

# FINANCIAL FORECAST | TOWN OF WINDSOR

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A COMMUNITY COMPACT CABINET INITIATIVE

JANUARY 2019



**DLS**  
DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

**PREPARED BY:**

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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

January 29, 2019

Board of Selectmen  
Town of Windsor  
1890 Route 9  
Windsor, MA 01270

Dear Board Members,

I am pleased to present the enclosed financial forecast and set of financial policies for the Town of Windsor as part of the Baker-Polito Administration's Community Compact Cabinet initiative. This collaborative program strives to create clear mutual standards, expectations, and accountability for both the state and municipalities. It is my hope that our guidance provides direction and serves as a resource for local officials as we build better government for our citizens.

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

Sincerely,

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

Sean R. Cronin  
Senior Deputy Commissioner

*Supporting a Commonwealth of Communities*

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## INTRODUCTION

The Division of Local Services (DLS) Technical Assistance Bureau (TAB) has developed a five-year financial forecast for the Town of Windsor at the request of its board of selectmen. This project arose from the Community Compact Cabinet's initiative that encourages best practices in municipal government efficiency, accountability, and transparency. By projecting revenues and expenditures over multiple years, a forecast enables a municipality to evaluate the future impacts of fiscal policies and decisions. This best practice is an essential tool to guide budget processes that are forward looking, so as to avert potential deficits, promote long-term financial health, and strategize for capital investment and community development.

To fulfill Windsor's separate request for assistance in developing a capital improvement program (CIP), the forecast workbook we provide contains a CIP spreadsheet into which a local finance officer can enter capital project information. Also included in the workbook is a separate spreadsheet for making projections related to debt financing, which may be needed in the future for large capital projects. Additionally, we are providing the town with tailored policies on Capital Planning, Financial Reserves, Forecasting, Debt Affordability Analysis, and Debt Management. More CIP tools can be found on the DLS website at: <https://www.mass.gov/service-details/accounting-guidance-oversight-and-financial-management-publications>.

In early 2018, the town engaged the Berkshire Regional Planning Commission (BRPC) to compile a capital asset inventory and to survey residents and officials on desired capital projects. TAB's capital-related project materials are designed to integrate with the BRPC's deliverables to result in a well-rounded framework for the town's capital program.

## THE FORECAST WORKBOOK

The forecast itself is contained in a multitable Excel workbook accompanying this report. It is intended to provide an ongoing tool that can be managed and refreshed in Windsor with each new fiscal year. We recommend the board of selectmen delegate these responsibilities to a single individual designated as the local forecast analyst, whether that person is the finance committee chair, town accountant, or another appropriate official. This designee must have a user profile in the DLS Gateway system and knowledge of the various data reported in annual schedules to DLS. The forecast analyst should be the only individual maintaining a backed up copy of the Excel workbook, which can be distributed in pdf versions for discussion purposes.

Within the forecast workbook are captions stating where to find certain data in Gateway, as well as instructions for converting the workbook from one fiscal year to the next. There are separate

worksheet tabs for departmental expenditures, debt service, available funds (including free cash and other reserves), and various revenue categories (e.g., tax levy, state aid, etc.). Certain subtotal cells in these worksheets are linked to a *Summary* worksheet that displays discretionary funds available (surplus) or revenue gaps (shortfalls) in the general fund by fiscal year, as shown below.

## FORECAST SUMMARY

Town of Windsor

Summary of Projected Revenues and Expenditures

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>General Fund</b>						
<b>Revenues</b>						
Property Tax Levy	1,628,878	1,815,366	1,872,863	2,032,960	2,088,286	2,145,123
State Aid Cherry Sheet	234,951	237,635	240,387	243,207	246,098	249,061
Estimated Local Receipts	212,500	212,500	212,500	212,500	212,500	212,500
Available Funds/Other Financing Sources	378,457	-	-	-	-	-
<b>Total Revenues</b>	<b>2,454,786</b>	<b>2,265,502</b>	<b>2,325,750</b>	<b>2,488,667</b>	<b>2,546,884</b>	<b>2,606,684</b>
<b>Total Revenues Percentage Change</b>		-7.7%	2.7%	7.0%	2.3%	2.3%

<b>Expenditures</b>						
General Government	254,421	221,313	226,842	232,510	238,322	244,281
Public Safety	409,894	109,874	112,653	115,502	118,423	121,420
Education	1,076,006	1,112,579	1,131,651	1,151,280	1,171,303	1,191,726
Public Works	417,760	389,239	398,957	408,921	419,141	429,619
Health & Human Services	11,544	11,544	11,544	11,544	11,544	11,544
Culture & Recreation	5,750	5,908	6,070	6,237	6,409	6,585
Debt Service	-	70,000	70,000	176,487	171,138	165,790
Risk Management	45,000	46,890	48,859	50,911	53,049	55,277
Employee Benefits	100,951	103,674	112,073	121,208	131,148	141,964
Miscellaneous	34,000	34,000	34,000	34,000	34,000	34,000
Other Amounts Raised	50,311	8,095	8,129	8,164	8,200	8,237
State Assessments	1,149	1,152	1,155	1,158	1,161	1,164
Other Financing Uses	48,000	-	-	-	-	-
<b>Total Expenditures</b>	<b>2,454,786</b>	<b>2,114,268</b>	<b>2,161,933</b>	<b>2,317,921</b>	<b>2,363,838</b>	<b>2,411,607</b>
<b>Total Expenditures Percentage Change</b>		-13.9%	2.3%	7.2%	2.0%	2.0%
<b>General Fund Surplus/(Shortfall)</b>	<b>0</b>	<b>151,234</b>	<b>163,817</b>	<b>170,746</b>	<b>183,046</b>	<b>195,077</b>

	Balance 06/30/2018	Balance 06/30/2019	Balance 06/30/2020	Balance 06/30/2021	Balance 07/01/2021	Balance 07/02/2021
<b>Stabilization/Trust Fund Fiscal Year-End Balances</b>						
General Stabilization Fund (SF)	255,654	258,850	262,085	265,361	268,678	272,037
<i>General SF as Percentage of Budget</i>	10.4%	12.2%	12.1%	11.4%	11.4%	11.3%
Building SF	16,353	16,557	16,764	16,974	17,186	17,401
Vehicle SF	33,808	34,231	34,659	35,092	35,531	35,975
OPEB Trust Fund	5,000	5,063	5,126	5,190	5,255	5,320

On the following pages, we provide some background for the forecast and then describe the revenue and expenditure assumptions that went into creating it. The data source for all tables and charts in this report is the DLS Databank.



## **COMMUNITY PROFILE**

Windsor is a small, rural community with roughly 900 year-round residents and a FY2019 budget of \$2.4 million. The town supports a limited range of mostly part-time municipal services, including police, on-call fire, library, council on aging, and highway departments. In addition, Windsor partners with Becket, Cummington, Dalton, Hinsdale, Peru, and Washington to provide pre-k to 12 public education through the Central Berkshire Regional School District.

