

# CAPITAL PLANNING ANALYSIS | TOWN OF UXBRIDGE

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A COMMUNITY COMPACT CABINET INITIATIVE

NOVEMBER 2017



# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

**PREPARED BY:**

**DLS | Technical Assistance Bureau**

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# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

Christopher C. Harding  
Commissioner of Revenue

Sean R. Cronin  
Senior Deputy Commissioner

November 16, 2017

Board of Selectmen  
Town Hall  
21 South Main Street  
Uxbridge, MA 01569

Dear Board Members,

I am pleased to present the enclosed capital planning review for the Town of Uxbridge 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 document, please contact Zack Blake, Technical Assistance Bureau Chief, at 617-626-2358 or [blakez@dor.state.ma.us](mailto:blakez@dor.state.ma.us).

Sincerely,

A handwritten signature in black ink, appearing to read "Sean 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 capital planning in the Town of Uxbridge as part of the Community Compact Cabinet (CCC) initiative promoting municipal best practices. Our team met with the town manager, his assistant, and the capital planning committee chair to discuss local capital-related challenges. Based on these discussions and our review of Uxbridge's charter, bylaws, policies, and budget data, we present in this report a series of recommendations for improving the town's approach to capital planning.

Uxbridge local officials develop and manage an operating budget that in FY2018 totaled just over \$43 million for a community of about 13,600 residents. Their success in substantially building up reserves in the last five years has thus far not compelled budget decision makers to become more proactive in planning long-term capital investments, however. Recent general fund budgets have only included small capital appropriations, while significantly more expensive needs have been deferred for lack of funding. This is not to say the town lacks any formal capital planning framework. Its charter and bylaws specify relevant roles and responsibilities, and there are reasonably well-thought-out, written policies designed to guide fiscal decision making as well.

Primary responsibility for maintaining Uxbridge's capital improvement program is assigned to the town manager. With the capital planning committee's assistance, he has compiled a large list of proposals, as found in his FY2018 budget report, which has capital expenditure projections through FY2021 totaling over \$36.8 million. Despite the capital plan, local policymakers have been reluctant to propose any increases in within-levy borrowing, choosing instead to slowly chip away at the capital backlog through modest, annual appropriations. This has been driven in part by the need to amortize \$2.5 million in debt, primarily connected to a new high school, substantial remodeling of another school, and new fire station. Thus, the town finds itself in a holding pattern of paying down existing obligations at the expense of making necessary investments. To help the town overcome this stasis and effectively plan for the future, in the following sections of this report, we outline the various components and practices associated with Uxbridge's existing capital improvement program before concluding with recommendations for enhancing it.

## CURRENT FRAMEWORK

### Legal Provisions

Various locally applicable laws provide the basic framework for capital planning in Uxbridge. A 2002 special act created an eight-member, selectmen-appointed capital planning committee (CPC), established a capital stabilization fund, and defined a capital purchase as having at least five years of useful life and dollar threshold of \$50,000. As permitted under the special act, in May 2006, the town adopted a capital planning bylaw that made revisions to the CPC's appointment and composition. It provides that the CPC have a minimum of five voting members appointed by the town manager and that the town manager and treasurer serve as ex officio, nonvoting members. According to the town charter, the town manager is responsible for maintaining and annually updating a five-year capital plan based on material prepared by the CPC.

### Capital-related Policies

In December 2013, the Uxbridge select board adopted a financial policy manual with numerous provisions relevant to capital financing. In addition to a policy entitled Capital Planning, associated guidance can be found in the Reserves, Revenue, Offset Receipts and Enterprise Funds, and Debt policies. In sum, these stipulate that:

- The town will strive to build and maintain a \$2.5 million minimum balance in the general stabilization fund. Appropriate uses for this fund include “snow and ice deficits, operating budget issues, and noncapital funding articles.”
- The town will use free cash to replenish the general stabilization fund if it falls below the \$2.5 million threshold. When the threshold is met, free cash will be appropriated to the capital stabilization fund “at first opportunity.” Further, the CPC will have the capital stabilization fund “open to use in making its annual recommendation of capital projects to the town manager.”
- The town commits to appropriating unexpected, one-time revenues to its reserve funding and capital spending targets, both of which will also be prioritized at times when the town realizes new, recurring revenue sources (such as “significant new growth, increased state aid, or other permanent revenue growth”), particularly in the first year of such revenue.
- Debt-financed projects must have \$50,000 minimum thresholds, useful lifespans of five or more years, and borrowing terms of 20 years or less. The policy “recognizes that capital needs continue and that new debt will continue to be identified and issued.”

- As percentages of town revenue, annual general fund debt service shall be limited to a maximum of 12 percent when exempt debt is included and eight percent when it is not. Both benchmarks net out grant-funded debt.
- All debt for the water, sewer, and ambulance operations must be covered by enterprise fund receipts.
- For budgeting “capital equipment and maintenance,” the town sets its annual target at three percent of the operating budget, net of debt service.

### **Annual Process**

Uxbridge’s somewhat informal capital planning process begins in late fall each year when the town manager solicits requests from department heads. He does not require the responses adhere to a standardized format, however, which makes it difficult to effectively compare proposals. The town manager compiles the submissions into a package he gives to the CPC, along with a spending target and policy priorities. The CPC evaluates and prioritizes the requests, sometimes meeting with department heads for clarification. Out of frustration with the lack of capital funding, the CPC did not review submissions for FY2016 and FY2017. In most years, however, the CPC provides the town manager with a report of recommended projects, timelines, cost estimates, and financing proposals. Using this report as a starting point, the town manager then finalizes a capital budget plan and submits it to the selectmen and finance committee each January for their review.

