Town of Wayland Financial Policies
(DRAFT JUNE 1, 2018)

Adopted by the Board of Selectmen on -----------------

Table of Contents

A. GENERAL BUDGET POLICIES

A-1 Structurally Balanced Budget

Background:

All Massachusetts municipalities are required by state law to prepare balanced annual budgets. In fact, a balanced budget is a prerequisite to State approval of the Town's annual tax rate and the issuance of actual tax bills for the fiscal year.

The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future. A structurally balanced budget is achieved when recurring operating expenses can be financed with recurring revenues sources that equal or exceed annual operating costs.

Policy:

The Board of Selectmen and the Finance Committee shall recommend and Town Meeting shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The Town shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The Town will not balance the budget by using one time or other nonrecurring revenues (e.g., free cash or overlay surplus) to fund ongoing expenditures. The Town will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to avoid making principal payments.

The Town budget shall also support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing.

References:

M.G.L. c.44, §31

Achieving a Structurally Balanced Budget, Government Finance Officers Association Best Practice, February 2012

A-2 Submission of Budget and Budget Message

Background:

Two important principles of public budgeting are clarity and transparency. The Government Finance Officers Association considers these principles essential parts of the legislative discussion, explaining key issues in the development of the Town's annual budget and long range financial plans. State statute and Chapters 19 and 60 of the Wayland Town Code provide the legal basis for the budgetary authority and responsibilities of the Board of Selectmen as Chief Executive Officer, the Town Administrator as Chief Administrator, the Finance Director, and the Finance Committee.

Policy:

The Board of Selectmen as the Town's Chief Executive acting through the Town Administrator and Finance Director shall fulfill its budgetary and finance responsibilities under state statute and the town by-laws. The Finance Committee shall fulfill its responsibilities under Chapter 19 of the Town Code. Specific authorities and responsibilities are inherent in the Board of Selectmen's authority and responsibilities as the Chief Executive of the Town all are delineated for the Town Administrator and Finance Committee delineated in Town by-laws.

The Town shall work toward the implementation of a budget document that meets the high standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

A-3 Revenue and Expenditure Forecast

Background:

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast. Long term financial planning, including prudent assumptions about future revenues and expenditures, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time. For example, a forecast allows a municipality to evaluate the fiscal impact of multi-year collective bargaining agreements, the potential impact of issuing long-term debt or other contractual agreements that span a multi-year period.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow management to test various "what-if" scenarios and examine the fiscal impact on future budgets.

Policy:

Each year the Finance Director shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five year Capital Improvement Program.

The forecast shall be used as an ongoing management tool to enable Town officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; and, 2) allow Town management time to plan for any budgetary adjustments necessary to increase revenues and/or reduce expenditures; and 3) identify the resources needed to maintain required enterprise fund operations.

Procedure:

The Finance Director, in cooperation with the Town Administrator and finance officers, will review the forecast assumptions every year when it updates the forecast and will use information that is timely and accurate in preparation of the forecast. The forecast and underlying assumptions shall be made available to the Board of Selectmen, Finance Committee, School Committee and the public at the beginning of the budget process prior to issuing budget guidelines and requesting budget submissions.

References:

Revenue and Expenditure Forecasting, MA DOR Division of Local Services Best Practice.
Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association Best Practice, February 2014.
Financial Management Assessment, Standard and Poor's, June 2006.

A-4 Position Control/Vacancies

Background:

The largest segment of a town's budget is personnel costs. Failure to accurately monitor the approved personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and excessive personnel costs.

Policy:

The Town Administrator with the support of human resources staff under the authority of the Board of Selectmen as Chief Executive and the Personnel Board as described in Chapter 43 of the Town Code, are responsible for the personnel system for all non-school departments. The personnel system will accurately track all authorized, filled and unfilled positions by funding source. Annual budgets shall be prepared that account for all costs necessary to cover all positions the Town intends to fill during the fiscal year.

