry Sheet Estimates



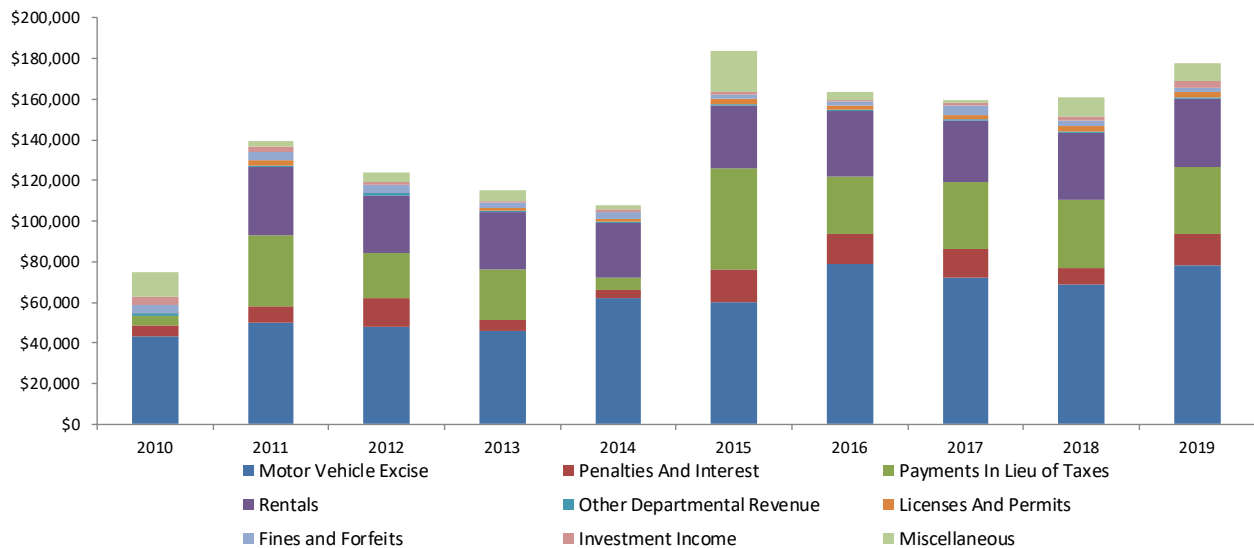
FY2020 STATE AID – TOTAL \$88,502

State-Owned Land	FY2010	FY2011	FY2019	FY2020	Change in Value: FY2010 - FY2020	Percentage Change
<u>Tolland</u>						
Acres	3,314	3,314	4,097	4,097	783	
Value	14,980,600	7,388,800	7,556,600	6,993,800	(7,986,800)	-53.31%
% of Total Value	0.4551%	0.2484%	0.2473%	0.2223%	-0.2328%	-51.16%
<u>State Aid</u>						
Total	27,270,000	25,270,000	28,478,131	30,000,000	2,730,000	10.01%
Tolland	124,116	62,778	70,415	66,690	(57,426)	-46.27%

STATE OWNED LAND REIMBURSEMENT

Sources: Division of Local Services – Cherry Sheet Estimates and State-Owned Land Valuations

Local Receipts: Growth in the town’s second largest revenue source, local receipts, has provided needed funding to absorb the loss in state aid and offset the relatively flat growth in the levy. Three key sources of local receipts account for 81% of the total: motor vehicle excise, payment in lieu of taxes (PILOT), and rentals. Excise revenue generally follows the economy and can fluctuate from year to year. Tolland has agreements in place with the City of Springfield and the Metropolitan District Commission in Hartford CT to compensate for lost tax revenue due to the tax-exempt ownership and related use of these properties. Although PILOT payments are voluntary, successful town billing has provided a consistent revenue source. In another effort to maximize revenues where it can, the town receives significant rental income from a cell tower on town-owned land.

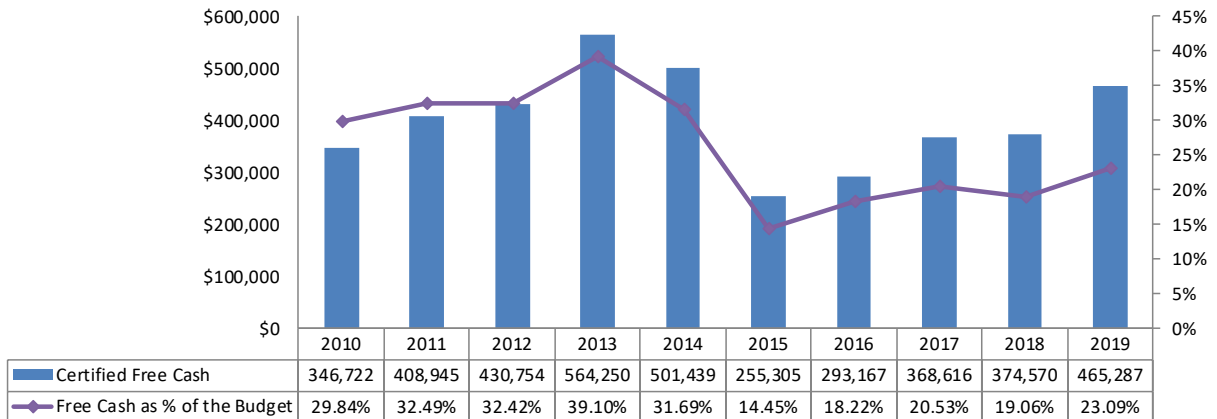


FY2010 – FY2019 ACTUAL LOCAL RECEIPTS

Source: Division of Local Services – Municipal Finance Trend Dashboard

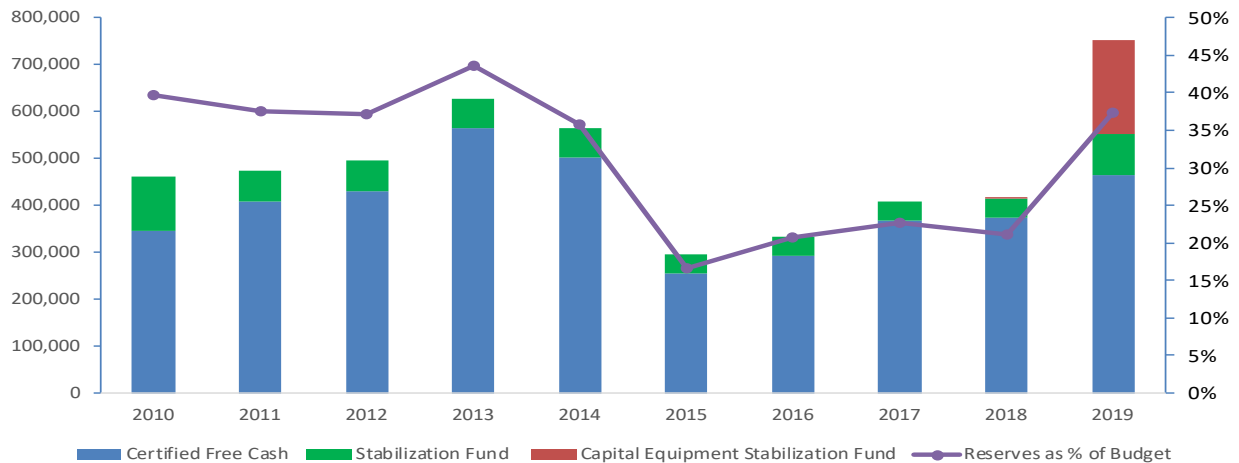
Available Funds: The last source of funds available to Tolland includes its reserves of free cash and stabilization funds and the trash disposal enterprise fund. The town has been fortunate to develop healthy reserves, with balances in recent years exceeding 20% of annual operating revenues on a

budget that has grown from \$1 million to just over \$2 million. Over the last 10 years, certified free cash has averaged 26% of the general fund budget, or just over \$400,000. As demonstrated in the charts below, local officials have been methodical in generating, maintaining, and using the town's reserves.