### **Asset Management**

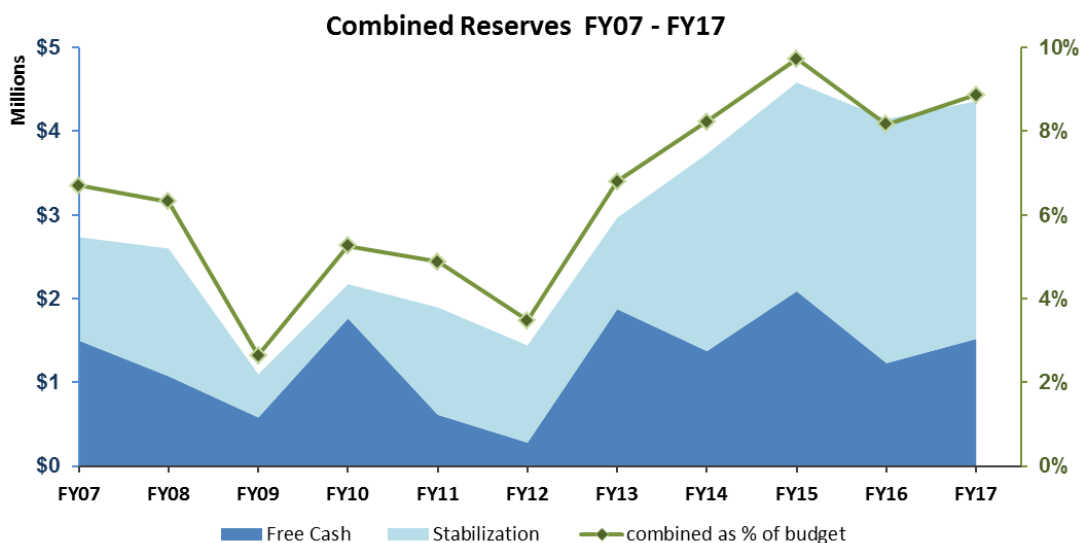
Uxbridge’s capital improvement program lacks an annually maintained, comprehensive inventory. Neither are there any active building, infrastructure, or vehicle improvement or replacement plans. Instead, the town manager relies on individual department heads to keep track of capital assets under their control and factor their condition and use into capital submissions. This arrangement constrains any coordinated approach to caring for the town’s assets and increases the chance that maintenance will be sidelined in favor of other departmental spending. Controls are inadequate to ensure the mitigation of upkeep costs, assure the ongoing safety of employees and the public, and prevent untimely equipment and vehicle failures.

### **Fiscal Trends and Financing Practices**

Except for large, very expensive projects, which the town finances with debt, Uxbridge’s budget decision makers tend to consider capital needs in only the context of the available reserve funds in any given year. Apart from those two options, Uxbridge has also established about a dozen revolving funds under M.G.L. c 44, § 53E½ through which some of the capital investment needed for

particular services are raised by the fees charged to the programs' users. Local leaders would be wise to expand their approach beyond these strategies and to more strongly commit to sustaining the capital expenditure and debt funding levels laid out in policy.

A look back over the last 10 years shows that despite substantial fluctuations in free cash, the town has lately built up a healthy amount of reserves. As a percentage of the total budget, combined reserves increased from 6.70 percent in FY2007 to 8.87 percent in FY2017, mainly attributable to the general stabilization fund, which grew from 3.03 percent to 5.78 percent over that period.



Two factors have contributed to the lack of consistency in free cash levels. First, rather than leaving some free cash unappropriated for the next year's budget, Uxbridge typically appropriates all of it, mostly to general stabilization. Secondly, in practice, local leadership has not restricted the town's budget finalization to the spring proceeding each fiscal year. Uxbridge's warrants routinely contain articles with significant supplemental appropriations (usually sourced from the general stabilization fund) for a variety of purposes. Without a restrictively defined annual appropriation schedule based on accurate, realistic projections of revenues and expenditures, free cash becomes less predictable.

By the close of FY2014, Uxbridge had \$2.49 million in general stabilization, but as more free cash was realized in the three succeeding years, the town continued to add it to it rather than to the capital stabilization fund, as is called for in policy. In fact, we were told the capital stabilization account has been essentially dormant for quite some time and held less than \$2,000 at the end of FY2017. Instead of using this fund as a way to sustainably and demonstratively dedicate monies to future capital needs, the town appropriates from the general stabilization fund for capital expenses every year, also in contradiction of its Reserves policy.

Based on Uxbridge's capital budget target established by policy during FY2014 (i.e., three percent of total budget, net of debt service), in the succeeding four fiscal years, the town should have



appropriated an average of roughly \$1.1 million in its Capital Outlay line item. But in each of those years, the town fell about 80 percent short of its target, as shown below. The data also shows, however, that from FY2016 forward, total capital spending has annually exceeded three percent of the general fund budget, net of debt. This is primarily due to the town using the general stabilization fund like a checking account through which passes accumulated free cash.