B. POLICIES REGARDING ESTABLISHMENT OF FEES

B-1 Fees and Charges

Background:

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or other subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

Policy:

Town fees and charges shall be reviewed periodically in relation to the cost of providing the service. The Town will compare rates with nearby communities to determine if the fees established are competitive. The Town may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where: the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

References:

M.G.L. c.140

Emerson College v. Boston, 391 Mass. 415 (1984).

Costing Municipal Services: Workbook and Case Study, MA DOR Division of Local Services' workbook.

Establishing Government Charges and Fees, Government Finance Officers Association Best Practice, February 2014

Division of Local Services, *A Guide to Financial Management for Town Officials*, p. 20-21.

C. RESERVE FUNDS/FUND BALANCE POLICIES

Background:

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies are also an important component of a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus.

C-1 Free Cash

Background:

The Division of Local Services' *Municipal Finance Glossary (May 2008)* defines Free Cash as follows:

> Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure. Free cash can serve as a source for funding non-recurring capital expenditures, replenishing other operating or capital reserves or simply serve as liquid funds for cash flow purposes.

GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). At a minimum, GFOA recommends a fund balance level of at least two months of regular general fund revenues or expenditures (about 16.7 percent).

DLS recommends that a municipality strive to generate a minimum free cash amount equal to 3-to-5% of its annual budget. This measure, however, is based largely on historical state average free cash levels and, in part, is meant to be a minimum potential target for communities with negative or very weak free cash levels. In contrast, bond rating agencies generally measure fund balance levels based on GAAP financial statements where the measurement of fund balance is based on Generally Accepted Accounting Practices (GAAP). The GFOA uses a similar GAAP based measurement. Under the broader definition of fund balance under GAAP, the bond rating agencies expect communities with strong credit ratings to have overall committed, assigned and unreserved fund balance levels well in excess of 15-20 percent each year. This measure of fund balance includes fund balance (free cash) appropriated for the upcoming year for capital, operating and the OPEB trust. These balances also include stabilization fund balances (regular and special purpose) as well as encumbrances from the fiscal year.

Policy:

Wayland will eliminate its dependence on free cash to fund the operating budget by no later than FY2019. (The Town has decreased the amount of free cash used to fund operating budgets as follows: $4.35 million in FY2016, $1.5 million in FY2017, to $500,000 in FY2018, with the intent to eliminate this practice by FY2019). The Town will endeavor to maintain a target range of free cash between 5 and 10 percent of prior year net revenue. The minimum balance of free cash shall be 5 percent of prior year net revenue. Amounts in excess of this minimum 5 percent balance will be available for appropriation to a stabilization fund, capital outlay or other one-time expenses, while the target amount will be left unspent from year to year. Until the balance in the general stabilization fund reaches its target level of 6 percent of prior year net revenues, at least 25 percent of the excess free cash shall be appropriated into this stabilization fund. Net prior year revenue is defined as prior year gross revenues, less debt exclusions, enterprise fund revenues, Community Preservation Fund revenues and amounts appropriated from free cash, stabilization and overlay surplus.

Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs. In the event that it is necessary to draw down free cash below the 5 percent level, the Town Administrator, Finance Director and Finance Committee will develop a plan to replenish free cash levels with one to two years. Once target levels of stabilization funds are reached and fund balance levels stabilize, the free cash target should be revisited.

References:

Free Cash, MA DOR Division of Local Services Best Practice.

Appropriate Level of Unrestricted Fund Balance in the General Fund, Government Finance Officers Association Best Practice, September 2015.

Reserve Policies, MA DOR Division of Local Services Best Practice.