Like many towns its size, Windsor has no town administrator, and all of its financial officers work only part-time hours. In the absence of a related bylaw, responsibility for orchestrating the annual budget process has fallen to the finance committee chair. Historically, Windsor's budgets have been developed with only a year-in, year-out focus and little to no long-range strategizing nor systematic capital planning. Neither have there been formal or informal policies to consistently guide financial decision making.

Despite the lack of policies, the town typically adopts conservative annual budgets and makes appropriations to reserves in anticipation of capital and one-time needs, though without a consistent pattern. Along with a general stabilization fund and annually certified free cash, Windsor's reserves include separate stabilization funds dedicated to the capital needs of its vehicles and buildings. Upon this basic sound footing, local officials recognized the need to expand the reach and scope of the town's fiscal planning, particularly in light of upcoming goals to provide municipal broadband service and contribute funding to the construction of a proposed new high school.

## **THE FORECASTING APPROACH**

It is generally always advisable to forecast conservatively. In basic terms, this entails reviewing historical revenue and expenditure data trends, anticipating factors that may impact those trends going forward, analytically drawing assumptions, and then formulating projections that at least slightly underestimate revenues and overestimate expenditures. The degree of the over- and underestimations will be influenced by the analyst's review of the performance accuracy of prior-year forecasts, as well as evolving conditions related to the assumptions. These can include changes in laws, regulations, inflation rate, interest rate, town goals, and policy decisions.

The community must also determine a particular approach for projecting expenditures, either maintenance (level service), level funded, or by a specified increase or decrease percentage (either across the board or by department). A maintenance forecast projects the costs to sustain current levels of staffing and services into the future, and it typically must increase year to year due to inflation's impact. A level-funded forecast repeats the current year's appropriation amounts into

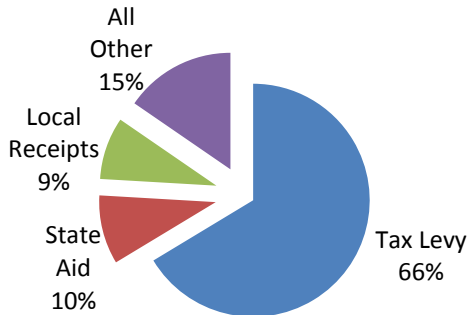
the subsequent years and has the effect of budget cuts for the same reason. In this case, the town must still cover inflation in mandated costs and other fixed expenses, usually at the expense of the general government operating budget.

A precise maintenance forecast requires service cost data that is more local and granular than would be available to us. The forecast we therefore developed for Windsor uses both maintenance and percentage change approaches depending on the type of expenditure being projected, as will be detailed further on.

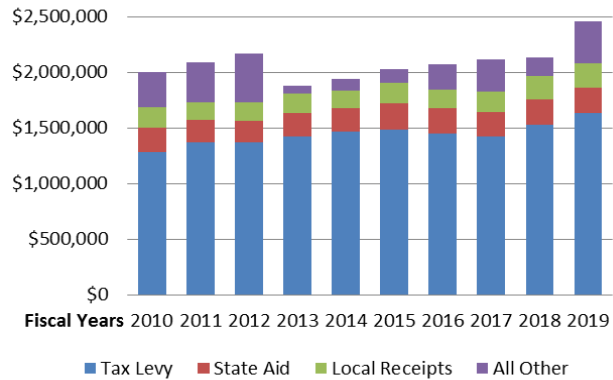
To be effective, a forecast must realistically represent the community's fiscal horizons based on reasonable assumptions that are continually reassessed and revised as circumstances change. Once a budget year's initial forecast is developed, follow-up decisions should be made in response to changes in projections. Any revenue increase could be applied to the operating or capital budget, diverted to reserves, or left unexpended and allowed to close to free cash at year-end. Conversely, any revised projection that increases expenses or decreases revenue may require difficult decisions to balance the budget. The rationale for any and all significant revisions in the forecast should be well documented and widely shared during the annual budget process.

## REVENUES ANALYSIS

*FY2019 REVENUE SOURCES*



*10-YEAR REVENUE TREND*

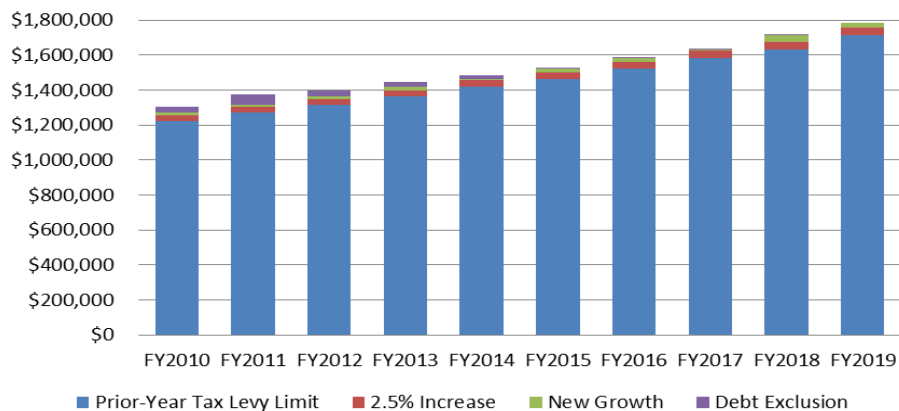


Windsor's budget derives from four revenue sources: the tax levy, state aid, local receipts, and available funds. The forecast workbook has separate worksheets for compiling and manipulating the data related to each of them, and those worksheets in turn contain subtotal cells directly linked to the forecast's *Summary* worksheet.

### TAX LEVY

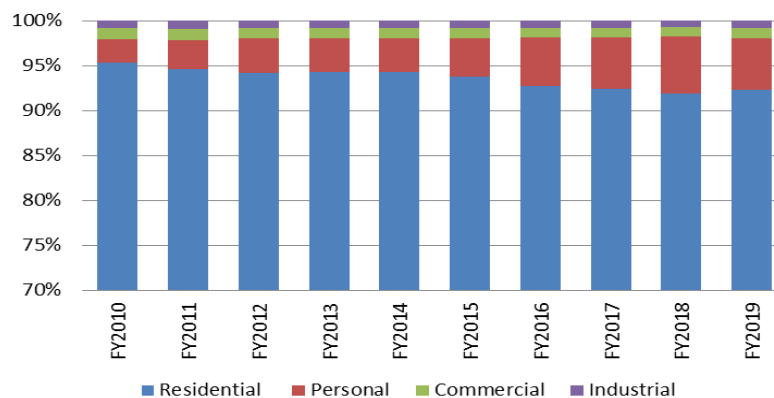
The tax levy is the revenue raised from real and personal property taxes. Under the Proposition 2½ statute, a community's tax levy limit automatically increases each year by 2.5%, plus an allowance for certain new construction and other additions to the tax base (i.e., new growth). A community may vote to increase its levy limit, either permanently through an override or temporarily through a debt, capital, or special purpose stabilization fund exclusion. From FY2010 to FY2019, Windsor's tax levy increased a total of \$346,462, or about 27%. In this period, only very small portions of the levies were attributable to various debt exclusions, and the last of these was paid off in FY2018.