<b>Capital Targets</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018*</b>
Total Budget	39,323,319	40,590,645	42,085,720	43,432,313
(less debt)	(4,542,173)	(4,525,595)	(4,484,295)	(4,606,648)
Net Budget	34,781,146	36,065,050	37,601,425	38,425,665
Target Funding %	3.00%	3.00%	3.00%	3.00%
<b>Target Funding</b>	<b>1,043,434</b>	<b>1,081,952</b>	<b>1,128,043</b>	<b>1,152,770</b>

<b>Capital Appropriations</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018*</b>
<b>Budgeted Capital Outlay</b>	<b>201,298</b>	<b>220,798</b>	<b>200,000</b>	<b>200,000</b>
Stabilization Transfers	229,750	878,895	813,750	754,638
Other Sources	0	85,000	625,000	400,000
<b>Total Capital Spending</b>	<b>431,048</b>	<b>1,184,693</b>	<b>1,638,750</b>	<b>1,314,638</b>
as % Net Budget	1.24%	3.28%	4.36%	3.53%
Amount Above/Below Policy	(612,386)	102,741	510,707	161,868

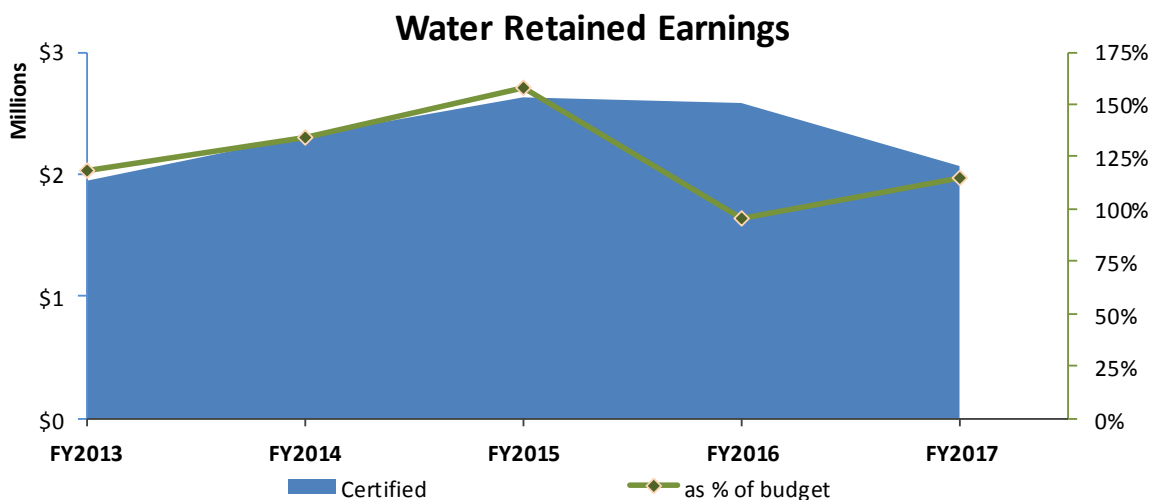
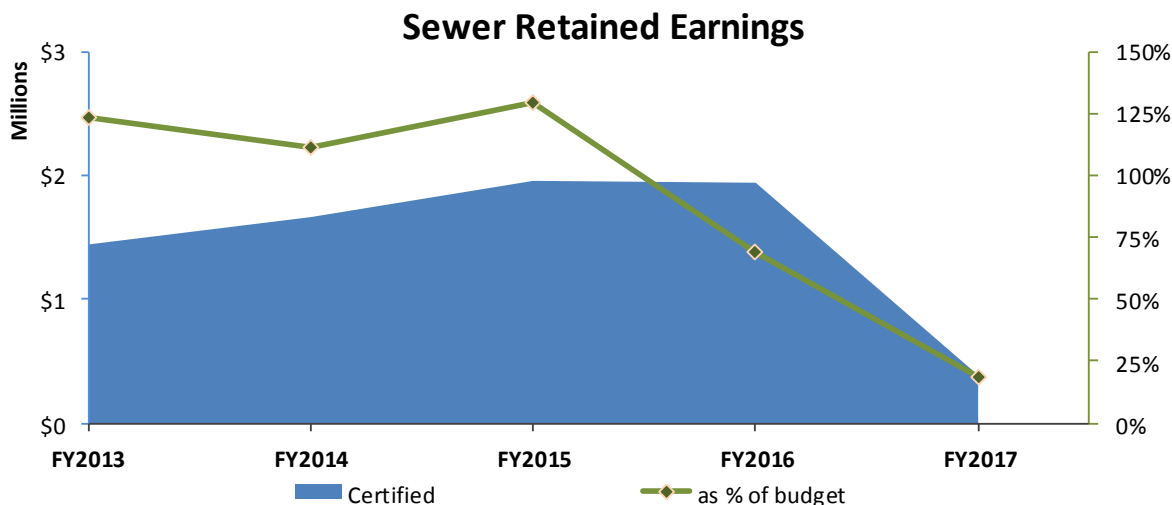
\*Total appropriations as October 24, 2017

A lack of congruence between items listed in the town manager’s capital plan and the town’s formal definition of a capital item complicates the process of determining just how much Uxbridge spends on “capital” needs. The plan has many projects costing significantly less than the \$50,000 threshold, ranging as low as \$5,000. Consequently, the town manager groups them into over- and under-\$50,000 sets. Tracking capital spending is also undermined by the town’s routine inclusion of finance-related warrant articles for town meetings that take place in the concurrent fiscal year (both fall and spring), rather than stipulating realistic, year-long budget appropriations at the annual town meeting in May.