FY2010 – FY2019 CERTIFIED FREE CASH AS A PERCENTAGE OF THE ANNUAL BUDGET

Source: Division of Local Services – Municipal Finance Trend Dashboard

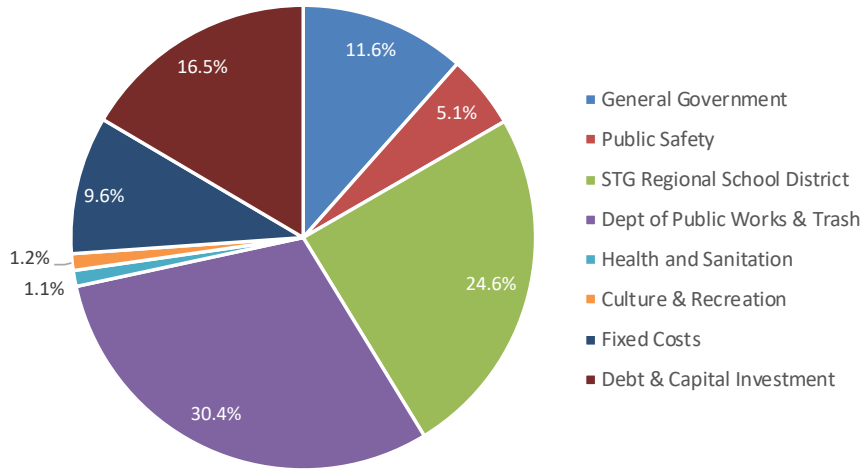


FY2010 – FY2019 RESERVES AS A PERCENTAGE OF THE ANNUAL BUDGET

Sources: Division of Local Services – Municipal Finance Trend Dashboard and Town of Tolland Balance Sheet

Expenditures

The general fund operating budget is divided into eight major components. For FY2020, the largest portion was for public works (30.4%), including covering the previous year's snow and ice deficit and the trash enterprise fund, followed by education related costs (24.6%), debt service and capital investment (16.5%), fixed costs, including insurance and employee benefits (9.6%), and general government, public safety, health and sanitation, and culture and recreation (18.9%).



FY2020 EXPENDITURES – TOTAL EXPENDITURES = \$2,087,813
Source: Town of Tolland FY2020 Annual Town Meeting Warrant

Conservative budgeting and careful use of resources have enabled the town to make capital purchases when needed. Over the course of the past five fiscal years, the town has financed capital purchases using annual appropriations, debt, free cash or a combination of these. Other than dedicating a portion of the operating budget for road repair, the approach has been to use debt for buildings and large equipment and free cash for smaller capital items. A capital stabilization fund was established in FY2018 with a transfer of \$100,000 from free cash. In the last two fiscal years, the town supplemented the fund’s balance with additional \$100,000 appropriations each year. This reasoned approach allows for a consistent method of financing capital projects.

Regional school district capital expenditures are not itemized as part of the town’s capital spending. Any debt associated with the STGRSD is included in its annual assessment. However, since the town must approve any debt issued by the district, all capital purchases funding amounts should be included to provide a full analysis.

Capital Purchases Funding	FY2016	FY2017	FY2018	FY2019	FY2020	Total	5-Year Average
Taxation (within the budget)	200,000	100,000	100,000	100,000	182,000	682,000	136,400
Debt Service - Excluded	139,983	111,860	137,581	135,682	143,317	668,423	133,685
Debt Service - Regional School	46,354	64,070	62,071	57,871	61,222	291,588	58,318
Free Cash	-	74,675	25,322	-	-	99,997	19,999
Free Cash - Reserved for future purchases	-	-	100,000	100,000	100,000	300,000	60,000
Total	\$ 386,337	\$ 350,605	\$ 424,974	\$ 393,553	\$ 486,539	\$ 2,042,008	\$ 408,402

FY2016 – FY2020 CAPITAL FUNDING
Source: Town of Tolland Annual Town Meeting Warrants

The town is historically careful in using free cash, which has been primarily used for one-time purposes and funding the capital stabilization fund. The majority of free cash is left unappropriated as a basis for the next year’s certification. From FY2012 through FY2016, the town appropriated free cash to reduce the tax rate, however using free cash in this manner is akin to using it to fund the operating budget, which is not a best practice.

Free Cash-Appropriated	FY2016	FY2017	FY2018	FY2019	FY2020
Prior Year Purposes	-	-	507	15,000	-
Snow & Ice	33,034	-	-	45,583	14,155
Stabilization Funds:					
Road Reconstruction/Buildings	-	-	-	-	-
Capital Projects	-	-	100,000	100,000	100,000
Special Projects/CIP	-	74,675	25,322	-	-
Current year purposes/projects	-	-	27,542	-	-
Reduce Tax Rate	32,500	-	-	-	-
Total Free Cash Appropriated	65,534	74,675	153,371	160,583	114,155
	7/1/2014	7/1/2015	7/1/2016	7/1/2017	7/1/2018
Total Certified	255,305	293,167	368,616	374,570	465,287
Percentage of Free Cash Appropriated	25.7%	25.5%	41.6%	42.9%	24.5%
Unappropriated Balance to Close	189,771	218,492	215,245	213,987	351,132

FY2016 – FY2020 FREE CASH APPROPRIATIONS

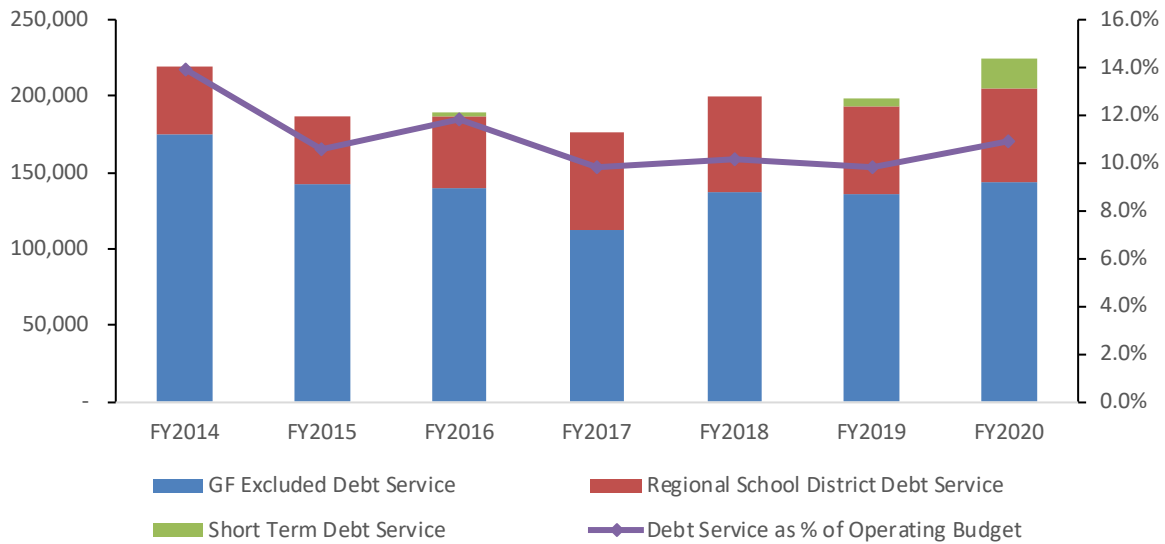
Source: Town of Tolland FY2020 Annual Town Meeting Warrant

All of Tolland’s debt is excluded, meaning the debt service payments are added to the tax levy after the levy limit is calculated and may exceed the statutory limits defined by Proposition 2½. Authorization to issue excluded debt requires a two-thirds vote by town meeting and a majority vote at the ballot box. The town has been supportive of the board of selectmen’s and finance advisory committee’s recommendations to issue excluded debt. Overall, Tolland’s debt burden, including its regional school obligation, represents 11% the town’s FY2020 operating budget.