Free Cash as Percent of PY Net Revenue

	2015	2016	2017	2018
Net PY Revenue	60,328,597	65,975,554	65,629,448	71,466,839
Free Cash	6,384,312	6,479,195	4,641,973	7,299,693
% of Net Rev.	10.58%	9.82%	7.07%	10.21%
Min. @ 5%	3,016,430	3,298,778	3,281,472	3,573,342
25% to Stab.				931,588
Capital/Other				2,794,763

C-2 Stabilization Funds

Background:

Under Massachusetts General Law Chapter 40, Section 5B, a municipality may establish one or more stabilization funds for different purposes and may appropriate into them in any year (See change in MGL c. 40, Sec.5B effective Nov. 2016). Generally, a two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money out of a stabilization fund, and a majority vote is required to appropriate money into a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund.

Wayland has a general stabilization fund which may be spent for any lawful purpose, as well as two special purpose stabilization funds for non-insurance and recreational purposes. The current general stabilization fund balance is $1.9 million, with another $1.2 million in the non-insurance stabilization and $342,000 in the recreation stabilization fund. Special purpose stabilization funds help a municipality think long-term, be prepared to address needs in a timely manner, and manage debt. For example, a capital stabilization fund can be used to accumulate cash over time and pay outright for a moderate-range capital expenditure, and helps preserve debt capacity for major, high-dollar purchases or projects. An approach that balances capital debt with pay-as-you-go practices, and protects against unforeseen costs is viewed in a positive light by credit rating agencies.

C-2a General Stabilization Policy:

The Town shall maintain a General Stabilization Fund of not less than 6% of the prior year's net revenue for the purpose of maintaining a reserve for extraordinary or unforeseen expenditures. The Town will endeavor to leave this balance unspent, except in the event of an emergency, extraordinary or unforeseen occurrence. If it is necessary to draw down from the General Stabilization Fund, the Town will ensure that it is restored within one to two years of the appropriation, depending on the size of the appropriation.

Stabilization as Percent of PY Net Revenues				
	2015	**2016**	**2017**	**2018**
PY Net Revenue	60,328,597	65,975,554	65,629,448	71,466,839
Gen. Stabilization bal.	1,651,269	1,826,752	1,936,231	1,925,439
% PY Net Rev.	2.74%	2.77%	2.95%	2.69%
Target Stab. @ 6%	**3,619,716**	**3,958,533**	**3,937,767**	**4,288,010**

C-2b Capital Stabilization Policy:

The Town shall maintain a special purpose Capital Stabilization Fund that shall serve as a funding source for the Town's capital improvement plan, including any associated debt service. The Town may establish annual amounts to be appropriated into the account by Town Meeting acceptance of the fourth paragraph of MGL c.40, Section 5B, and through a two-thirds vote of Town Meeting, designate all, or a percentage not less than 25 percent, of a particular fee, charge or other receipt to a stabilization fund.

Alternatively, the Town may approve a Proposition 2 ½ override to fund a stabilization account. The override is similar to a regular override in that the amount of the override is specified in the vote. The difference is that in subsequent years, the Selectmen must decide whether or not to levy the additional dollars to be directed to the special fund. The amount compounds by 2.5 percent each year, so if $100,000 was initial amount approved by voters then $102,500 can be levied in the second year provided it's approved by two-thirds vote of the Selectmen.

The town's special purpose stabilization fund for "non-insurance" purposes appears to have some ambiguity regarding the purposes for which the fund may be spent. It may make sense to re-define the purpose of this fund to a special purpose capital stabilization. Changing the spending purposes of this fund requires a two-thirds vote of Town Meeting.

References:

M.G.L. c. 40 §5B

Stabilization Funds, MA DOR Division of Local Services, Informational Guideline Release No. 17-20

Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.

C-3 Overlay Reserve

Background:

State law requires that municipalities establish an overlay reserve account to fund statutory and local option property tax exemptions and abatements resulting from adjustments in valuation. Based on recent legislation, overlay is now considered a single account to fund abatements and exemptions of committed real and personal property taxes for any fiscal year. The overlay amount is determined by the board of assessors (assessors) and may be raised in the tax rate without appropriation. The assessors must analyze the balance in the overlay account and determine whether it is adequate to fund anticipated property tax abatements, exemptions and receivables during the upcoming fiscal year in addition to existing abatement, exemption and receivable exposure for all previous fiscal years. If the account balance is not adequate, the assessors may raise any additional amount required in the tax rate for the year without appropriation. G.L. c. 59, § 25. Excess overlay is determined, certified and transferred by vote of the assessors to a Fund Balance Reserved for Overlay Released by the Assessors for Expenditures (overlay surplus). Overlay surplus may then be appropriated by the legislative body for any lawful purpose until the end of the fiscal year, i.e., June 30. Overlay surplus not appropriated by year-end is closed to the general fund undesignated fund balance (G.L. c. 59, §§ 23 and 25).