Water and sewer utilities are capital-intensive programs that call for higher levels of investment than other operational areas, and we believe the town’s retained earning policy target (10 percent of each program’s annual revenues) is not sufficient. We generally recommend a target level that matches with identified long-term capital needs typically equating to 20 percent or higher, depending on what’s forecasted. Other analysts base the capital investment target on equivalent daily operational costs, setting the range at 45 days to 90 days depending on projected needs and other conditional factors related to the program.<sup>1</sup>

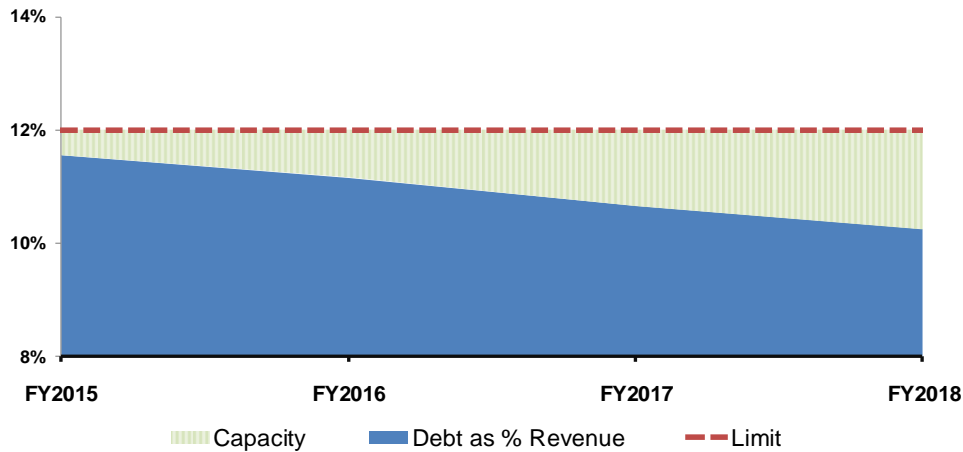
<sup>1</sup> Government Finance Officers Association Best Practice [Working Capital Targets for Enterprise Funds](#)

Regardless, the enterprise funds' retained earnings historically total well above the 10 percent minimum target. As depicted in the charts below, this could be a sign their rates are overly aggressive as compared to what is actually required to fund the operations. Local officials should consider the existing levels of deferred maintenance within each operation and whether allocating a portion of those retained earnings into enterprise-specific special capital stabilization funds might be a wise course. This twofold approach would secure funds for future capital investments and offset the appearance of high retained earnings that might otherwise be dedicated for capital purposes.



As for trends in general fund debt financing, Uxbridge's total annual debt service as a percentage of revenue declined from 11.55 percent in FY2015 to 10.24 percent in FY2018, thus creating expanded capacity under the town's 12 percent debt policy limit. Likewise, the annual service on the nonexempt debt load is also currently well below the eight percent policy limit, having declined from 5.23 percent to 4.66 percent over the same period. Exempt debt, which comprises the greater proportion of total debt service, also decreased during this period, from 6.32 to 5.58 percent.

*TOTAL DEBT SERVICE RELATIVE TO POLICY LIMIT*



	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
<b>GF Revenue</b>	<b>39,323,319</b>	<b>40,590,645</b>	<b>42,085,720</b>	<b>43,032,313</b>
<b>Total Debt Service</b>	<b>4,542,173</b>	<b>4,525,595</b>	<b>4,484,295</b>	<b>4,408,494</b>
as % Revenue	11.55%	11.15%	10.66%	10.24%
Policy Limit	12%	12%	12%	12%
Capacity	0.45%	0.85%	1.34%	1.76%
<b>Exempt Debt Service</b>	<b>2,485,798</b>	<b>2,489,636</b>	<b>2,506,115</b>	<b>2,402,094</b>
as % Revenue	6.32%	6.13%	5.95%	5.58%
Policy Limit	8%	8%	8%	8%
Capacity	1.68%	1.87%	2.05%	2.42%
<b>Nonexempt Debt Service</b>	<b>2,056,375</b>	<b>2,035,959</b>	<b>1,978,180</b>	<b>2,006,400</b>
as % Revenue	5.23%	5.02%	4.70%	4.66%
Policy Limit	8%	8%	8%	8%
Capacity	2.77%	2.98%	3.30%	3.34%

**Conclusion**

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 changes in mindset, policies, and procedures. Also key will be the exploration of new revenue sources and capital funding schemes. 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.

## RECOMMENDATIONS

### **Modify the Capital Bylaw to Lower the Cost Threshold**

The purpose of defining a capital item is to establish a separate budget process for the durable assets a community relies on for service provision, whose costs must be considered over long-term, multiyear, and usually cyclical periods. As is the case in Uxbridge, a capital item is typically defined in reference to its cost and useful lifespan. Any project that fails to meet both thresholds should be funded through a departmental line item. However, Uxbridge has routinely included in its capital plan projects that are beneath one or the other threshold. This is problematic for multiple reasons. First, it skews what should be the appropriate focus of capital planning and thereby obscures the CPC's mission. It also contributes to unrealistic departmental budgets and, consequently, the town's tendency towards supplemental appropriations.

Given the size of Uxbridge's budget, a more appropriate capital cost threshold would be \$25,000, that is, half of where it stands now. We therefore recommend the town revise the existing bylaw to stipulate that amount as the expense threshold along with the existing five-year minimum useful lifespan. We also advise the town manager to emphasize these criteria benchmarks in instructions sent to department heads and to reject submissions that do not meet both of them.