Fiscal Year	Vote Date	Vote Description	Win / Loss	Yes Votes	No Votes
2000	2/1/1988	Town Hall Expenses	Win	45	20
2003	9/17/2002	Highway department pickup truck	Win	20	9
2003	9/17/2002	Police department Ford expedition	Win	20	10
2011	6/15/2010	2009 Peterbilt 304 plow truck	Win	51	40
2011	6/15/2010	2008 Ford F550 chassis and 250 gallon mini pumper with Hall 500PM pump	Win	51	40
2011	6/15/2010	Volvo loader L70E	Win	50	41
2011	6/15/2010	Previous engineering study, updating electrical at highway and police garage, plow truck, replacement door and furnace at library	Win	51	40
2012	7/14/2009	Reconstructing and adding to public works garage, construction of new public safety complex	Win	125	68
2014	1/31/2012	Tolland's share of Southwick-Tolland Regional School District bond issue	Win	64	24
2016	8/1/2015	Regional broadband network	Win	94	34
2016	6/27/2015	Public Library replacement windows	Win	79	30
2020	6/12/2019	Fire truck	Win	63	39
2020	6/12/2019	Excavator	Win	59	43

FY2000 – CURRENT DEBT EXCLUSION VOTE HISTORY

Source: Division of Local Services – Municipal Finance Trend Dashboard



FY2014 – FY2020 EXCLUDED DEBT SERVICE
Source: Division of Local Services Gateway – Tax Recap schedule DE-1

Budget and Capital Process

Responsibility for managing Tolland’s budget process falls to the finance advisory committee. The board of selectmen, as the town’s chief executive and policymaking body, is responsible for developing and communicating budget priorities and policies. While not expressly responsible for the preparation of the annual operating budget, the board of selectmen’s administrative assistant, who also serves as the town accountant and as a member of the finance advisory committee, compiles the revenue projections, town meeting warrants, and all other related documentation.

When developing the operating budget, the finance advisory committee solicits input from department heads on capital needs for which there are no established policies, procedures, or bylaws related to capital planning. Historically, capital planning has not been a centralized, comprehensive process embedded in the annual budgetary cycle, but rather a collaborative, table-top exercise in fulfilling the most urgent need. The finance advisory committee and board of selectmen maintain the goal of funding core services, while minimizing tax rate impacts to the greatest extent possible. Capital purchases are typically addressed at the end of the budgetary cycle when the town analyzes reserves and determines an arbitrary amount it wishes to allocate that year. At this time, capital expenditures are based upon how much free cash is available, and each recommendation becomes a separate town meeting warrant article rather than part of a comprehensive capital improvement program. Absent a proper framework, capital decisions are based on availability of funding, rather than operational need or timing.

Tolland's budgetary practice can be summarized as having a goal to remain as close to level funding as possible. Beyond the initial revenue projections supplied by the town accountant, Tolland does not follow a formal process to develop either the operating or capital budgets. A well-designed process includes a calendar for departmental meetings and milestones, specifies how often revenue projections are updated, uses a standard format for the budget and capital submissions, and formulates asset and fleet inventories. The informal policy for appropriating free cash is to be frugal, and to the town's credit, officials are complying. Although the current dedicated finance advisory committee and board of selectmen make the budget and capital planning process work, a more formal process for the next generation of officials is required.

PROPOSED CAPITAL PLANNING FRAMEWORK

Throughout town, capital needs are ongoing, and only by considering them as necessary annual budget expenditures can the town responsibly maintain and improve its assets and infrastructure to ensure service levels are sustained and costly repairs avoided. Achieving these aims will require instituting and following policies and procedures along with a disciplined capital funding approach. With a comprehensive capital program shaped by clear, consistent standards and spending priorities, the town can more effectively direct funds to identified needs and make strategic plans based on explicit long-term goals. Below we offer recommendations to guide local leaders to these ends.

A capital improvement program (CIP) provides a blueprint for planning a community's capital expenditures and is one of the most important responsibilities of local government officials. It coordinates community planning, financial capacity, and physical development. The capital program is a community planning and fiscal management tool that spans five to ten years. Developing a CIP that will ensure sound fiscal and capital planning requires effective leadership and the cooperation of municipal departments. For this reason, responsibility for overseeing the CIP process should rest with a community's chief executive, the board of selectmen. An empowered administrative officer could be assigned the duty to coordinate the CIP, in conjunction with a CIP committee as a local option. The role of a CIP committee is to objectively analyze capital proposals and make recommendations to the board of selectmen on the annual capital budget and the ongoing capital program.

A complete, properly developed CIP has the following benefits:

- Facilitates coordination between capital needs and operating budgets
- Identifies the most economical means to finance capital projects

- Focuses attention on community objectives and fiscal capacity
- Keeps the public informed about future needs and projects
- Deters sudden changes in debt service requirements
- Increases opportunities for obtaining federal and state grants
- Relates public facilities to public and private development plans
- Reduces costs by identifying and consolidating duplicative expenditures across municipal departments
- Encourages careful project planning and design to avoid costly mistakes and to help a community reach desired goals
- Enhances the community's credit rating and control of its tax rate

A successful capital-planning framework includes:

- Adoption of a capital bylaw
- Development of an asset management program
- Implementation of a planning calendar and internal procedures
- Formation of financing strategies to address capital asset needs
- Preparation and publication of a capital improvement plan
- Adherence to financial policies

The detailed capital improvement plan, presented to town meeting, is composed of three parts—a capital budget, narrative justifications, and a multi-year capital program. The capital budget is the upcoming year's spending plan for capital items coupled with narrative justifications describing the goods and services being purchased. The capital program is the remaining capital expenditures extending an additional four years beyond the capital budget.

advisory committee, and town meeting along with a copy included in the annual town report.

- Require the publication of an annual report that includes the capital budget for the next fiscal year and a capital improvement plan with recommendations for the following four fiscal years.
- Outline the method for identifying the chairperson. We recommend that the town administrative assistant serve as the chair. In her dual role as town accountant, she maintains the most full-time presence in town hall, works closely with all employees, boards, and committees, and is a consistent presence throughout the budgetary and capital planning process. The chair would receive, compile, manage, and disseminate data to the remaining committee members as it becomes available.
- Establish a standard capital project definition based on minimum useful life (e.g., five years) and minimum dollar expense (e.g., \$10,000). Periodically, a department must replace smaller equipment or furnishings that are not annually occurring needs or do not meet the capital criteria. For example, replacing \$2,000 worth of office equipment does not meet the definition of a capital purchase. As such, these expenditures do not qualify for inclusion on the capital plan.

Sample bylaw language is provided in the appendix.

Asset Management Program

An effective capital improvement plan (CIP) requires the implementation of an asset management program that includes a detailed inventory of all current town-owned assets, fleet, and other large, durable equipment, inclusive of age and condition. Without a proper overview of what's on hand, it is difficult to develop a strategy for current and future capital needs. The most valuable asset management schedules include (as applicable) dates of acquisition or last improvement, current conditions, extents of use, and estimated dates for replacement or expansion. When inventory schedules and capital requests are viewed together, local officials can address both the maintenance and care of existing assets as well the replacement or purchase of new ones.

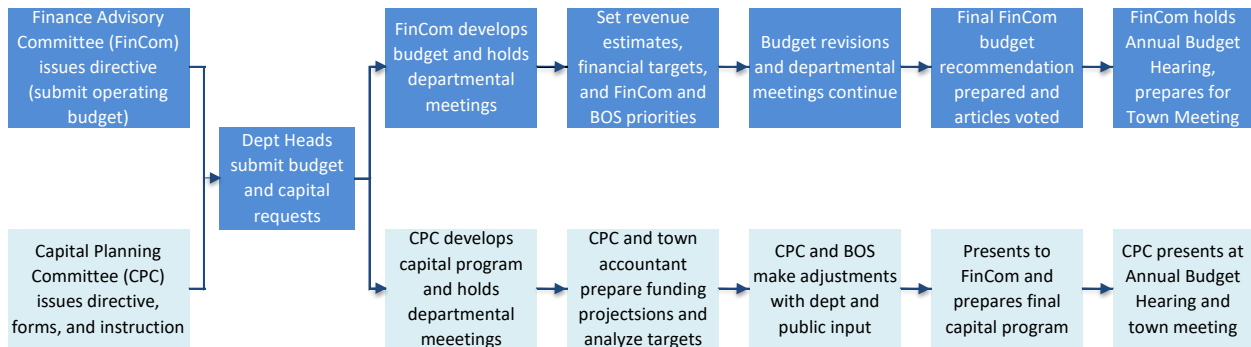
We recommend that the town adopt a procedure naming the town accountant responsible for actively maintaining the asset schedules. Updating these documents should become part of the annual capital budget process and should include cross-referencing these schedules against the town's property and casualty insurance policies for completeness. When compiling the results, the town should incorporate any road improvement, facilities management, and master plans. Sample forms are available in the appendix.