*MAXIMUM ALLOWABLE LEVY*



There are four property classes that make up the tax levy: residential, commercial, industrial, and personal. The first three are based on real estate parcels, while the last consists of movable objects, such as business equipment and furniture. Although the residential class has and will continue to predominate in Windsor (92% of the FY2019 levy), in the last 10 years the town has experienced incremental growth in the personal property class, which increased from 2.67% of the total tax levy in FY2010 to 5.75% in FY2019. Nearly all of this expansion is attributable to one electric utility company, however.

*TAX LEVY BY CLASS*



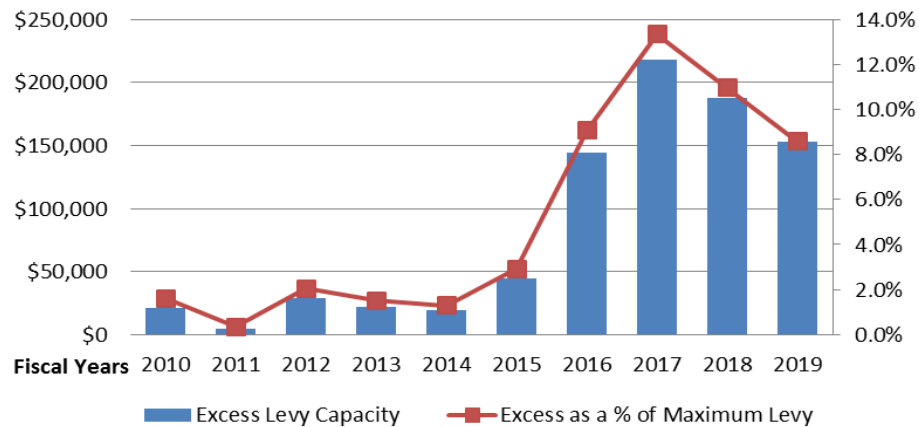
On an annual basis, local decision makers determine whether and how much to increase the tax levy within the maximum limit. The tax levy is then assessed to local property owners proportional to the value of their properties. Reviewing the average single-family tax bill is one useful way to assess the levy's impact on residents. The chart below shows how Windsor compares with the 10 towns that could be considered its closest peers, based on geographic region, economic base, resident income, equalized property value, and budget size.

Town	County	2015 Pop.	Pop. Density	2015 PC Income	2016 PC EQV	Total FY19 Budget	2019 Avg SF Tax Bill
Cummington	Hampshire	871	38	\$33,661	\$151,324	\$2,519,352	\$3,447
Leyden	Franklin	713	40	38,432	117,721	1,887,823	3,985
Montgomery	Hampden	859	57	33,573	124,999	2,060,319	3,596
New Salem	Franklin	999	22	25,681	107,573	3,429,508	3,792
Peru	Berkshire	845	33	18,598	102,532	2,375,473	3,531
Plainfield	Hampshire	652	31	20,339	133,067	2,378,616	3,710
Sandisfield	Berkshire	910	18	20,129	242,230	3,381,148	3,312
Savoy	Berkshire	677	19	26,155	103,725	2,101,881	2,425
Washington	Berkshire	535	14	24,357	156,298	1,722,127	3,428
Wendell *	Franklin	870	27	20,731	109,302	2,914,508	3,471
<b>Windsor</b>	<b>Berkshire</b>	<b>895</b>	<b>26</b>	<b>28,631</b>	<b>126,695</b>	<b>2,454,786</b>	<b>2,785</b>

\*Wendell's budget and average bill are for FY2018 because FY2019 was not available at the time of this report.

When a town elects to set its levy below the maximum allowable limit it results in excess levy capacity, which represents the taxes the community opted not to levy. As illustrated below, Windsor levied virtually to the maximum limit in FY2011, but the town's conservative budgeting in the last four years has allowed for substantial margins in excess levy capacity. For those years, Windsor's annual ratio of excess levy capacity to the maximum allowable levy averaged 10.5%.

*EXCESS CAPACITY AS A PERCENTAGE OF THE MAXIMUM ALLOWABLE LEVY*

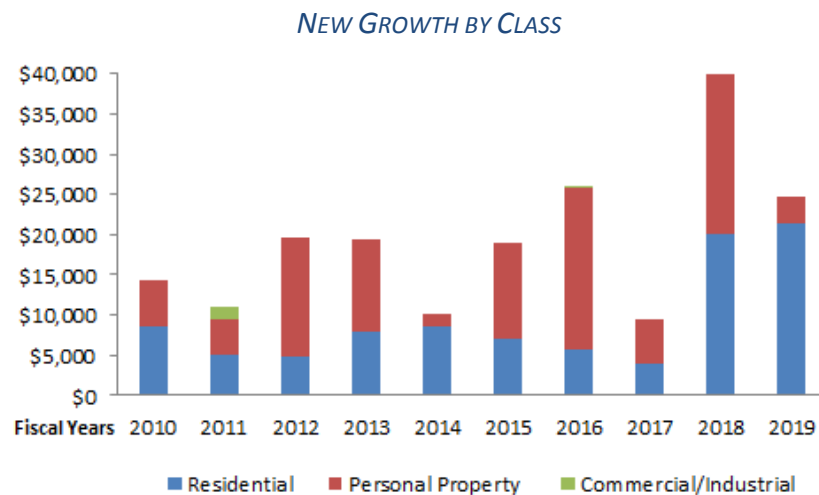


Having some excess levy capacity provides a degree of budget flexibility since it gives the town the ability to raise additional levy revenue in a future budget year without resorting to a Proposition 2½ override. How much excess levy capacity any given community decides to allow is influenced by factors such as budget size, reserve levels, debt load, and local fiscal policies. Statewide, the average proportion of excess levy capacity within the maximum allowable levy is about 3.5%. Among Windsor's peer group, it is 11.59%.