### **Develop and Maintain a Centralized, Comprehensive Inventory of Capital Assets**

Detailed inventories being so crucial for understanding capital needs and making long-term financial decisions, Uxbridge should expedite the development of a town- and school-wide capital inventory. This effort should be spearheaded by the town manager, who could use the town accountant's list of fixed assets as a starting point. From there, he should meet individually with department heads to acquire information on all assets, including vehicles, heavy equipment, buildings, and infrastructure. The accompanying Excel file contains sample spreadsheets designed to ensure sufficient data on asset condition, replacement costs, and operational use is collected. Going forward, the town manager should annually ask departments for inventory updates as part of the capital budget process.

Assembling a thorough and meaningful capital inventory can be particularly challenging. To maximize investment in repairs and upgrades, it needs to include accurate condition assessments, mechanical system reviews, and energy efficiency audits. Among options Uxbridge could consider to jumpstart the initial inventory are:

- Purchase a building assessment or "envelope study" from a vendor

- Contact neighboring communities that have facility managers about opportunities to create a short-term Intermunicipal shared service agreement for the purpose of receiving a top-to-bottom assessment
- Assemble an internal team consisting of the building inspector, public works director, and lead custodians to document critical repairs and maintenance
- Engage with the Wentworth Institute of Technology to have facilities management students perform a teacher-monitored assessment of town buildings

### **Increase Standardization in the Annual Capital Planning Process**

While certain aspects of Uxbridge's annual capital planning process are consistent year to year, such as the town manager's multiyear capital plan template and the boilerplate language in his report to the select board, there are weaknesses that could be improved through greater standardization. First is the lack of a sole means by which departments may submit capital requests. Without a standard request form with required data fields, some departmental submissions only contain general descriptions and rough cost estimates while others have prioritized lists with project descriptions, cost estimates, funding sources, and estimated useful lifespans. This undermines the town manager's and CPC's ability to make direct comparisons between proposals.

As a solution, we are transmitting with this report an Excel file with a capital request template, along with a manual containing instructions for its use. In addition, the Excel file contains the following tabs, each of which is prefilled with sample data:

- Annual capital planning calendar
- Five-year capital plan
- Spreadsheet for facility inventory
- Spreadsheet for all other capital assets

Likewise, standardizing the procedures for assessing capital proposals would help the CPC and town manager to objectively compare the urgency of projects. First, when submitting capital requests, department heads should list them in numbered priority order. In the next stage, the CPC should evaluate each proposal according to a uniform set of criteria, including safety considerations, legal requirements, previously deferred items, and impacts on operational costs or efficiencies. To best assure unbiased conclusions, it is helpful to apply a weighted scoring system, and the capital planning policy in the appendix provides a sample outline for this.

### **Revise Financial Policies and Adhere to Them**

Our review of Uxbridge's policies revealed that, overall, they contain many well-founded, fiscally sound provisions. For instance, the \$2.5 million maintenance funding target for its general

stabilization fund is a prudent goal, since it represents roughly five to six percent of the annual budget in recent years, a range that we promote. However, it follows then, that the policy might be better stated in terms of the percentage target in order to yield an increasing dollar amount as budgets inevitably increase in future years in keeping with the provisions of Proposition 2½. As additional guidance to enhance the quality of fiscal instruction in the policies, we offer the advice below, which is also incorporated in sample policies in the report appendix.

#### *Capital Planning*

- Evaluate the adequacy of the current policy's target capital budget line item by comparing it to, and ensuring it exceeds, the annual asset depreciation total the town accountant calculates under the requirements of the Government Accounting Standards Board's Statement 34. It is also useful to express the target as a range, such as the commonly observed three to five percent of annual budget, net of debt.

#### *Financial Reserves*

- Set an annual target for free cash of three to five percent of total general fund budget, to be realized through conservative revenue projections and careful management of departmental budgets.
- Preclude the annual, full depletion of free cash, allowing the unappropriated amount to provide a basis for the subsequent year's certification.
- Adhere to the existing policy provision that restricts the use of the general stabilization fund to unforeseen and extraordinary expenses.
- Set a target level for the capital stabilization fund and annually appropriate to it. The town should use this fund for one-time cash purchases, maintenance expenses, and infrastructure costs to thereby replace these types of general stabilization expenditures.
- Revise the target reserve level for enterprise funds to more a realistic level and consider establishing a special capital stabilization fund for each operation.

#### *Debt Management*

- Identify a target minimal debt service amount as percentage of annual general fund revenue. With the target established, as debt is retired and the balance falls below the benchmark, the town manager should identify debt-funded capital projects to fill in the investment gap and ensure the town continually reinvests in its capital assets at a steady, predictable rate.