Calendar and Procedures

Local officials should develop a comprehensive calendar, defining key activities, along with clear procedures regarding the capital planning cycle in bylaw. The calendar should include critical milestones, deliverables, and explicit due dates for both the budget and capital planning process allowing sufficient time to complete reviews and to present the committee’s recommendations to the board of selectmen. It should be updated annually and distributed to all applicable boards, committees, department heads, and other stakeholders during the dissemination of the budget packets for the upcoming year. A sample calendar is included in the appendix.

To start the capital process, the committee should issue a directive to all stakeholders that includes the calendar, standard forms and instructions, updated asset schedules, and a copy of the previous CIP. While the department heads compile their capital requests for the new fiscal year, the committee should schedule the departmental meetings and review financial targets. Each department should meet with the CPC to present their requests and supporting materials. Only after all requests have been presented by the department heads, should the committee prioritize and rank each project to develop a recommended capital improvement plan.

A sample process flowchart, shown below, illustrates the parallel nature of budgeting and capital planning activities.



Financing Strategies

The CPC should establish budgetary targets (with upper and lower limits) to frame the discussion regarding annual capital expenditures. Although establishing a spending target may run contrary to prescribed notions of minimizing municipal spending, the fact remains that it is common practice to delay the replacement of equipment, repairs, and maintenance of town-owned facilities and purchase of replacement vehicles in order to save money. However, the need for making expenditures on capital items will not subside. A continuous investment in the town's infrastructure and resources is important and advisable. Additionally, credit rating agencies look favorably on communities with such programs, and although not currently applicable to Tolland, it could be in the future.

The finance advisory committee with the assistance of the accountant and treasurer, should analyze the town's ability to afford major expenditures by examining recent and anticipated trends in revenues and expenditures, including debt and other liabilities. This analysis will help the committee to propose a funding source schedule designed to:

- Keep the tax rate stable
- Balance debt service and operating expenditures
- Determine available debt capacity and acceptable debt service levels
- Maximize intergovernmental aid for capital expenditures

A common and best practice is to set a percentage of net operating revenues as a benchmark capital budget. While this can be informative, we suggest a different approach because Tolland's net revenue is less than \$2 million. Using the asset management program, the town should identify its total capital needs over the next 10 years. Then, by dividing this amount by 10, local officials can determine the annual percentage of required investment to meet their capital obligations. For example, if the total determined amount required over a 10-year period is \$4.2 million, then local officials need to set aside \$420,000 per year or 22% of the current budget. This allows the community to reserve funds on an annual basis to address both routine capital, along with more significant and costly required maintenance or improvements, such as roadways, when they occur. Completing the financial targets worksheet will assist local officials in defining financial policies and establishing benchmarks for the annual capital planning and budget process.

FINANCIAL TARGETS WORKSHEET

Budget	
Enter fiscal year being budgeted	2021
Enter FY2020 General Fund Gross Operating Revenue	\$ 2,086,813
Enter revenue offsets (as positive amounts):	
Excluded debt service for:	2020
Regional School excluded debt service	\$ 143,317
Other (enter description and reason)	\$ 61,822
Other (enter description and reason)	\$ -
Other (enter description and reason)	\$ -
<i>Add rows as needed and adjust formula.</i>	
Total	\$ 205,139
Net Operating Revenues	\$ 1,881,674

Policy Decisions	
Minimum Cost of item to borrow	\$ 25,000
Minimum Cost of item requiring debt exclusion	\$ 100,000
<i>Enter % of Net Operating Revenues for:</i>	
Combined Reserves (i.e., FC/Stabil/Other)	30.00%
Budgetary Reserve Fund	1.00%
Capital Plan Funding-Direct debt	5.00%
Capital Plan Funding-Exempt debt	5.00%
Capital Plan Funding-Other sources	7.50%
Debt service-Direct debt	5.00%
Debt service-Exempt debt	5.00%
<i>Enter % of Total Assessed Valuation for:</i>	
Debt service as a % of assessed value	0.10%
Total Outstanding debt as a % of assessed value	1.00%

Capital expenditures may be funded via a variety of methods (e.g., tax levy, free cash, stabilization, sale of property, grants, etc.) and no single method is applicable to every capital expenditure. However, having a general understanding of the tools available, along with sound financial policies will position the town to effectively invest in capital assets and infrastructure each year.

Financial Policies

Financial policies serve as a guide in evaluating the financial implications of program and policy recommendations. In addition to capital planning, we recommend that Tolland adopt policies on financial reserves (e.g., free cash and stabilization funds) and debt.

Capital Planning

Capital planning should be governed by a clear capital planning policy. The policy should provide a framework for planning, reviewing, and coordinating capital purchases and include:

- Definition of a capital project and what can be funded through the capital plan
- Criteria used to evaluate and rank submitted projects
- Financing strategy such as the balance of debt vs cash capital spending, and how much to spend on capital annually, expressed as a percentage of revenue with a statement expressing the community’s preference for borrowing terms, such as 10, 15, or 20 years (limited by useful life)

Financial Reserves

The purpose of a reserve policy is designed, in part, to maintain a reasonable level of reserves on hand, but also to develop a reliable financing source for smaller, one-time capital or equipment related needs. The town’s current reserves comprise free cash and two special purpose stabilization

funds. Examining each category separately every year will help the town determine whether they are trending favorably or need corrective action.

Free Cash

Free cash is the most widely recognized reserves and is available for appropriation upon certification from the Division of Local Services. Tolland should define a policy identifying a sufficient level of free cash to meet its liquidity needs.

- Set an annual free cash target of the total general fund budget to be realized through conservative revenue projections and careful management of departmental budgets.
- Reserve a percentage of free cash as unappropriated to provide a basis for the subsequent year's certification.
- Define acceptable and prohibited uses, along with any course of action for when free cash falls below or exceeds the desired target.
- Limit the use of free cash to one-time expenditures unless extenuating circumstances exist.

Stabilization Funds

A general stabilization fund allows a community to set aside money for future or unforeseen purposes, whereas a special purpose stabilization fund is intended to be used as a planning tool for saving money for a specific purpose. Currently, Tolland does not have a general stabilization fund, but instead has two special purpose stabilization funds: 1) road reconstruction and municipal buildings and 2) capital equipment expenses. As required by [M.G.L. c. 40 § 5B](#) establishing special purpose funds precludes these funds from being used for other purchases, while a general stabilization fund may be appropriated for any legal purpose. The town does not have a specific strategy surrounding target funding levels or prescribed uses and limitations for either of its special purpose stabilization funds. The community should further define capital equipment as part of the fund created in May 2017 to defray future capital equipment expenses. We also recommend that Tolland establish a general stabilization fund.

The target balance for the stabilization fund is unique to each community. For smaller communities or those with substantial future capital needs, building a balance larger than a commonly accepted level is reasonable. By setting target levels for the special purpose stabilization funds and annually appropriating to them, the town will provide resources to fund one-time cash purchases, maintenance expenses, and infrastructure costs.

In establishing the stabilization fund portion of the financial reserves policy, the town should:

- Restrict the use of the general stabilization fund to unforeseen and extraordinary expenses.
- Define the special purpose and use of each stabilization fund.¹
- Develop indicators for when to appropriate into the funds, such as a percentage of new growth, new personal property revenues² or free cash above the target set by policy.
- Define a plan for replenishing the funds.
- Determine an annual appropriation to support the funds.