Town	Total FY18 Budget	FY18 Tax Levy	Excess Levy Capacity As % of Max Levy	Free Cash as of 7/1/18	FY17 Year-end Stab Funds	Reserves as % of Budget
Cummington	\$2,538,166	\$1,801,751	7.50%	\$234,314	\$828,468	41.87%
Leyden	1,822,161	1,469,241	19.30%	73,636	181,279	13.99%
Montgomery	1,998,622	1,444,024	15.35%	204,824	512,780	35.90%
New Salem	3,274,088	1,988,779	0.15%	811,924	696,331	46.07%
Peru	2,322,776	1,662,201	15.48%	347,722	320,910	28.79%
Plainfield	2,265,039	1,675,634	9.11%	281,924	609,490	39.36%
Sandisfield	3,606,799	2,878,645	5.48%	672,747	988,631	46.06%
Savoy	2,094,928	1,046,099	24.40%	195,438	292,680	23.30%
Washington	1,773,805	1,204,504	0.86%	91,780	200,325	16.47%
Wendell	2,914,508	1,955,862	18.86%	159,053	628,657	27.03%
<b>Windsor</b>	<b>2,129,841</b>	<b>1,527,580</b>	<b>10.95%</b>	<b>113,976</b>	<b>343,299</b>	<b>21.47%</b>
<b>AVERAGES</b>	<b>\$2,430,976</b>	<b>\$1,695,847</b>	<b>11.59%</b>	<b>\$289,758</b>	<b>\$509,350</b>	<b>30.94%</b>

The forecast's levy limit projections incorporate the annual 2.5% increases that are automatic under Proposition 2½. As for projections of the annual tax levy, the *Tax Levy* worksheet contains a formula tool that can set aside a percentage of the levy limit as excess levy capacity, and this is currently set at a conservative 5%.

**New Growth:** New growth is the additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year (excluding any increases caused by normal market forces or revaluations). In a residential-property-heavy community like Windsor, one generally expects new growth to be driven by construction and renovation of single-family homes, but for any particular snapshot in time, new growth is also affected by trends in the greater economy. Windsor's residential sector was significantly impacted by the Great Recession of 2008, and its recovery since then has been slow and inconsistent. Instead, personal property has accounted for the greatest share of new growth this past decade.



A look back at Windsor's 10-, five-, and three-year averages shows the most recent of these periods being particularly skewed by the growth in the electric company's personal property valuation. Thus, our forecast conservatively projects new growth at 75% (rounded) of the 10-year average.

*AVERAGE NEW GROWTH FOR THE LAST 10-, 5- AND 3-YEAR TIMESPANS*

Property Class	Last 10 Years	Last 5 Years	Last 3 Years
Residential	8,498	9,105	9,914
Comm & Ind	177	22	36
Personal	10,576	11,799	15,190
<b>Total NG</b>	<b>19,251</b>	<b>20,926</b>	<b>25,139</b>

Windsor's forecast analyst should be sure to update the new growth figures after the assistant assessor submits a Schedule LA-13 to DLS and receives notice of certification, which typically happens in September or October each year.

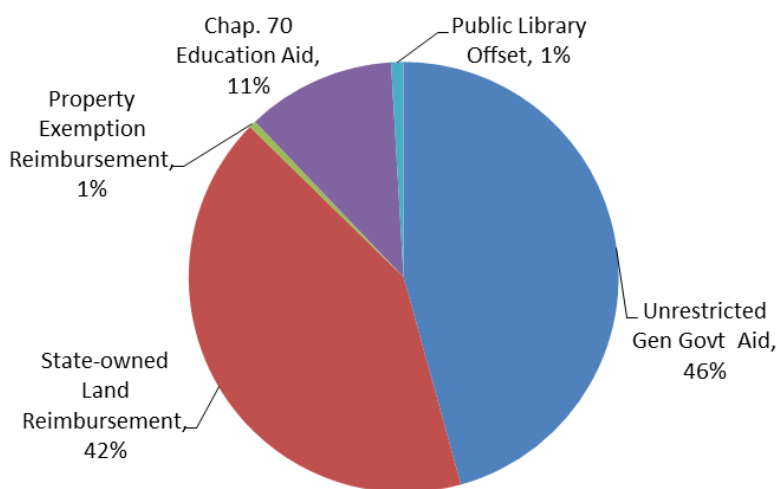
**Debt Exclusions:** Through a referendum vote, a community can assess taxes beyond the limits of Proposition 2½ for the purpose of paying a specific project's debt service costs. For the life of the debt issuance, its service cost is annually added to the tax levy after the levy limit is calculated. As mentioned earlier, Windsor's last remaining debt exclusion (for the Nessacus Middle School) was fully paid as of FY2018 year-end. If town meeting votes this spring to approve a debt exclusion for a new high school, this item will need to be filled in with projected annual debt service amounts.

## STATE AID

State or "local" aid is the assistance and reimbursement revenue that communities receive from state distributions. The DLS cherry sheets report local aid proposals for the forthcoming year, beginning with the Governor's budget to the legislature in late January and continuing through the spring and into June, when the House and Senate approve the final budget. Windsor's forecast analyst can revise the forecast's figures based on cherry sheet updates as they are posted here: <https://www.mass.gov/lists/cherry-sheet-estimates>.

Just two programs, Unrestricted General Government Aid (UGGA) and state-owned land reimbursements, account for 88% of Windsor's FY2019 local aid estimates.

### *FY2019 ESTIMATED STATE AID, \$234,951*



**UGGA:** The state distributes this general purpose assistance based on communities' populations and equalized property valuations. The last five years have borne out the Governor's commitment to maintaining annual UGGA increments above 3%. Consequently, the forecast projects this aid category with conservative 2.5% annual increases.

**State-owned Land:** Windsor receives this reimbursement as partial compensation for the unrealized tax revenue associated with the land parcels within its borders owned by the state. The reimbursement amounts are tied to the DLS Bureau of Local Assessment's biennial valuations (see more information at <https://www.mass.gov/service-details/state-owned-land-valuations>). We have level funded this revenue in the forecast.

**Chapter 70:** This is the educational aid communities receive based on complex formulas calculated annually by the Department of Elementary and Secondary Education. It comprises only 11% of Windsor's total state aid because of the town's membership in the Central Berkshire Regional School District, which gets its aid directly from state distributions. Consequently, all the Chapter 70 aid distributed to Windsor goes toward the tuition costs of the few students attending vocational school. This has been level funded in the forecast.

**Reimbursement for Property Exemptions:** Windsor receives full reimbursement for the revenues lost from the exemptions the town grants to qualifying blind, elderly, veteran or surviving spouse property owners. Being tied to the town's actual experience, these are relatively predictable amounts and therefore level funded in the forecast.