#### **Expand Capital Financing Strategies**

In addition to our advice that the town seek to add new borrowings to replace retired debt as it rolls off, we also encourage budget decision makers to consider other types of financing strategies to ensure consistently sustained capital investment. Among these are:

- Capital Outlay Expenditure Exclusion: This funding mechanism allows the town to raise the total dollar cost of a capital project through a one-year increase in the tax levy. In this way, the town avoids the long-term interest costs associated with borrowing funds. As with a debt exclusion, this option requires a two-thirds vote by the board of selectmen and a majority vote in a town-wide referendum ([Proposition 2½ Ballot Questions - Requirements and Procedures](#)).
- Surplus Bond Proceeds: After a project is completed or discontinued, town meeting may appropriate any balance of remaining bond proceeds to any purpose for which debt may be authorized for an equal or longer period of time than the original issue ([M.G.L. c. 44, §20](#)).
- Enterprise Capital Stabilization Fund: Uxbridge could create a stabilization fund specific to any of its enterprise operations. Note that such a fund would be maintained within the town's trust funds and not in the enterprise fund. Also, although town meeting may change the purpose of a special stabilization fund, it is our legal opinion that when money is transferred from an enterprise fund it is restricted to the enterprise fund purpose. This restriction would not apply to general fund revenues appropriated to a special stabilization fund.
- Overlay Surplus: Any overlay balance in excess of the remaining amounts to be collected, abated, or satisfy Appellate Tax Board cases may be transferred to overlay surplus and subsequently appropriated by town meeting for any purpose for which the town may expend funds.
- Sale of Surplus Real Property: Pursuant to state statute, if Uxbridge were to sell any real estate, the proceeds must first be used to pay any debt incurred in purchasing the property. If no debt is outstanding, the funds may then be used for any purpose for which the town is authorized to incur debt for a period of five years or more, with certain exceptions (see [M.G.L. c. 44, § 63](#)).

### **Consider Potential New Revenue Sources**

Based on conversations with Uxbridge officials, the town has potentially missed out on external funding opportunities because of the minimal emphasis that has been placed on pursuing state, federal, or other grants. No doubt inadequate personnel resources to effectively make those efforts contributed to this, but we note that at the town meeting held in October 2017, voters approved the funding of a part-time position that, by description, appears to address this. We commend this development and encourage the selectmen to adopt a grant management policy outlining standards for the types of grants to be pursued, such as the policy we provide in the appendix.

Another way to shore up a capital funding commitment is to identify a dedicated revenue stream. One such possibility would be the local option meals excise, whose presence has become almost ubiquitous across the Commonwealth. When a town adopts the excise, it adds 0.75 percent to the state’s 6.25 percent meals tax, which, in other words, equates to a 75-cent increase on a hundred dollar tab. Many municipalities initially resisted putting the excise on town meeting warrants on the notion it could hurt local businesses, but in the years since it was enacted in state law, the data does not substantiate this. As this reality became more evident, so grew the excise’s prevalence.

To date, 12 communities surrounding Uxbridge have adopted the excise. Uxbridge should not fear that increasing the overall tax on meals to seven percent would drive diners into Rhode Island either, since that state’s meals tax is eight percent, inclusive of a mandated one percent local excise. The DLS Databank’s [information](#) indicates that Uxbridge would have received about \$100,000 per year since 2015 if it had adopted the meals tax back then. One can readily see the impact this would have, given that in recent years, the town’s capital outlay line item has approximated \$200,000 annually. If Uxbridge chose to adopt the excise, town meeting could also vote to dedicate all or a percentage of its revenue to the capital improvement stabilization fund, as many communities have done (see [Information Guideline Release 17-20](#)).

*Neighboring communities that have adopted the \$0.75 meals excise:*

<b>Municipality</b>	<b>Effective Date</b>
Dudley	1/1/2010
Webster	1/1/2010
Millbury	7/1/2010
Sutton	7/1/2010
Charlton	1/1/2011
Mendon	1/1/2012
Bellingham	10/1/2012
Grafton	1/1/2014
Oxford	7/1/2015
Blackstone	1/1/2016
Northbridge	1/1/2017
Douglas	7/1/2017

**Restrict Financial Warrant Articles to the Spring Annual Town Meeting**

Uxbridge has made supplemental appropriations at fall town meeting a standard budgetary practice. As a result, there is an engrained expectation following town meeting’s budget approval in May that there will be additional funding available during the upcoming year, primarily from general stabilization into which flows most of the certified free cash. This makes the finality of



departmental spending plans suspect by extending the appropriations process beyond the beginning of the fiscal year.

From the top-down, it should be made clear that departments are expected to conform to the appropriations passed at the spring town meeting. This approach condenses and provides closure to the annual budget process, which now appears to continue year-round. It also takes the guesswork out of budgeting by eliminating managers' reliance on stabilization transfers to supplement budgets or pay for capital equipment purchases that could otherwise be planned for. Accordingly, the select board should adopt a policy that restricts fall town meetings to addressing nonfinancial articles only. All spending for the fiscal year, including for capital appropriations, would therefore appear on the May town meeting warrant to be voted on when attendance is typically higher.

## Appendix: Sample Policies

### **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 the charge of the Capital Planning Committee and the capital-related responsibilities of the Town Manager. It also 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 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 Manager is charged to oversee the Town's capital improvement program (CIP) and appoints a Capital Planning Committee (CPC) consisting of a minimum of five members to support that objective. Together, their mission is to identify and prioritize projects, analyze funding, and create 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: \$50,000; proposed: \$25,000] and to have a useful lifespan, or extend the lifespan, five or more years. 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 long-term capital leases
- 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 Manager will maintain and annually update a detailed inventory of all capital assets, including fleet and other large, durable equipment. For each item, the schedule shall include the date built, acquired or last

improved, original cost, current condition, expected and remaining useful lifespan, depreciated value, extent of use, and any scheduled replacement or expansion date.