Targets as a % of Operating Budget

Reserves	Minimum		TARGET	
Free Cash	5.00%	\$ 94,084	10.00%	\$ 188,167
Stabilization Fund	1.00%	\$ 18,817	5.00%	\$ 94,084
Road Reconstruction/Municipal Buildings	2.00%	\$ 37,633	5.00%	\$ 94,084
Capital Equipment	2.00%	\$ 37,633	10.00%	\$ 188,167

COMBINED TOTAL RESERVES	Minimum		TARGET	
% of Net Operating Revenues	10.00%	\$ 188,167	30.00%	\$ 564,502

COMBINED TOTAL RESERVES	Net	Monthly	GFOA Recommendation	
2 months Operating Revenues	2,086,813	156,806	2 Months	\$ 313,612
3 months Operating Revenues	2,086,813	156,806	3 Months	\$ 470,418

Debt Management

Good debt management practices protect the town’s investment in capital and result in lower borrowing costs by structuring multiple projects together to reduce the frequency of issues, lower issuance costs, and access more competitive interest rates. The town can issue various types of debt in a streamlined, low cost method that avoids costly financial service and issuance costs using the Division of Local Services’ State House Note Program.

When adopting a debt management policy, the town should:

- Identify a target minimal debt service amount as a percentage of annual general fund revenue. As debt retires and the balance falls below the target benchmark, the town should

¹ Changing the purpose of a stabilization fund requires town meeting approval (2/3 vote)

² New growth in personal property may result from business improvements or expansion and does not necessarily increase demand on town services thus creating an opportunity for one-time capital investment.

identify debt-funded capital projects to fill in the investment gap to ensure it continually reinvests in its capital assets at a steady, predictable rate.

- Monitor excluded debt service to replace maturing obligations timely and thereby mitigate against tax rate spikes that would result from waiting to fully retire debt before issuing a new obligation.

DEBT SERVICE	Minimum		TARGET		Maximum	
% of operating budget: non-excluded only	2.50%	\$ 47,042	5.00%	\$ 94,084	10.00%	\$ 188,167
% of operating budget: excluded and non-excluded	5.00%	\$ 94,084	10.00%	\$ 188,167	20.00%	\$ 376,335

Min cost of item debt eligible \$ 25,000

We recommend establishing a budgetary line item for debt service as part of the annual operating budget. Currently, the town presents existing debt service obligations as individual warrant article for town meeting approval. This practice is unnecessary when a particular borrowing has already been duly authorized by a prior town meeting vote. Going forward, the town simply needs to incorporate its debt service as part of its annual appropriation. For transparency and effective communication, the town may consider including an outstanding debt chart for town meeting.

Budget Process

Tolland has an informal budget and capital planning process without clearly defined divisions of labor and responsibility. Currently the board of selectmen and finance advisory committee share responsibilities and work together for the common goal of balancing the budget using remaining available funds for capital purposes. Although this has served the community well, this model may not be sustainable due to potential personnel changes. A more viable approach is for the board of selectmen and financial staff to be responsible for budget development activities and for the finance advisory committee to focus on budget review and recommendations. Specifically, an effective budget process begins with a clear understanding of who will be responsible for the essential budget activities, such as:

- Issue budget guidelines
- Prepare budget requests
- Assemble requests into a comprehensive budget for review
- Review, analyze, and recommend a budget to town meeting

The town accountant should be formally tasked with coordinating the budget process, including receiving and consolidating department requests. The town accountant has firsthand knowledge of the town's revenues and expenditures and is in the best position to compile the necessary

documents to develop the omnibus budget, which is delivered to the finance advisory committee. Because she also serves as the board of selectmen's assistant, she is in direct communication with the board to implement any policy directives and guidance. This will allow the finance advisory committee to transition to its statutory role as an objective advisor to town meeting.

To be most effective, a budget document should serve four purposes:

1. A policy document identifying the town's financial goals, objectives, and guiding policies
2. A financial plan presenting the town's current financial condition, forecast assumptions, and expected results
3. An operational overview describing municipal services and assessing their efficiencies and effectiveness
4. A communication tool articulating the town's challenges, priorities, goals, and objectives

Summary

Local leaders understand that planning for and financing the replacement, repair, and acquisition of capital assets is critically important. To date, these officials have worked together, albeit in an informal way, with town departments and the community to develop an annual strategy to provide needed services and investment in the town. Looking ahead, it is clear that the town would benefit from formalizing both its budget and capital processes, as recommended.

APPENDIX: SAMPLE POLICIES

- Capital Planning
- Debt Affordability Analysis
- Debt Management
- Financial Reserves

Capital Planning

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, Finance Advisory Committee, and [Capital Planning Committee]. It also applies to related job duties of the Town Accountant.

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 Finance Advisory Committee [Capital Planning Committee] is charged to oversee the Town's capital improvement program³. 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 \$10,000 and to have or to extend five or more years of useful life. These include:

- Real property acquisitions, construction, and long-life capital equipment
- Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
- Major improvements to physical infrastructure, including streets, sidewalks, and stormwater drains
- Planning, feasibility studies, and designs for potential capital projects
- Items obtained under long-term capital leases
- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years and aggregated cost exceeding the \$10,000 capital threshold.

B. Capital Asset Inventory

To support a systematic acquisition and replacement schedule, the Town Accountant will maintain and annually update a detailed inventory of all capital assets, which shall include dates built,

³ If Tolland establishes a Capital Planning bylaw with a Capital Planning Committee

acquired or last improved, original costs, current conditions, expected and remaining useful lifespans, depreciated values, extent of use, and any scheduled replacement or expansion dates.

C. Evaluation of Capital Project Requests

As part of the annual budget process, the Finance Advisory Committee [Capital Planning Committee] Chair will solicit capital project requests from all department heads and then evaluate and prioritize the using the criteria below:

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

D. Multiyear Capital Improvement Plan

The Finance Advisory Committee [Capital Planning Committee] will annually update and propose to the Board of Selectmen a five-year capital improvement plan (CIP), including the upcoming fiscal year's capital budget and a four-year projection of capital needs and expenditures that details their estimated costs, descriptions, and anticipated funding sources. Only projects that have gone through the evaluation process will be included in the CIP unless required by an emergency. In this case, a written report explaining the emergency must be provided to the Board of Selectmen.

E. Capital Financing

Annually, the Town will strive to maintain three to five percent of the general fund operating budget, net of debt, on capital investment allocations. The CIP shall be prepared and financed in accordance with the following principles:

- Available funds (e.g., free cash) will be the primary funding source for capital projects as much as practical.
- Short-term debt may be used to fully finance purchases with useful lifespans of less than 10 years.
- In accordance with Tolland's Debt Management policy, the Town will restrict long-term debt funding to projects with lifespans greater than 10 years and costs exceeding \$100,000.
- Before any long-term, bonded capital project is recommended, the project's annual operating costs and debt service costs shall be identified.
- Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.

- Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.

REFERENCES

[M.G.L. c. 44, § 20](#)

Tolland policies on Financial Reserves, Forecasting, and Debt Management

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

DLS Financial Management Guidance: [Capital Improvement Planning Manual](#) and [Capital Improvement Planning Guide – Developing a Comprehensive Community Program](#)

EFFECTIVE DATE

This policy was adopted on [date].

SAMPLE

Debt Affordability Analysis

PURPOSE

To ensure any debt the Town may issue will not adversely affect its long-term fiscal health and stability, this policy provides guidelines for assessing the affordability of potential borrowings.

APPLICABILITY

This policy applies to the financial analysis responsibilities of the Town Accountant. It further applies to the Board of Selectmen, Finance Advisory Committee, and [Capital Planning Committee] in their budget decision-making duties.

BACKGROUND

For any given, highly expensive capital project, a debt issuance may present the most appropriate financing strategy. Not only does it provide funds not otherwise available upfront, but the amortizing of the debt over multiple years equitably distributes the project's cost among taxpayers who may settle in or move out of town over time. Particularly in a small town with a small annual budget and modest local wealth, any decisions around the use of debt must be made in the context of affordability relative to long-term revenue and expenditure forecasts.

The [Municipal Databank](#) of the Division of Local Services (DLS) provides the data needed for the analyses outlined in this policy.