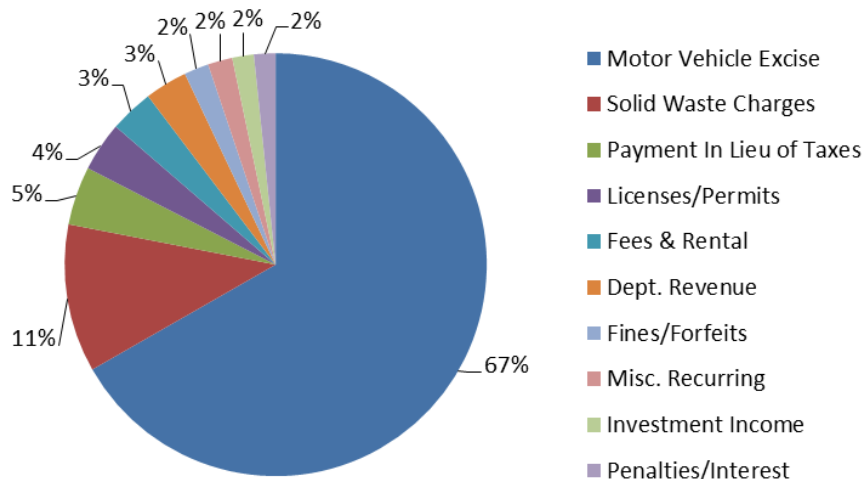
**Public Library Aid:** This aid offsets a corresponding local appropriation and is also level funded.

## **LOCAL RECEIPTS**

Local receipts are locally generated revenues other than real and personal property taxes, such as motor vehicle excises, penalties, interest, investment income, fees, rentals, and other charges. Generally reflective of the local economy's health, these receipts can have a significant negative impact on free cash. For this reason, the town should use extra caution in conservatively estimating them and closely monitor actual collection rates.

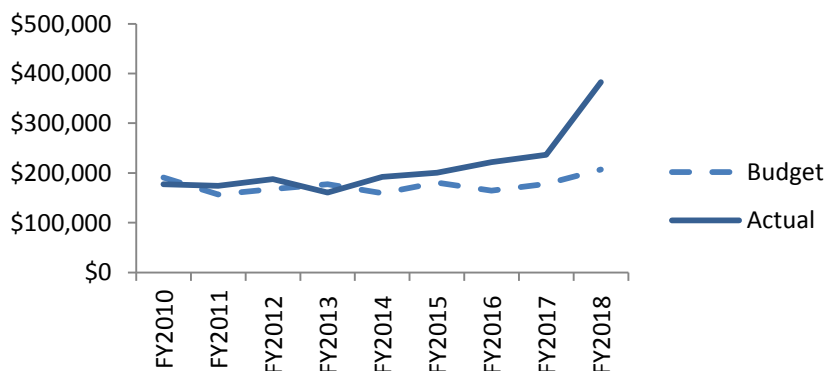


### *FY2019 ESTIMATED LOCAL RECEIPTS, \$211,000*



As illustrated by the budget and actual trend lines below, up until three years ago, Windsor was overly aggressive in annually estimating local receipts by projecting figures that were 95 to 99% of the prior year's actual revenues. (Note that the spike in the graph's final year, FY2018, resulted from a one-time revenue source.) For the last few years, the projections have been in a more prudent range of 87 to 89%, including for FY2019. For the forward years of the forecast, the various local receipt categories have been level funded.

### *LOCAL RECEIPTS: BUDGET VS. ACTUAL TREND*



### **AVAILABLE FUNDS / OTHER FINANCING SOURCES**

**Free Cash:** This represents the remaining, unrestricted funds from the previous fiscal year's operations, including prior unexpended free cash, actual receipts in excess of revenue estimates, and unspent amounts in budget line items. Before the town can appropriate free cash, DLS must

certify it based on the June 30 balance sheet submitted by the town accountant. Future free cash certifications are not included in the forecast as they cannot be projected and are not available for use until certified by DLS. After certification, the forecast analyst can add its usage to the forecast's current budget year in the *Available Funds* worksheet.

As a best practice, Windsor should avoid using free cash, stabilization funds, or any other nonrecurring revenue to pay any recurring operational expenditures (e.g., salaries, energy costs, service expenses, etc.). Instead, these funding sources should be used to provide flexibility for unexpected events or to pay one-time expenditures. In the absence of a reserves policy, as recently as FY2016, the town drew significantly from free cash and general stabilization to support its operating budget but has moved away from that practice in the years since.

**Stabilization Funds:** As allowed under [M.G.L. c. 40, § 5B](#) and stated previously, Windsor has three stabilization funds: general, vehicles, and buildings. The balances in these funds automatically carry forward from one fiscal year to the next, including earned interest. Since there is yet no town policy on annual reserve appropriations, none are projected in the forecast. The Financial Reserves policy we offer for consideration by the town includes suggested target levels for reserves based on researched best practices.

From FY2014 to FY2018, Windsor's ratio of combined reserves to budget averaged 23% annually. This substantial level is typical for a small town that does not have a history of financing capital projects with debt.

FY	Budget	Certified Free Cash		Available Stabilization Funds					Combined Reserves
		Free Cash	FC % of Budget	General	Bldg	Vehicle	Total SFs	SFs % of Budget	% of Budget
2014	\$1,942,335	\$122,101	6.29%	\$230,462	\$50,235	\$10,068	\$290,765	14.95%	21.26%
2015	2,029,854	177,575	8.75%	240,899	60,336	20,094	321,330	15.83%	24.58%
2016	2,068,069	257,046	12.43%	221,313	60,466	20,137	301,916	14.60%	27.03%
2017	2,117,604	206,361	9.75%	153,878	60,648	20,198	234,723	11.08%	20.83%
2018	2,129,841	113,976	5.35%	154,571	18,274	170,455	343,299	16.12%	21.47%
<b>Avg.</b>	<b>\$2,057,540</b>	<b>\$175,412</b>	<b>8.51%</b>	<b>\$200,225</b>	<b>\$49,992</b>	<b>\$48,190</b>	<b>\$298,407</b>	<b>14.52%</b>	<b>23.03%</b>

**Broadband Grant:** The *Available Funds* worksheet includes a line for the grant money the town anticipates receiving from the Federal Communications Commission (FCC). The FCC awarded a Connect America Fund grant to a group of Western Massachusetts communities for the purpose of offsetting the costs of building their own municipal broadband networks. Through this grant, Windsor will potentially receive \$87,700 per year for 10 years. However, the fiscal year cells of this

forecast line are currently blank because receipt of the funds depends on certain future conditions being met, as will be detailed further on.

**OPEB Fund:** At the May 1, 2017 annual town meeting, Windsor adopted [M.G.L. c. 32B, §20](#) to establish a trust fund for its other postemployment benefits (OPEB) liability. OPEB refers to the cost of the various insurance benefits owed to eligible employees once they retire. The size of Windsor's OPEB liability has not yet been determined by an actuarial study, but regardless of how few benefited employees and retirees the town has, it must still be comprehended and planned for. Although town meeting appropriated \$5,000 to the OPEB trust fund in both FY2018 and FY2019, in the absence of a stated policy, the forecast does not project any future OPEB appropriations.