C. Evaluation of Capital Projects

As part of the annual budget process, the Town Manager will solicit capital project requests from department heads. The Town Manager will consolidate the returned submissions and provide the package to the CPC for review. The CPC will evaluate and prioritize each capital request using the criteria below:

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

<b>Major Considerations</b>	<b>Scoring Range</b>
A. Departmental Priority Classification	
1. Mandatory	10
2. Maintenance	7
3. Improved Efficiency	5
4. New Service	2
B. Risks to Public Safety	
1. Very High	10
2. High	7
3. Medium	5
4. Low	2
C. Expected Useful Life	
1. 20 or more years	10
2. 10 – 19 years	5
3. 5 – 9 years	2
D. Effect on Operating & Maintenance Costs	
1. Reduce Costs	10
2. Costs Unchanged	5
E. Effect on Town Revenues	
1. Increase Revenues	10
2. Revenues Unchanged	5
F. Availability of Grant Moneys (If none, score zero)	
1. Yes	5

TOTAL SCORE: \_\_\_\_\_

Based on this evaluation process, the CPC will submit to the Town Manager a report of capital project recommendations with proposed financing sources.

#### D. Multiyear Capital Plan

The Town Manager will annually update and propose for adoption by the Board of Selectmen and Finance Committee a five-year capital 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, including any debt service requirements. Throughout the year, the Town Manager will monitor active capital projects to ensure they remain properly funded and report any capital plan amendments to the Board of Selectmen.

#### E. Capital Financing

The Town will strive to maintain [three to five] percent of general fund net operating revenue on capital investment allocations. Funding shall be primarily derived from a combination of current revenues and stabilization funds. Long-term debt is an appropriate funding source for certain types of projects, while short-term debt and current revenues should be used for assets with short useful lifespans.

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 of less than 10 years.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.
- To the fullest extent feasible, all capital projects associated with the Town's enterprise fund operations shall be financed from user fees.

#### F. Capital Project Closeouts

The Town will endeavor to close out all capital projects within six months of completion or discontinuation. The Town Manager, working with the Town Accountant and department heads, will identify capital project accounts that may be closed out. As the accounts are closed out, the Town Manager will do the following:

- For bonded projects with residual balances, the Town Manager 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 Manager will propose reallocating the balances for other capital projects or closing them to the appropriate fund surplus.

#### **REFERENCES**

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 33B](#)

Uxbridge Charter Section 8: Capital Planning Program

Uxbridge Bylaws Chapter 16: Capital Planning Committee

**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 maintain capital investment capacity. This policy is also intended to obtain and maintain a favorable bond rating so as to achieve long-term interest savings.

### **APPLICABILITY**

This policy applies to the Board of Selectmen, Town Manager, Finance Committee, and Capital Planning Committee in their budget decision-making duties, and to the Treasurer/Collector's debt management responsibilities, and the Town Accountant's reporting and budget analysis 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 12 percent of general fund revenues, with a target balance of [five to seven] percent.
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 closely 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 achieve 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/Collector will report to the Board of Selectmen, Town Manager, and Town Accountant on the Town's debt status at least annually.
2. The Town Accountant will include an indebtedness summary as part of the report on receipts and expenditures in the Annual Town Report.

### REFERENCES

[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](#)

[M.G.L. c. 41, § 59](#)

[M.G.L. c. 41, § 61](#)

[26 USC § 148](#)

DLS Guidelines: [Asset Useful Life Schedules and Maximum Borrowing Terms](#)

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

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

Government Finance Officers Association Best Practice: [Refunding Municipal 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, Spencer 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 Manager, Capital Planning Committee, and Finance Committee in those duties. It also applies to the related job duties of the Town Accountant and Board of Assessors.

### POLICY

The Town 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 net operating revenues. To achieve this, the Town Manager 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. Prior to the adoption of this policy, the Town established and appropriated to two stabilization funds, as detailed below.

**General Stabilization:** The Town will endeavor to maintain a minimum balance of five percent of net operating revenues 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 Manager with the Board of Selectmen and Finance Committee will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

**Capital Improvement Stabilization Fund:** To achieve and maintain target balances sufficient to cover the Town’s cash outlay for capital, the Town Council will appropriate at least \$200,000 annually to the capital stabilization fund. Appropriating annually to this fund 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.

#### C. Retained Earnings

The Town has three enterprise funds: water, sewer, and ambulance. 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 superintendents of the water and sewer 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 revenues resulting from property tax abatements and exemptions. At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Manager and 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 in the overlay reserve 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 Informational Guideline Releases 17-20: [Stabilization Funds](#) and 17-23: [Overlay and Overlay Surplus](#)

#### **EFFECTIVE DATE**

This policy was adopted on [date].

## **GRANT MANAGEMENT**

### **PURPOSE**

To ensure Holland efficiently and appropriately manages its grant-funded programs, this policy sets a framework for evaluating grant opportunities, tracking grant activity, and processing grant revenues and expenditures. Effective grant management helps promote the pursuit of grants that are in the Town's best interest and assure timely reimbursements to optimize cash flow, and to guard against year-end account deficits. As a legal contract, every grant agreement must be fulfilled in accordance with its prescribed terms and conditions, as well as all applicable federal, state, and local regulations. Failure in this regard exposes the Town to legal and financial liabilities and compromises future grant funding.

### **APPLICABILITY**

This town-wide policy applies to project managers in each department applying for or receiving grant funding. It further applies to the grant-related responsibilities of the Board of Selectmen, Town Manager, Town Accountant, Treasurer/Collector, School Committee, and School Business Manager.