POLICY

Under state and federal legal provisions, the officials subject to this policy may propose that town meeting vote to authorize a debt issuance to finance the construction, reconstruction, or acquisition of any asset with a minimum cost of \$100,000 and minimum useful lifespan of 10 years. Any such proposal will be founded on a favorable analysis of the project's affordability as outlined in this policy. Further, the officials will manage any authorized debt obligation in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt issued so as to minimize the impact on taxpayers.

Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, will only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

A. Debt Affordability Factors

When an expensive capital improvement is under consideration, the Town Accountant, at the direction of the Board of Selectmen, will calculate a series of ratios. Taking the sum total of the project's estimated principal and interest costs (i.e., its projected annual debt service), the Town Accountant will combine it with any existing debt and then calculate:

- Total debt service as a percentage of annual Town revenue
- Total debt service per capita population
- Total debt service as a percentage of per capita personal income
- Total debt service as a percentage of total assessed property value

The Town Accountant will review historical, multiyear trends in the above variables to make projections against the proposed length of the debt service term.

B. Benchmarking and Reporting

The Town Accountant will use the debt ratio data to benchmark Tolland in comparison to peer communities. Using the DLS Databank’s [Community Comparison](#) report, the Town Accountant will first determine Tolland’s peers based on factors such as population, general fund budget, equalized valuation per capita, income per capita, average single-family tax bill, geographic region, and population density. Using the same and other Databank reports, the Town Administrator will then calculate the current debt ratios listed in Section A for each community in the peer group.

Note: DLS Technical Assistance Bureau’s suggests Alford, Blandford, Chester, Cummington, Granville, Heath, Leyden, New Braintree, Peru, Plainfield, Warwick, and Wendell as peers for the Town.

C. Reporting and Decision Making

The Town Accountant will write a debt affordability report with an analysis summary and recommendation(s) and provide it to the Board of Selectmen, Finance Advisory Committee, and [Capital Planning Committee]. These boards will also review and comply with the separately adopted Debt Management policy before recommending any debt issuance.

REFERENCES

M.G.L. c. 41, § 59	M.G.L. c. 41, § 61	M.G.L. c. 44, § 4
M.G.L. c. 44, § 6	M.G.L. c. 44, § 6A	M.G.L. c. 44, § 7
M.G.L. c. 44, § 8	M.G.L. c. 44, § 17	M.G.L. c. 44, § 19
M.G.L. c. 44, § 20	M.G.L. c. 44, § 21A	26 USC § 148

Tolland policies on Debt Management and Capital Planning

DLS Best Practice: [Understanding Municipal Debt](#)

Government Finance Officers Association Best Practices: [Benchmarking and Measuring Debt Capacity](#)

EFFECTIVE DATE

This policy was adopted on [date].

Debt Management

PURPOSE

To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, and sustain capital investment capacity. It can also help the Town to obtain, maintain, or enhance a favorable bond rating so as to achieve long-term interest savings.

APPLICABILITY

This policy applies to the budget decision-making duties of the Board of Selectmen and Finance Advisory Committee. Further, it applies to the Treasurer/Collector's debt management responsibilities and Town Accountant's budget analysis and reporting duties.

POLICY

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt. The Town will issue and manage debt obligations in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, will only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

A. Debt Financing

In financing with debt, the Town will:

1. Issue long-term debt only for purposes that are authorized by state law and qualify for tax-exempt bonds and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least 10 years or whose lifespans will be prolonged by at least 10 years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.
5. Consider using revenue bonds, special assessment bonds, or other types of self-supporting bonds instead of general obligation bonds whenever possible.

B. Debt Limits

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues.

2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

C. Structure and Term of Debt

The following shall be the Town's guidelines on debt terms and structure:

1. The Town will attempt to maintain a long-term debt schedule such that at least 50 percent of outstanding principal will be paid within 10 years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than 10 years, except for major buildings, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
5. The Town will work within the DLS State House Note Program or with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.

D. Bond Refunding

To achieve potential debt service savings on long-term, tax-exempt debt through bond refunding the Town will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

E. Protection of Bond Rating

To obtain and maintain a favorable bond rating, the Town will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.

F. Reporting

1. The Treasurer will report to the Board of Selectmen and Town Accountant on the Town's debt status at least annually.

2. The Town Accountant will include an indebtedness summary as part of a report on receipts and expenditures in Tolland's Annual Town Report.
3. Town Accountant, with the Town's financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

REFERENCES

[M.G.L. c. 41, § 59](#)
[M.G.L. c. 44, § 6](#)
[M.G.L. c. 44, § 8](#)
[M.G.L. c. 44, § 20](#)

[M.G.L. c. 41, § 61](#)
[M.G.L. c. 44, § 6A](#)
[M.G.L. c. 44, § 17](#)
[M.G.L. c. 44, § 21A](#)

[M.G.L. c. 44, § 4](#)
[M.G.L. c. 44, § 7](#)
[M.G.L. c. 44, § 19](#)
[26 USC § 148](#)

Tolland policies on Debt Affordability Analysis and Capital Planning

DLS Best Practice: [Understanding Municipal Debt](#)

DLS Borrowing Guidelines: [Asset Useful Life - Borrowing Limits](#)

DLS Informational Guideline Releases 17-21: [Borrowing](#) and 17-22: [Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt](#)

Government Finance Officers Association Best Practice: [Refunding Municipal Bonds](#)

Internal Revenue Service Guidance: [Arbitrage Guidance for Tax-Exempt Bonds](#)

EFFECTIVE DATE

This policy was adopted on [date].

Financial Reserves

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, Tolland 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 the short- and long-range budget decision-making duties of the Board of Selectmen and Finance Advisory Committee. It also applies to the related job duties of the Town Accountant and Board of Assessors.

POLICY

The Town is committed 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. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues.

In total for the reserves under this policy, the Town will strive to maintain a minimum funding level of 25 percent of the annual operating budget. This is the equivalent to three months' worth of operating expenditures. As a generally accepted best practice, every municipality should seek to maintain reserves equating to at least two months' worth of expenditures and a higher amount when justified by local circumstances. This policy sets the higher target level because of Tolland's relatively small overall budget size and the community's constrained options for financing capital projects given its low potential for accessing the bond market.

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.

To generate free cash, the Finance Advisory Committee will recommend budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. As much as 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), as opposed to supporting recurrent operating costs.

The Town shall set a goal of maintaining its year-end unappropriated free cash balance in the range of seven to 10 percent of the annual general fund budget. The Town will appropriate any excess above this target range to build reserves or 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. Tolland has established two stabilization funds under [M.G.L. c. 40, § 5B](#) which allows a community to establish multiple stabilization funds to accumulate funds for specific purposes.

General Stabilization: The Town will endeavor to maintain a minimum balance of seven percent of the current operating budget in its general stabilization fund. 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 Accountant will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Capital Equipment Stabilization: The Town will annual appropriate or transfer from available funds to this fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital equipment. At a minimum, the Town will annually appropriate the amount of the current year's retired debt to this one of these funds. The fund's target balance shall be 15 to 20 percent of the Town's annual operating budget. By sustaining funding in this reserve, the Town can balance debt with pay-as-you-go practices and protect against unforeseen costs.

C. Overlay Surplus

The purpose of the overlay reserve is to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. It can be used for other purposes only after it is determined to have a surplus. Therefore, unlike the other two types of reserves, this policy does not set a consistent, specific funding target for the overlay. Rather, each year as part of the budget process, the Board of Assessors will vote to raise an overlay amount on the annual tax recapitulation sheet based on the following:

- Current balance in the overlay account
- Three-year average of granted abatements and exemptions
- Abatement liability of cases pending before, or on appeal from, the Appellate Tax Board
- Timing of the next DLS certification review (scheduled every five years)

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Accountant and Board of Selectmen 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 overlay balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare it as surplus and available for use in the Town's capital improvement plan or for any other one-time expense.

REFERENCES

[M.G.L. c. 40 § 5B](#)

[M.G.L. c. 59 § 25](#)

DLS Best Practices: [Free Cash](#) and [Special Purpose Stabilization Funds](#)

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

Government Finance Officers Association Best Practices: [Fund Balance Guidelines for the General Fund](#)

EFFECTIVE DATE

This policy was adopted on [date].