**Overlay Surplus:** In the fall of every year, the board of assessors submits Schedule OL-1 to DLS, which provides a summary of the town's overlay reserve, including data on its gross balance, potential abatement liabilities, and any transfers to surplus. If the overlay balance exceeds the amount of potential liabilities, the board of selectmen may request that the assessing board vote to declare it as surplus and available for any lawful purpose ([DLS Informational Guideline Release 17-23](#)). Any unappropriated overlay surplus at the end of the fiscal year becomes free cash. Because Windsor does not routinely use overlay surplus as an available funding source, the forecast includes no projections of its availability or use.

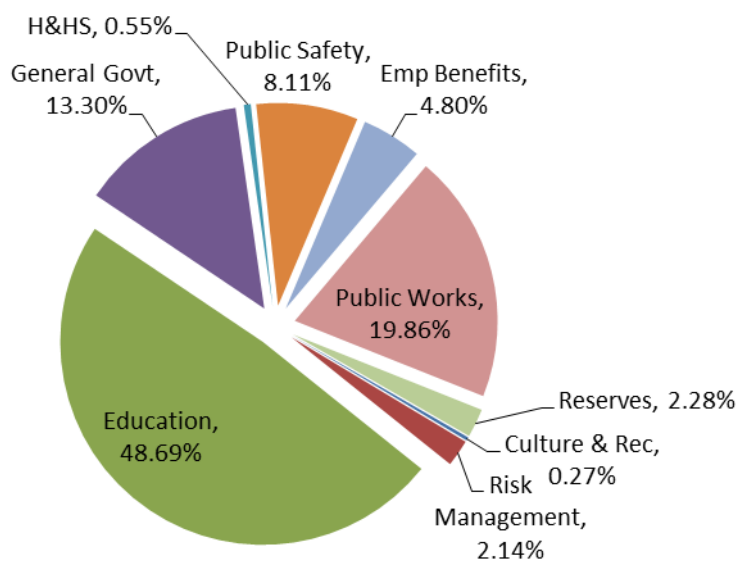
## **REVENUES SUMMARY**

Although the first future year of the forecast, FY2020, currently shows a 7.7% decrease in projected revenue from the amount budgeted in FY2019, this is somewhat deceptive because \$378,457 of FY2019's revenue (15% of the total budget) derived from the town's spending from its reserves. For Windsor, that was an atypically high level of reserves spending, and the next five years do not display any future use of reserves as a funding source given the town has no multiyear capital plan. Apart from that, the total revenues from the other three funding sources in FY2020 increased.

## EXPENDITURES ANALYSIS

Inclusive of votes taken at annual town meeting on May 7, 2018 and at special town meetings on September 25, 2017, December 4, 2017, June 25, 2018 and September 24, 2018, Windsor's FY2019 budget appropriations total \$2,454,786. This includes some appropriations approved at special town meetings for FY2018 but raised as revenue in the FY2019 tax rate.

*FY2019 BUDGETED EXPENDITURES BY CATEGORY*



### **A note on special town meeting articles:**

After DLS certifies the town's tax rate for any given year, town meeting voters may approve appropriation articles at special town meetings as supplements to the current year's budget through June 30. The town must then report such appropriations to DLS on the subsequent tax rate recapitulation sheet ("the recap"). To ensure the current budget year in the *Expenditures* worksheet balances with its recap, any prior-year special articles approved after the last tax rate certification should be included within the "Budget" year column in the appropriate budget line. For example, on December 4, 2017, special town meeting voted to buy a new fire truck for \$222,634. Since this action was not included in the FY2018 recap, it forms part of the \$301,228 amount listed for Fire Capital Outlay in the FY2019 Budget column.

The historical years of the *Expenditures* worksheet compile those years' actual spending and will therefore, conversely, include all expended monies arising from all appropriation articles approved through June 30 of that year, regardless of the recap reporting year. This data should be based on

reports of actual expenditures from the town's financial software application (currently SoftRight) and exclude any carryforward amounts.

## DEBT

Because the community has no outstanding long-term debt, the *Debt* worksheet contains just one projection, which is related to the pending broadband network. Although Windsor ultimately expects state and federal grant money to defray all or most of the cost of building the network, the town must borrow funds to start the project. Whereas the town has already received all of the state grant funds, it will not get any potential FCC money until after its network has been built out to 96% of the town's residences and businesses and after all the other grant communities' build-outs are also completed. Both conditions are not expected to be met prior to the end of FY2021.

The town's selected build-out contractor will begin work in the fall of this year. Windsor plans to obtain short-term notes through the State House Note Program to fund the cost of construction for the first two years. The short-term notes may be issued for a term of one year and renewed for another year from the date of issue of the original temporary loan without payment of principal. Mandatory principal payments are required in the third and subsequent years until the town obtains a serial note or pays the loan off in full.

In FY2022, the town will do a five-year, or possibly 10-year, serial note. In the event the anticipated FCC money is not forthcoming because the required conditions cannot be met, the town will not have an available revenue source to offset the additional property taxes raised under its already approved debt exclusion, and this would have a significant impact on property tax bills. Using the DLS Tax Impact Calculator (found here on our website: <https://www.mass.gov/service-details/financial-tools-calculators-and-templates>), the increases to the average single-family tax bill for the next five years would be:

FY2020	FY2021	FY2022	FY2023	FY2024
\$119	\$119	\$301	\$293	\$282

Because no principal payments will be required until year three of the project or until the town permanently borrows, for FY2020's and 2021's debt service amounts, we projected \$70,000 each, which represents 5% interest on annual short-term notes for town meeting's total debt authorization of \$1,390,500. For FY2022, 2023 and 2024, the forecast shows debt service amounts, respectively, of \$176,487, \$171,138, and \$165,790, representing the principal and interest costs of the first three years of serial notes using a level principal schedule. We calculated these figures using the Debt Service Calculator that is on the same DLS webpage linked in the paragraph above.

All of this only tells part of the story of Windsor's potential near-term debt service liability though, since residents will be asked this spring to approve a separate debt exclusion for a new high school. As soon as the Central Berkshire Regional School District provides Windsor with preliminary debt service figures, the forecast analyst should input them in the forecast and run each year's number in the Tax Impact Calculator as well.

### **CAPITAL IMPROVEMENT PLAN (CIP)**

The forecast includes a blank *CIP* worksheet that the forecast analyst can fill in after the Berkshire Regional Planning Commission completes its capital planning project. The individual departmental lines in the *CIP* worksheet each contain cells linked to the *Expenditures* worksheet.

### **AVAILABLE FUNDS / OTHER FINANCING USES**

This worksheet currently has no projections of future transfers to the town's three stabilization funds because there are no policies or practices dictating any transfers in the next five years. Like *Debt* and *CIP*, this worksheet also contains cells directly linked to the comprehensive *Expenditures* worksheet outlined below.