Policy:

The Town shall maintain an adequate overlay reserve account that shall be used to fund property tax exemptions and abatements resulting from adjustments in valuation. Prior to February 15th of each fiscal year, the Director of Assessing shall submit to the Finance Committee and Board of Selectmen an analysis of the necessary overlay balance and any potential surplus, including, but not limited to, the current available balance, amounts of potential abatements and receivables, including any potential and reasonable exposure to Appellate Tax Board (ATB) decisions, and the amount necessary to be raised on the tax rate in the upcoming fiscal year.

Any balance in the overlay account determined by the Assessors to be unnecessary can be transferred into the overlay surplus account or simply retained in the overlay account so that the amount raised in the subsequent year may be reduced. Amounts declared as overlay surplus may be appropriated for any lawful purpose if appropriated before the end of the fiscal year. If not appropriated by year-end, overlay surplus is "closed" to undesignated fund balance.

References:

M.G.L. c.59, §25

D. CAPITAL IMPROVEMENT PLAN AND POLICIES

D-1 Capital Improvement Plan Budget

Policy:

There shall be an annual and a five year capital improvement plan presented by the Finance Committee to Town Meeting annually.

D-2 Authority for Capital Improvement Planning Process and Capital Plan Requirements

Policy D-2a:

Authority: The Board of Selectmen as the Town's Chief Executive acting through the Town Administrator and Finance Director shall fulfill their respective budgetary and finance responsibilities under state statute and the town by-laws. The Finance Committee shall fulfill its responsibilities under Chapter 19 of the Town Code.

Policy D-2b:

Capital Plan Requirements: The following are requirements for the capital budget process and plan:

- REQUIREMENT FOR INCLUSION OF PROJECTS IN PLAN: Except as required by an emergency, all approved capital projects defined as capital projects must be part of the annual adopted Capital Improvement Plan.

- DEFINITION OF CAPITAL EXPENDITURE: To qualify as a capital expenditure, a proposed purchase or project must have a useful life of five years or more, and must exceed $20,000 in cost, be purchased or undertaken at intervals not less than 3 years, and have a useful life of at least three years. In general, the Town should not incur debt for any project less than $100,000 in cost.

- IDENTIFICATION OF FUNDING SOURCES; The Capital Improvement Program shall identify the source of funding for every project or acquisition included in the program.

- COMMENT REQUIRED FROM PMBC: The Permanent Municipal Building Committee shall review all building projects over $100,000 and provide comments that will be included in a Town Meeting Warrant at which the project will be considered.

- LEASE PURCHASE: For the purposes of these policies, lease-purchase agreements shall be considered debt and are subject to the requirements of the policies.

- USE OF DEBT: In general, it is the intent of the Town to fund with current revenues, Free Cash, or Stabilization Fund funds, and not from the issuance of debt, all capital projects and acquisitions of $100,000 or less or with useful life of three years or less. Recurring annual expenses, that may otherwise be considered capital expenses such as police cars and town and school building maintenance projects shall be included in the operating budget.

- ONGOING CAPITAL PROJECT COSTS: Future operating costs associated with new capital improvement projects will be stated in all capital project requests and included in operating budget forecasts as appropriate.

- USE OF GRANTS: Federal, state, or private grants or loans shall be used to finance only those capital improvements that are consistent with the Town's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.

- MAINTENANCE OF ASSETS: All assets shall be maintained at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.