SAMPLE

APPENDIX: SAMPLE GUIDANCE AND FORMS

- Capital Improvement Program Bylaw
- Operating and Capital Improvement Program Calendar
- Capital Project Request Form
- Financial Targets Worksheet
- Annual Budget Bylaw

Capital Improvement Program Bylaw

- Section 1.** The board of selectmen shall establish and appoint a committee to be known as the Capital Planning Committee, composed of one member of the board of selectmen, one member of the finance advisory committee, one member of the planning board, one member from public safety (police or fire) and three residents of the town appointed by the moderator. The town accountant shall be an ex officio committee member without the right to vote. The committee shall choose its own officers.
- Section 2.** The committee shall study proposed capital projects and improvements involving major, nonrecurring, tangible projects and assets which: 1) are purchased or undertaken at intervals of not less than five years; 2) have a useful life of at least five years; and 3) cost over \$10,000. All officers, boards, and committees, including the board of selectmen shall, by [date] of each year, give to the committee, on forms prepared by it, information concerning all anticipated projects requiring town meeting action during the ensuing five years. The committee shall consider the relative need, impact, timing, and cost of these expenditures and the effect that each will have on the town's financial position. No appropriation shall be voted for a capital improvement requested by a department, board, or commission unless the proposed capital improvement is considered in the committee's report or the committee shall first have submitted a report to the board of selectmen 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 with recommended capital improvements for the following four fiscal years. The report shall be submitted to the board of selectmen for its consideration and approval. The board 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. No such expenditure shall be incurred on projects that have not been so approved by the town through the appropriation of sums in the current year or in prior years or for preliminary planning for projects to be undertaken more than five years in the future.
- Section 5.** The committee's report and the selectmen's recommended capital budget shall be published and made available in a manner consistent with the distribution of the finance advisory committee report. The committee shall deposit its original report with the town clerk.

Operating and Capital Improvement Budget Calendar

**Town of Tolland
Budget/Capital Calendar**

Sample

BOS = Board of Selectmen
 AS = Assistant to Selectmen
 TA = Town Accountant
 FinCom = Financial Advisory Committee
 CIC = Capital Improvement Committee
 SchCom = School Committee

Month	Due By	Responsibility	Description
September	30-Sep	AS	Update capital planning inventory schedules (facilities, fleet, and equipment)
October	31-Oct	TA	Begin compiling revenue projections
	31-Oct	AS	Update calendar for budget/capital plan deliverables for coming year
November	05-Nov	SchCom	STGRSD meet with member communities to begin preparing annual operating budget
	15-Nov	BOS	Set reserve and capital expenditure goals for the new year
	15-Nov	Multiple	Budget kickoff meeting (BOS to establish guidelines for the coming year)
	30-Nov	FinCom	Prepare budget worksheets and standard forms for new fiscal year
December	15-Dec	FinCom	Distribute worksheets and memo outlining instructions and guidelines for coming year
	15-Dec	CIC	Distribute memo, worksheets, inventory schedules, and current multiyear plan
	31-Dec	TA	Notify stakeholders of certified Free Cash
January	02-Jan	TA	Issue initial revenue projections to stakeholders
	02-Jan	FinCom	Distribute calendar of scheduled department head budget appointments
	15-Jan	CIC	Distribute calendar of scheduled department head capital planning appointments
	20-Jan	Depts	Submit budget requests to FinCom
	31-Jan	FinCom	Compile budget submissions
	31-Jan	Depts	Submit capital requests to CIC
February	01-Feb	TA	Issue updated revenue projections to stakeholders
	15-Feb	TA	Issue consolidated capital package to CIC for review
	all month	FinCom	Meet with department heads, boards, and committees to review budget requests
	all month	CIC	Meet with department heads, boards, and committees to review capital requests
	28-Feb	BOS	Request Board of Assessors to declare overlay surplus
March	01-Mar	TA	Issue final revenue projections to stakeholders
	01-Mar	SchCom	STGRSD operating budget is prepared and presented to the town
	15-Mar	AS	Prepare and distribute draft ATM warrant to BOS and FinCom
	31-Mar	FinCom	Present draft budget recommendations to BOS
April	01-Apr	SchCom	Adopt operating budget and issue town assessments
	01-Apr	CIC	Finalize capital outlay, narratives for current year, and 5-year plan
	10-Apr	AS	Distribute draft warrant to BOS and FinCom for article recommendations and votes
	15-Apr	CIC	Present multiyear capital plan and current year capital outlay to BOS and FinCom
	15-Apr	FinCom	Vote on warrant article recommendations
	15-Apr	FinCom	Finalize budget recommendations and send final draft to department heads
	30-Apr	FinCom	Present final budget recommendations to BOS
	30-Apr	AS	Finalized ATM articles for printing
May	01-May	BOS	Post ATM warrant and meeting notification
	May		Annual Town Meeting

Capital Project Request Form

Department/Committee:	Department or Committee Name		
Requested By:	Requester		
Request Date:	Request date		
Project Request:	Item/Project Name		
Asset Category:	Choose an asset category		
Priority:	Choose the priority		
Capital project description: Enter a description of your request. Attach quotes, pictures, or additional details			
Purpose:	Choose one		
Date needed by:	Need by date		
Benefit Describe the benefit of this request to your department or the community			
Estimated Project Cost:	\$Enter total project cost.		
Funding Request by Year:	FY2021 \$Cost in year 1	FY2024 \$Cost in year 4	
	FY2022 \$Cost in year 2	FY2025 \$Cost in year 5	
	FY2023 \$Cost in year 3		
Describe any discounts or cost reductions (trade-ins, etc.) Provide any reductions to the total requested cost			
Are there available revenue sources or grants other than Town funds? Identify available revenue sources (excluding tax levy, free cash, and stabilization funds)			
Consequence on your department of delaying purchase/project Describe any operational impact if your request is delayed or denied			
Describe the effect of this purchase or project on your operating budget by fiscal year for the next 3 fiscal years			
<u>Personnel Budget</u>		<u>Expense Budget</u>	
Increase/(Decrease)	Fiscal Year	Increase/(Decrease)	Fiscal Year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year

Financial Targets Worksheet

Budget	
Enter fiscal year being budgeted	2021
Enter FY2020 General Fund Gross Operating Revenue	\$ 2,086,813
Enter revenue offsets (as positive amounts):	
Excluded debt service for:	2020
Regional School excluded debt service	\$ 143,317
Other (enter description and reason)	\$ 61,822
Other (enter description and reason)	\$ -
Other (enter description and reason)	\$ -
<i>Add rows as needed and adjust formula.</i>	
Net Operating Revenues	\$ 205,139
Net Operating Revenues	\$ 1,881,674

Policy Decisions	
Minimum Cost of item to borrow	\$ 25,000
Minimum Cost of item requiring debt exclusion	\$ 100,000
<i>Enter % of Net Operating Revenues for:</i>	
Combined Reserves (i.e., FC/Stabil/Other)	30.00%
Budgetary Reserve Fund	1.00%
Capital Plan Funding-Direct debt	5.00%
Capital Plan Funding-Exempt debt	5.00%
Capital Plan Funding-Other sources	7.50%
Debt service-Direct debt	5.00%
Debt service-Exempt debt	5.00%
<i>Enter % of Total Assessed Valuation for:</i>	
Debt service as a % of assessed value	0.10%
Total Outstanding debt as a % of assessed value	1.00%

Targets as a % of Operating Budget

Reserves	Minimum		TARGET	
	Free Cash	5.00%	\$ 94,084	10.00%
Stabilization Fund	1.00%	\$ 18,817	5.00%	\$ 94,084
Road Reconstruction/Municipal Buildings	2.00%	\$ 37,633	5.00%	\$ 94,084
Capital Equipment	2.00%	\$ 37,633	10.00%	\$ 188,167

COMBINED TOTAL RESERVES	Minimum		TARGET	
	% of Net Operating Revenues	10.00%	\$ 188,167	30.00%