### **EXPENDITURES**

#### *Municipal Departments*

In the *Expenditures* worksheet, town departments are grouped by the state's reporting categories of General Government, Public Safety, Education, Public Works, Health & Human Services, and Culture & Recreation. Each category is further broken into separate budget lines for salaries, capital outlay, and expenses.

**Salaries (i.e., salaries and wages):** Windsor has no employees who are in unions or otherwise covered by classification/compensation schedules, in contrast to many other communities that can reference associated compensation tables to project salary increases. But in reviewing the last three years of the finance committee's budget proposals, it is evident that each year, the committee determines a cost-of-living adjustment (COLA) percentage to apply generally to the town's employees and compensated officials. Excluding any larger raises given to isolated individual appointees in any given year, the average COLA increase of those three years was 2.2%, and that is the factor we projected in the forecast.

**Capital Outlay:** Windsor has no formal definition for capital projects, such as five or more years of useful life and \$5,000 or greater in cost. In the absence of this, for the historical Capital Outlay data, we included any amounts spent for purposes that have multiyear financing, as well as any one-time purchases for expensive equipment intended to function for multiple years. We recommend that Windsor's capital improvement program include a specific capital project definition by which the town will then budget and detail those projects within the forecast's multiyear *CIP* worksheet.

The future years of the forecast contain no projections of Capital Outlay. The cells of the forward years of the forecast are linked to the *CIP* worksheet, so they will autofill with data after capital projects are entered in *CIP*, based on the results of the BRPC's capital project.

**Expenses:** For the various departmental budget lines in the *Expenditures* worksheet, there is a column that displays the average annual percentage change in expenditure amounts for the last four years. This trend indicator is a little misleading however, because the last of these years has budgeted amounts (for FY2019), whereas the figures in the other three years represent actual expenditures. Although the size of the individual departments' expense budgets and their trend percentages vary widely, for the forecast, we applied a 2.75% increase to each department, which is reflective of the 10-year average increase in the annual tax levy.

### Education

**Central Berkshire Regional School District (CBRSD):** Each year, the Department of Elementary and Secondary Education (DESE) determines the town's annual required net school spending (NSS) amount, which is the sum of Chapter 70 aid plus a required local contribution. DESE allocates the CBRSD member towns' required contributions based on each community's attributed foundation enrollment (i.e., the number of pupils it is financially responsible for as of October 1). Because the CBRSD consistently budgets above its required NSS requirement, member towns must provide supplemental assessments according to the CBRSD's incorporating agreement.

Based on DESE reports, Windsor's district enrollment numbers declined in each of the last seven years, and up until FY2019 the town's assessment declined along with it. However, per the regional agreement, operating assessments are based on five-year rolling enrollment averages, and the assessment for FY2019 went up by 1.8%. Consequently, we have conservatively projected the next five years with 2% annual increases.

Windsor has also been paying a separate, capital assessment to the district for the cost of some school building repairs. For FY2020, DESE has projected this assessment to be \$10,915. DESE will do new calculations for subsequent years based on the district's assessment formula, and so we have

level funded FY2021 through FY2024. If the town approves a debt exclusion for a new Wahconah High School, we advise the forecast analyst to carve out its annual debt service amounts from the total capital assessment and separately track them in the *Debt* worksheet.

**Vocational Schools:** Apart from the CBRSD's assessments, the town must also pay the tuition costs for students who opt to attend vocational schools. In FY2019, the per-student cost was about \$17,600, and the number of vocational students increased to six from the prior year's four. Because another vocational student is expected to be added next year, we increased this line item by \$17,600 for FY2020 and level funded the subsequent four years.

In total, Windsor's educational expenditures comprise 44% of its FY2019 budget. Even comparatively small fluctuations can have major impacts and therefore warrant close monitoring.

### *Risk Management*

Risk management encompasses casualty and liability insurances (including police and fire accident insurances), property and auto coverage, and public official bonds. This is projected to increase 4.2% annually, which represents 105% of the four-year average.

### *Employee Benefits*

**Group Insurance:** Windsor has budgeted to fund health, dental, and life insurance plans for three employees, with the town contributing 80% of the premium costs. Based on statewide trends in health care premium costs, this item is forecast to increase 10% annually.

**Medicare:** To comply with federal law, the town must pay Medicare taxes equal to 1.45% of the biweekly pay of all employees hired after April 1, 1986. This has been projected to increase 2.2% in each forecast year in correlation with the salary/wage projections stated previously.

**Retirement:** Windsor belongs to the Berkshire County Retirement System, and any permanent employee who works 20 hours or more per week must join it. The system's last actuarial analysis as of January 1, 2017 estimated it to be fully funded by 2028, based on a 7.25% assumed rate of investment return. Although that report capped systemwide appropriation increases at 4.7% per year, Windsor's average annual increase in the last four years was 6.6%. As a result, we project 7% annual increases.

**Unemployment Compensation:** Given the lean staffing in town and minimal history of claims, Windsor typically budgets this at \$2,000 annually, and we continue this allocation in the forecast.



**OPEB Fund:** The Government Accounting Standards Board's Statements [75](#) and [74](#) outline the requirements for accounting for and reporting (respectively) a government entity's OPEB liability. A first step in accounting for the liability is determining its total amount through an actuarial analysis, which the town has yet to do. No OPEB projections are included in the forecast. Given the small number of Windsor employees entitled to OPEB, we recommend the town commission an actuarial study and then subsequently consider paying for the liability in a lump sum, if feasible.

### Miscellaneous

This category exists to isolate any contracted services that may have limited duration or any other costs that do not fit a discrete departmental expense or capital budget line. Currently included is an annual expense for an independent audit, at \$14,000. Additionally included under Miscellaneous is the finance committee's reserve fund, budgeted annually at \$20,000.

### State Assessments

State assessment expenditures applicable to Windsor include the following:

- The town indirectly reimburses the Registry of Motor Vehicles for marking the licenses and registrations of residents who have not paid excises or fines. Based on a three-year trend, this has been level funded.
- The fee the town pays to the state for air pollution control is projected to increase annually by 1%, also based on the trend of the last three years.
- Windsor's regional transit assessment has recently been a very negligible amount of roughly \$100 or less annually, and the town did not budget for it for FY2019. Likewise, no amount is projected for the next five years.

### Other Amounts to be Raised

Typically raised on the tax rate recap rather than through operating budgets, these items encompass the following:

- Overlay: FY2018 was a property value recertification year that resulted in significant value increases, and as a result, the board of assessors increased the FY2019 overlay amount by 57% to 7,140. The forecast reverts to the FY2018 overlay amount of \$4,540 for next five years, but this item should be reviewed and revised as appropriate in reference to abatement filing activity.