- MAINTENANCE AND REPLACEMENT SCHEDULES: Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.

- PRIORITIES BASED ON ESTABLISHED CRITERIA: Capital projects shall be prioritized based upon criteria established and reviewed annually by the Board of Selectmen.

- PROJECT COST ESTIMATES: The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted for inclusion in any Town Meeting warrant for appropriation.

D-3 Capital Improvement Financing

Background:

For the purpose of these policies, the following definitions shall apply:

- Prior Year Net Revenue - Gross revenues, less debt exclusions, Community Preservation Fund revenues, enterprise fund revenue and appropriations from free cash, stabilization and overlay surplus.
- Net Capital Investment - Gross costs from local debt, less Proposition 2 ½ debt exclusion amounts, plus the cost of capital leases, direct capital expenses (e.g., "pay-as-you-go capital) funded from free cash, the capital stabilization fund and the general fund, and other local amounts approved as part of the capital budget.

- Capital Investment as a Percent of Prior Year Net Revenue – The Net Capital Investment divided by the Prior Year Net Revenue. (For FY2017, Net Capital Investment is about 5.69 percent of the Town's Prior Year Net Revenues, with 4.78% from non-excluded general fund debt and .91% from pay-as-you go capital spending.)

Policy:

The Wayland capital improvement program shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.

  Net Capital Investment as % of Prior Year Net Revenues – The annual Net Capital Investment target is 6 percent of Prior Year Net Revenue. The town will endeavor to limit its spending on non-excluded general fund debt to 4 percent of prior year net revenues (a decrease from FY2017 levels of 4.78%) by FY2020. It will also seek to increase pay-as-you go capital spending from .91% of prior year revenue in FY2017 to 2.0% by FY2021.

- Local Funding – The first source of pay-as-you go capital investment shall be from free cash, when the certified amount is greater than the target amount. Capital stabilization fund appropriations shall be the other significant source of funding for pay-as-you go capital investment.

- Debt-Financing/Borrowing -

  - The term of borrowing for a capital project shall not exceed its estimated useful life.
  - The Town will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years.
  - The impact of level debt service versus level principal/declining debt on total project cost and on the Town's operating budget shall be analyzed before borrowing is authorized.

Capital Spending: Excluded, General Fund and Pay-Go				
	2015	2016	2017	2018
Excluded General Fund Debt	4,845,478	4,408,077	4,235,430	4,144,027
Percent PY Net Revenue	8.03%	6.68%	6.45%	5.80%
Other General Fund Debt	2,654,588	3,249,500	3,138,332	3,328,280
Percent PY Net Revenue	4.40%	4.93%	4.78%	4.66%
Pay-as-you go Capital spending	570,000	420,439	595,000	566,308
Percent PY Net Revenue	0.94%	0.64%	0.91%	0.79%
Total Capital Investment	8,070,066	8,078,016	7,968,762	8,038,615
	13.38%	12.24%	12.14%	11.25%
Net Capital Investment (net of excluded debt)	5.35%	5.56%	5.69%	5.45%

E. GRANTS MANAGEMENT POLICIES

Background:

The MA Division of Local Services recommends analyzing current and future impact of grants on the operating budget, capital improvement program, and debt. The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

E-1 Grant Administration

Policy:

The Town shall consistently seek to maximize the benefits of grants while minimizing their risks. Prior to acceptance of a grant award, the Town shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. The Town shall ensure that it appropriately administers grants after their acceptance, as inappropriate administration can result in the failure to meet all grant requirements, potentially resulting in the need to return some or all of the resources to the provider.

E-2 Impact on Operating Budget

Policy:

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the Town's cost for providing that benefit.

In all cases where some costs are not covered (e.g., personnel-related benefit costs or indirect costs), those costs should be clearly disclosed prior to the determination to accept the grant. With such disclosure, a proposed plan to cover such unreimbursed costs shall be presented at the same time for concurrent approval.