### **POLICY**

All departments are encouraged to solicit grant funding for projects and programs consistent with the Town's goals. All municipal grant applications in excess of \$5,000 must receive preapproval by the Board of Selectmen and all educational applications by the School Committee. To be eligible for preapproval, there must be sufficient staff available to effectively administer the grant program and perform its required work scope along with adequate matching requirements (both cash and in-kind).

No department shall expend grant funds until after a fully executed grant agreement has been accepted and approved for expenditure by the Board of Selectmen (or the School Committee, when applicable). Further, no grant funds shall be used to supplant an existing expense for the purpose of diverting current funds to another use.

Operating departments through their designated grant project manager(s) have primary responsibility for seeking grant opportunities, preparing applications, and managing awarded programs. The Town Accountant is responsible for consulting with project managers on grant budgetary matters, accounting for grants in the general ledger, monitoring grant expenditures for consistency with award requirements, tracking the timeliness of reimbursement requests, and distributing monthly reports of grant expenditures to departments. The Town Accountant will also maintain a database of all grants and grant activity from inception to closure.

#### **A. Grant Opportunity Assessment**

Well in advance of a grant application's due date, the departmental project manager will assess the opportunity in consultation with the Town Manager and Town Accountant (and the School Business Manager, if a school grant). Below are the factors to be considered, at minimum.

Programmatic:

- Alignment of the grant's purpose with the Town's and department's strategic priorities
- Department's capacity to administer the grant through to closeout
- Office space, facilities, supplies, or equipment required
- Ongoing impact of the grant program after it is completed
- Compliance and audit requirements, particularly as they may differ from the Town's

Financial:

- Total anticipated project cost
- Expenditure requirements and anticipated cash flow schedule
- Required cost matching shares and sources, including cash and in-kind
- Staffing requirements, including salary and benefit increases for multiyear grants
- Administration and indirect recapture amounts
- Program income potential

In this stage, the project manager will also develop a continuation plan to address the potential future loss of grant funding, which may include alternative funding proposals or plans for reducing or terminating program positions or components after grant closeout.

B. Grant Application and Award Acceptance

Prior to filing any grant application greater than \$5,000, the project manager will submit a meeting agenda item requesting preapproval from the Board of Selectmen (or the School Committee, when applicable) with a report summarizing the grant and how it complies with this policy. The Town Manager will then make a determination as to whether any preapproved application should be submitted to the Town Counsel for a legal review. Following this, the project manager will submit the grant application to the grantor and forward a copy to the Town Accountant.

When a project manager receives notice of any grant award, he or she will submit it as a meeting agenda item for the Board of Selectmen (or the School Committee) to formally accept by signatures and thereby approve the expending of grant funds. The project manager will then send copies of the signed agreement to the grantor and the Town Accountant.

Upon receipt of a new grant, the Town Accountant will create new general ledger accounts to record the grant activity separately from regular expenses. When notified of any amendment or adjustment by the grantor, the project manager will immediately forward the information to the Town Accountant, who will make adjustment(s) to the grant's budget in the general ledger.

C. Grant Financial Management

At the start of a new grant, the Town Accountant and project manager will discuss its requirements and the timing of reimbursement requests (e.g., at the time of expenditure, monthly or quarterly), when applicable.

The project manager will ensure all expenditures made are allowable and consistent with each grant award's requirements. The project manager will submit project invoices to the Town Accountant with an accounts payable (AP) cover sheet that has accurate general ledger expense

codes for the grant and the department head's signature. The project manager will also ensure the proper payroll account codes for grant-funded employees are included on the department's payroll report to the Town Accountant and Treasurer/Collector as part the regular payroll process.

To minimize the use of advance town funds, every project manager will request reimbursements as often as the grant's guidelines allow and always no later than June 30th. In doing so, the project manager will prepare all required reports and requests as detailed in the agreement and submit these to the grantor. Immediately following each submittal, the project manager will send an email notification of the reimbursement request to the Town Accountant and Treasurer/Collector.

The Town Accountant will monitor each grant's deficit balance to assure it is temporary and receives reimbursement within the grant's allowable timeline and always prior to year-end. The Treasurer/Collector will match reimbursements received electronically or by check with their requests and credit the proper revenue lines.

#### D. Grant Closeout

Upon completion of the project work or grant period, whichever comes first, the project manager will verify that all grant requirements have been met and will send to the Town Accountant a grant closeout package that includes a final report and either a final reimbursement request or notification of the amount to be refunded to the grantor.

Upon receipt of the closeout package, the Town Accountant will put the general ledger's grant account into inactive status and will reconcile the project manager's report with the general ledger's record of grant activity. The project manager will subsequently submit the final reimbursement request to the grantor or, if a refund is due, the Town Accountant will add the refund amount to the AP warrant.

Within 30 days of any grant closeout or the year-end closure, whichever is earlier, the Town Accountant will determine if the grant account has been overexpended and will either apply the expense to the operating budget or propose an appropriation from other available funds.

#### E. Audit

All grant activities are subject to audit by the particular grantors, Town Accountant, and Holland's independent auditor. The Town Accountant will maintain all grant documents and financial records for seven years after their closeouts or for the lengths of time specified by the grantors, whichever period is longer.

#### **REFERENCES**

[M.G.L. c. 41, § 57](#)      [M.G.L. c. 44, § 53A](#)

Mass.gov webpage: [Municipal Grant Finder](#)    US grant website: [grants.gov](#)

Department of Elementary and Secondary Education webpage: [Grant Notifications and Alerts](#)

#### **EFFECTIVE DATE**

This policy was adopted on [date].