COMBINED TOTAL RESERVES	Net		Monthly		GFOA Recommendation	
	2 months Operating Revenues	2,086,813	156,806	2 Months	\$	313,612
3 months Operating Revenues	2,086,813	156,806	3 Months	\$	470,418	

Targets as a % of Operating Budget

RESERVES - OTHER	Minimum		TARGET	
	Budgetary Reserve Fund	0.50%	\$ 9,408	1.00%

Targets as a % of Operating Budget

Special Purpose Stabilization Funds	Minimum		TARGET	
	Road Reconstruction/Municipal Buildings	2.00%	\$ 37,633	5.00%
Capital Equipment	2.00%	\$ 37,633	10.00%	\$ 188,167
[Other]				

Targets as a % of Operating Budget

Capital Plan	Minimum		TARGET		Maximum	
	Annual capital plan [w/o exempt debt]	2.00%	\$ 37,633	5.00%	\$ 94,084	10.00%
Annual capital plan [with exempt + non exempt debt]	5.00%	\$ 94,084	10.00%	\$ 188,167	12.00%	\$ 225,801
Free Cash/Stabilization Funds	2.50%	\$ 47,042	7.50%	\$ 141,126		

DEBT SERVICE	Minimum		TARGET		Maximum	
	% of operating budget: non-exempt only	2.50%	\$ 47,042	5.00%	\$ 94,084	10.00%
% of operating budget: exempt+non-exempt	5.00%	\$ 94,084	10.00%	\$ 188,167	20.00%	\$ 376,335

Min cost of item debt eligible \$ 25,000

Total annual appropriation may not exceed 10% of prior year's tax levy

Annual Budget Bylaw

As with the capital planning bylaw, we recommend that the town also adopt a formal budget process through a bylaw that documents the roles and responsibilities of the town officials and the sequence of tasks in the budget process to provide guidance to future town officials. Sample bylaw should include:

Section 1. Submission of Budget and Budget Summary. Within [time period], before the town meeting is to convene, the town accountant or board of selectmen designee, after consultation with the board of selectmen, shall submit concurrently to the board of selectmen and the finance advisory committee a proposed town operating budget for the ensuing fiscal year with an accompanying budget summary and supporting analysis. The proposed operating budget, summary, and supporting analysis shall be based, in part, on annual departmental appropriation requests received by the town accountant or board of selectmen designee, who shall provide copies of the same within 7 days after receipt thereof, to the finance advisory committee. Complete copies of the proposed operating budget shall be available for examination by the public. The board of selectmen shall by a majority vote approve a balanced budget and submit the budget to the finance advisory committee not later than [date] for the ensuing fiscal year.

Section 2. Budget Summary. The budget summary prepared by the town accountant or board of selectmen designee shall explain the budget for all town departments, both in fiscal terms and in terms of work programs. It shall describe important features of the budget, indicate any major variations from the current year in financial policies, expenditures and revenues, together with the reasons for such variations, summarize the town's debt position and include such other materials as the town accountant or board of selectmen designee deems desirable or as the board of selectmen may reasonably require.

Section 3. The Budget. The proposed operating budget shall provide a complete financial plan for all town funds and activities for the ensuing fiscal year. The budget shall include supplemental information showing in detail all estimated income from the proposed property tax levy and other sources and all proposed expenditures, including debt service, for the following year. Supplemental information shall be arranged to show the actual and estimated income and expenditures for the previous, current and ensuing fiscal years and shall indicate in separate sections:

- a) Proposed expenditures for current and new operations during the ensuing fiscal year, detailed by town department and position in terms of work programs and the method of financing such expenditures; and
- b) Proposed capital expenditures for current operations during the ensuing fiscal year, detailed by town department, and the proposed methods of financing each such

capital expenditures, the estimated surplus revenue and free cash at the end of the current fiscal year and estimated balances in any special accounts established for specific purposes.

Section 4. Action on the Budget. Action by Town Meeting – Upon receipt of the proposed operating budget approved by the board of selectmen, the finance advisory committee may review, investigate and amend the proposal as it deems necessary and appropriate. The finance advisory committee budget proposal, as amended, shall be placed before town meeting for its approval, subject to further amendments from the floor. Supplemental budget information including, but not limited to, the budget summary, income and expense projections and program descriptions shall also be available to town meeting for its approval. Supplemental budget information shall not be subject to town meeting approval.

Section 5. All boards, department heads, committees and officers of the town shall submit the annual budget for each department on forms approved by the board of selectmen.

SAMPLE

APPENDIX: COMPARABLE COMMUNITIES

Municipality	County	Population	FY 2019 Single Family Tax Bill	Average Single Family Value	Average Tax Bill as a % of Value	2015 DOR Income Per Capita	2016 EQV Per Capita	Total Assessed Value	Total Budget	Tax Rate	2018 Total Debt Service	2018 Debt % of Budget	Free Cash Amount as of 7/1/2018	2018 Stabilization Fund
Tolland	HAMPDEN	496	2,534	299,181	0.85%	22,425	419,469	192,142,525	2,044,368	8.47	137,581	6.90	465,287	85,921
Alford	BERKSHIRE	495	3,671	724,099	0.51%	40,075	601,464	274,634,036	1,954,134	5.07	19,079	1.13	374,544	179,333
Blandford	HAMPDEN	1,259	3,775	219,320	1.72%	28,952	138,439	172,107,675	4,936,986	17.21	273,947	6.21	1,132,591	516,285
Chester	HAMPDEN	1,372	3,314	204,100	1.62%	21,891	89,103	116,309,174	3,269,732	21.00	-	-	-	-
Chesterfield	HAMPSHIRE	1,249	4,595	157,808	2.91%	21,820	125,839	151,878,610	3,897,760	19.99	41,788	1.14	747,691	251,174
Colrain	FRANKLIN	1,647	3,651	229,843	1.59%	28,403	107,824	171,870,267	4,433,358	20.57	40,653	0.82	315,013	440,287
Cummington	HAMPSHIRE	871	3,447	177,476	1.94%	33,661	151,671	128,644,667	2,519,352	14.44	100,651	3.97	176,791	795,757
Granville	HAMPDEN	1,622	3,762	238,737	1.58%	32,922	122,918	197,352,730	3,918,626	15.20	137,632	3.52	494,830	467,441
Heath	FRANKLIN	693	3,844	247,520	1.55%	12,730	139,843	90,125,132	2,381,061	21.60	28,047	1.10	342,102	436,819
Leyden	FRANKLIN	713	3,985	177,969	2.24%	38,432	118,381	86,840,284	1,887,823	17.42	777	0.04	143,599	261,822
Middlefield	HAMPSHIRE	527	3,605	228,766	1.58%	19,362	125,137	67,226,701	1,606,265	18.02	-	-	238,707	-
New Braintree	WORCESTER	1,022	4,603	270,739	1.70%	35,528	104,523	117,534,698	2,588,418	17.00	-	-	-	-
New Salem	FRANKLIN	999	3,792	215,814	1.76%	25,681	107,466	115,833,091	3,429,508	17.57	16,039	0.49	943,977	822,670
Peru	BERKSHIRE	845	3,531	191,055	1.85%	18,598	102,410	90,552,289	2,375,473	18.48	-	-	-	-
Plainfield	HAMPSHIRE	652	3,710	191,037	1.94%	20,339	132,659	88,578,247	2,378,616	19.42	78,001	3.44	170,038	636,604
Royalston	WORCESTER	1,274	2,610	200,774	1.30%	23,458	101,556	140,266,262	3,421,509	13.00	-	-	113,890	-
Tyringham	BERKSHIRE	325	3,480	518,656	0.67%	24,680	599,093	202,009,180	1,643,507	6.71	17,298	1.02	230,701	124,276
Warwick	FRANKLIN	762	3,566	167,884	2.12%	21,764	100,001	75,332,125	2,236,754	21.24	-	-	194,953	-
Washington	BERKSHIRE	535	3,428	231,131	1.48%	24,357	156,298	82,057,793	1,722,127	14.83	41,757	2.35	150,080	152,631
Wendell	FRANKLIN	870	3,739	165,391	2.26%	20,731	109,176	94,949,491	3,099,640	22.61	67,739	2.32	200,003	442,748