E-3 Impact on Capital Improvement Program and Debt Management

Policy:

When grants are accepted for capital purposes, the Town shall include in its capital improvement program any share of costs associated with the grant and project the Town's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the Town's revenue /expenditure forecast.

References:

Administering Grants Effectively, Government Finance Officers Association Best Practice, May 2013.

F. ENTERPRISE FUND POLICIES

F-1 Self Sufficiency and Rates

Background:

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service. Enterprise Funds shall be charged indirect costs, including OPEB under a methodology approved by the Board of Selectmen.

Policy:

Enterprise Funds (e.g., Water/Sewer Funds, Ambulance Funds) shall be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by Town Finance and Enterprise Department heads and incorporated in the budget documents submitted for review and approval by the Town.

Rates and fees for enterprise services shall be set at a level to provide for self- supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants.

Each Enterprise Fund shall be reviewed annually by the responsible board, commission, or department head to project revenues and expenditures for the next fiscal year and generate estimates of the current fiscal year and the projections for future years in order to prevent the need for subsidy by the General Fund operating budget. Estimates of capital project costs, debt service, and other liabilities shall be included in this analysis in order to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency.

Changes in the rates and/or rate structure shall be carefully analyzed prior to recommendation and implementation in order to ascertain the short and long term impact on rate payers. The Board of Selectmen may elect to recommend in writing a waiver of self-sufficiency and rate policies in order to provide a subsidy or loan from the General Fund to the Enterprise Fund in order to meet other policy goals of the Town.

References:

MGL, Chap 44, Sec 53F1/2

Enterprise Funds, MA DOR Division of Local Services Best Practice

G. USE OF ONE TIME REVENUE

G-1 Use of One Time Revenue

Background:

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize services disruptions due to the non-recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One- time revenue is usually defined as nonrecurring revenue.

Policy:

Beginning in FY 2018, the Town shall reduce its use of one-time revenues and free cash each year until it ceases using one-time or highly volatile revenue sources for recurring costs in the annual Town operating budget. One-time and highly volatile revenues including excess free cash shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

H. UNFUNDED LIABILITIES POLICIES

Background:

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

H-1 Pensions/Retirement

Background:

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State. The Town of Wayland is a member of the Middlesex County Retirement System and pays an annual pension assessment to the County. Pursuant to current state law, the Middlesex County Retirement System has established, as of December 31, 2015, a funding schedule to fully-fund this liability by 2035.

Policy:

In accordance with state law, PERAC regulations and government accounting standards, the Town shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the County retirement board.

References:

M.G.L. c.32

H-2 Other Post- Employment Benefits (OPEB)

Background:

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Policy:

The Town Administrator and Finance Director acting as Trustees and the Treasurer acting as Custodian shall fulfill the requirements for investment and monitoring OPEB funds as required by the Town's Special Act on OPEB.

While there is currently no legal requirement to fund OPEB, the Town recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations. In order to determine the funding schedule, the Town shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement. Careful consideration shall be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment. The Town has a goal of reaching the ARC within 10 years (FY 2027).

It is the Town's general intent to request Town Meeting appropriate OPEB funding through the General fund, Enterprise Finds and Revolving Funds at an amount no less than the amount appropriated in the prior fiscal year until the Town reaches ARC.

References:

Statement No. 43, Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, April 2004.

Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2004.

GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.

Town of Wayland Special Act

I. RISK MANAGEMENT POLICIES

I-1 Risk Management Program

Background:

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

Policy:

The Town's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the Town is exposed to on a regular basis. If an Town board or commission wishes to add item(s) to the Town's insurance policy, said board or commission shall cover the costs to be incurred.

The Town shall develop and maintain a risk management program to protect the Town against the financial consequences of accidental loss of property, liability and personal injury to the extent possible through effective prevention and loss control policies and practices.

References:

Creating a Comprehensive Risk Management Program, Government Finance Officers Association Best Practice, March 2009.

J. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES

J-1 Annual Audit

Background:

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the Town chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

Policy:

The Town shall have an independent outside audit performed by a certified public accountant each year. The Board of Selectmen shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the Town government or of any of its officers or employees.

The Town will either re-advertise for auditing services every five to eight years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The Town will strive to have the annual audit completed by January 1st of the following year

References:

Annual Audits, MA DOR Division of Local Services Best Practice.

J-2 Comprehensive Annual Financial Report

Background:

A Comprehensive Annual Financial Report (CAFR) is a set of Government financial statements comprising the financial report of the municipal entity that complies with the accounting requirements promulgated by the General Accounting Standards Board (GASB). GASB provides standards for the content of a CAFR in its annual updated publication *Codification of Government Accounting and Financial Reporting Standards*. A CAFR is compiled by the municipal accounting staff and audited by an external Certified Public Accounting firm utilizing GASB requirements. It is comprised of three sections: Introductory, Financial, and Statistical. It combines the financial information of fund accounting and Enterprise Authorities accounting.

Policy:

The Town will continue to prepare a Comprehensive Annual Financial Report (CAFR) that meets the criteria established by the GFOA's Certificate of Achievement in Financial Reporting Program. This program encourages the preparation of a comprehensive report that goes beyond the annual audit report and presents information that enhances government transparency and disclosure.

J-3 Audit Committee

Background:

"An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices." (Government Finance Officers Association)

Policy:

The Board of Selectmen will continue to appoint an Audit Committee under a charge approved by the Board of Selectmen The Finance Director is assigned to work with the Committee. Responsibilities of the Audit Committee shall include, but not be limited to, making a recommendation regarding selection of the independent auditor/accounting firm, monitor independent audit, reviewing results of audit with independent auditor, discussing findings and recommendations monitoring implementation of any corrective actions or improvement, and, after acceptance of the final audit report, presenting the report to the Board of Selectmen and Finance Committee.

References:

Audit Committees, Government Finance Officers Association Best Practice, October 2008.
Town of Wayland: Charge of the Audit Committee

J-4 Long Range Forecasting and Performance Reporting

Background:

Long range financial forecasting provides a basis for preparing budgets and setting and timing capital projects and managing growth in operating expense. Monthly performance reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing. The revenue and expenditure projections shall incorporate into the projections the funding requirements cited in the approved Capital Improvement Program.

Policy:

The Town Administrator and Finance Director shall annually prepare and present to the Board of Selectmen five-year revenue and expenditures projections, to be approved by the Board.

The Finance Director /Town Accountant shall produce and distribute monthly budget-to-actual reporting to evaluate the Town's financial position per Massachusetts state law. Variances from budgeted amounts shall be reviewed with the Town Administrator.

Investments shall be monitored at least quarterly by the Treasurer and shall be reviewed with the Town Administrator and Finance Director at least semi-annually and on an as-needed basis.

Reports shall also be submitted to the Board of Selectmen and Finance Committee. This will enable the Town to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

J-5 Cash Collections

Background:

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Treasurer/Collector's office, accounting office, legal counsel, tax assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

Policy:

The Town shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before September 1st, the Town shall commence tax title proceedings against all properties that owe property taxes to the Town

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other Town officials to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the Town.

References:

Revenue Collection, Government Finance Officers Association Best Practice.

J-6 Reconciling Cash and Receivables

Background:

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the Accountant. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and an Accountant is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

Policy:

Within thirty days after the end of each month, the Treasurer/Collector shall internally reconcile the cashbook to all bank statements, and the Treasurer/Collector shall internally reconcile all receivable balances with the receivable control. The results of these activities shall be forwarded to the Accountant's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Accountant shall reconcile the variances (e.g., missing information, errors, and timing differences). The Town Administrator shall ensure compliance with the timeliness and completion of this process.

The Town shall reconcile revenues and expenditures for each fiscal year within one to two months of the end of the fiscal year.

References:

Reconciling Cash and Receivables, MA DOR Division of Local Services Best Practice.

J-7 Cash Flow Forecasting and Budgeting

Background:

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may requiring temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessary coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity.

Policy:

Beginning in FY 2020, the Accountant and Treasurer/Collector will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

K. PROCUREMENT AND PURCHASING POLICIES

K-1 Procurement and Purchasing Policy

Background:

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B, and other rstate laws.. The State Inspector General's office and Attorney General has oversight of public purchasing. There is a published a comprehensive guide to Chapter 30B requirements.

Policy:

The Town shall follow the guidance contained in the Inspector General's "*The Chapter 30B Manual: Procuring Supplies, Services and Real Property*" in order to comply with the requirements of M.G.L. Ch. 30B. To supplement this guidance, the Town Coordinator, or future Town Administrator, will develop a concise directive on purchasing procedures for department heads or others involved in Town purchasing or procurement. This will be accomplished by ______.

[The Assistant Town Administrator will provide additional input to this section by the end of June.]

L. INVESTMENT POLICIES

L-1 Investment Policy

Background:

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds. The investment policy shall be the incorporation of the allowed investments under the General Laws. The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks.

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

Policy:

The Treasurer/Collector is responsible for investing Town funds and will make all decisions regarding their management. The Treasurer/Collector shall invest Town funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer/Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer / Collector will submit a report of investments on a regular basis to the Town Administrator.

The balance invested in any one financial institution shall not exceed $10,000,000without the approval of the Town Administrator, and such balance exceeding shall be fully collateralized or secured through the FDIC or DIF.

References:

M.G.L. c. 44, §54 M.G.L. c. 44, §55 M.G.L. c. 44, §55A M.G.L. c. 44, §55B

Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

Creating an Investment Policy, Government Finance Officers Association Best Practice, October 2010.

Financial Management Assessment, Standard and Poor's, June 2006.

L-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations

Background:

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

Policy:

The Treasurer/Collector shall review post-issuance compliance procedures at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel or Financial Advisor.

M. DEBT

M-1 Debt Amortization

General Fund debt (all debt not including excluded debt, CPA-funded debt and enterprise debt) is to be amortized with equal or declining annual payments of principal and is to be fifty percent retired within ten years.

Enterprise debt may be amortized using equal annual payments of principal and interest and may be amortized over a term reflecting the economic useful life of the asset funded.

Excluded debt may be amortized using equal annual payments of principal and interest and may be amortized to "fit" (or to be wrapped around) current outside-the-levy-limit debt service.

CPA-funded debt may be amortized using equal annual payments of principal and interest.

CPA funds intended to pay debt service shall not exceed seventy five percent of the amount allowed for debt service for the particular purpose proposed.

M-2 Debt Service

General Fund debt service (all debt service not including debt service for excluded debt, CPA-funded debt and enterprise debt) should not exceed ten percent of the Operating Budget.

General Fund debt service should not be less than two percent of the Operating Budget. If General Fund debt service does fall below two percent, that difference between the two percent target and the actual debt service shall be used for pay-as-you-go capital or shall be appropriated to the Stabilization Fund or to unfunded OPEB liability.

Enterprise debt service should be paid entirely from enterprise service revenues.

Total debt service, including all General Fund debt, excluded debt, enterprise debt and CPA funded debt, should not exceed ten percent of the Operating Budget.

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N. RESERVES

Policy:

The Town intends to maintain funds in Free Cash and Stabilization Funds equal to at least 10 percent, but not more than 15 percent of the operating budget.

Free Cash and Stabilization Funds are to be used exclusively for one-time expenditures and pay-as-you-go capital projects and acquisitions. Special Stabilization Funds shall be established and used for funding specific capital projects and capital acquisitions as determined by the Board of Selectmen.

Enterprise Fund Retained Earnings are to be used primarily for one-time expenditures and pay-as-you-go capital projects and acquisitions. However, with the approval of the Board of Selectmen, Enterprise Fund Retaining Earnings can be used for rate stabilization purposes, as necessitated by a major capital project.