- Cherry sheet offset: This corresponds to the state aid received for the Windsor Free Public Library and has been level funded.
- Deficits and court judgments: These are not forecasted and would need to be included should anything materialize.

## **EXPENDITURES SUMMARY**

Windsor local officials reviewing this forecast will note that its first future year (FY2020) shows an overall drop in total projected expenditures from FY2019 of \$340,758, or roughly 14%. This amount should be considered an incomplete projection for various reasons. Firstly, it includes no cash capital spending amount due to the lack of a multiyear capital plan. This contrasts with \$379,228 spent on capital purposes in FY2019 and last four years' annual average of \$152,153. Also missing from the FY2020 projections and beyond are any appropriations to reserves, which averaged \$104,000 annually over the last four years. We hope the town will continue carving out a portion of each year's budget for reserves, but in the absence of a related policy, we made no such projections. Most importantly, the expenditure projections will need to be revised after Windsor's budget decision makers get more definitive data about the costs of the broadband and high school projects.

## FORECAST ASSUMPTIONS TABLE

REVENUES:																	
Levy	<ul style="list-style-type: none"><li>▪ Levy limit increases at 2.5% each year.</li><li>▪ Excess levy capacity is set at 5% of maximum levy amount annually.</li><li>▪ New growth is estimated at 75% (rounded) of the 10-year average.</li></ul>																
State Aid	<ul style="list-style-type: none"><li>▪ Chapter 70 is level funded.</li><li>▪ UGGA increases 2.5% annually.</li><li>▪ State-owned land, property exemption, and library aid are all level funded.</li></ul>																
Local Receipts	<ul style="list-style-type: none"><li>▪ Level funded.</li><li>▪ Estimates for any budget year should not exceed 90% of the previous year’s actual receipts without a specific rationale.</li></ul>																
Available Funds / Other Financing Sources	<ul style="list-style-type: none"><li>▪ Free cash certifications are not projected.</li><li>▪ Stabilization funds show available balances based on activity through June 2018, and they are not projected as funding sources for future expenditures.</li><li>▪ The forecast should be updated if and when the town is notified it will receive the FCC broadband grant funding.</li><li>▪ There are no projections of overlay surplus or the OPEB trust fund as funding sources.</li></ul>																
EXPENDITURES:																	
Debt Service	<ul style="list-style-type: none"><li>▪ Broadband Build-out debt service projected as follows:<table><tr><td></td><td>FY2020</td><td>FY2021</td><td>FY2022</td><td>FY2023</td><td>FY2024</td></tr><tr><td></td><td>\$70,000</td><td>\$70,000</td><td>\$176,487</td><td>\$171,138</td><td>\$165,790</td></tr></table></li></ul>						FY2020	FY2021	FY2022	FY2023	FY2024		\$70,000	\$70,000	\$176,487	\$171,138	\$165,790
	FY2020	FY2021	FY2022	FY2023	FY2024												
	\$70,000	\$70,000	\$176,487	\$171,138	\$165,790												
CIP	<ul style="list-style-type: none"><li>▪ Not projected at this time pending the results of BRPC’s capital project work</li></ul>																
Available Funds / Other Fin. Uses	<ul style="list-style-type: none"><li>• No projections of reserve appropriations</li></ul>																
Departmental Salaries	<ul style="list-style-type: none"><li>▪ 2.2% annual increases</li></ul>																
Departmental Expenses	<ul style="list-style-type: none"><li>▪ 2.75% annual increases</li></ul>																
Departmental Capital Outlay	<ul style="list-style-type: none"><li>▪ Not projected at this time pending the results of the BRPC’s capital project work</li></ul>																
Education	<ul style="list-style-type: none"><li>▪ CBRSD operating assessment is projected to increase 2% annually.</li><li>▪ Vocational tuition is projected to increase by \$17,600 in FY2020 and level funded thereafter.</li></ul>																
Risk Management	<ul style="list-style-type: none"><li>▪ 4.2% annual increases</li></ul>																
Employee Benefits	<ul style="list-style-type: none"><li>▪ Group insurance is projected to increase 10% annually.</li><li>▪ Retirement is projected to increase 7% annually.</li><li>▪ Medicare is projected to increase 2.2% annually in line with salary/wage projections.</li><li>▪ Unemployment compensation budgeted at \$2,000 annually.</li><li>▪ No projections of OPEB appropriations</li></ul>																
Miscellaneous	<ul style="list-style-type: none"><li>▪ Finance committee reserve fund is level funded.</li><li>▪ Independent audit is also level funded.</li></ul>																

State Assessments	<ul style="list-style-type: none"> <li>▪ RMV is level funded.</li> <li>▪ Air pollution is forecast to increase 1% annually.</li> <li>▪ No regional transit projections</li> </ul>
Other Amounts To Be Raised	<ul style="list-style-type: none"> <li>▪ The overlay is level funded at the FY2018 amount, \$4,540.</li> <li>▪ Cherry sheet offset for the library is level funded.</li> <li>▪ No projections of deficits or judgments</li> </ul>

## APPENDIX

On the following pages are financial policy drafts offered for adoption in Windsor. They were developed based on researched best practices, as well as TAB's experience in communities similar to Windsor. Each policy topic contains some provisions enclosed in brackets to indicate decision points. An example taken from the Capital Planning policy is: "A capital improvement is a tangible asset or project estimated to cost over [\$5,000] and to have or to extend [five] or more years of useful life." In these cases, local officials should finalize the decisions and remove the brackets prior to adopting the policies.



# WINDSOR MASSACHUSETTS

## FINANCIAL POLICIES MANUAL







## CAPITAL PLANNING

### PURPOSE

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

### APPLICABILITY

This policy establishes a framework for long-term capital improvements, sets guidelines and expectations for all Town departments in planning for and requesting capital projects, and outlines consensus budgetary goals for the Board of Selectmen and Finance Committee. It also applies to related job duties of the Town Accountant.

### POLICY

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

The [Finance Committee] is charged to oversee Windsor's capital improvement program. This involves identifying and prioritizing projects, analyzing funding, and creating a long-term financial plan achievable within the Town's budget limitations.

#### A. Definition of a Capital Improvement

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

- Real property acquisitions and construction
- Long-life capital equipment
- Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
- Major improvements to physical infrastructure, including streets, sidewalks, and stormwater drains
- Planning, feasibility studies, and designs for potential capital projects
- Items obtained under long-term capital leases
- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years and aggregated cost exceeding the [\$5,000] capital threshold.

#### B. Inventory

To support a systematic acquisition and replacement schedule, the Town Accountant will maintain and annually update a detailed inventory of all capital assets, which shall include dates built, acquired or last improved, original costs, current conditions, expected and remaining useful lifespans, depreciated values, extent of use, and any scheduled replacement or expansion dates.

The Town Accountant will provide the capital asset inventory to the Finance Committee when requested as part of the annual budget process.

C. Evaluation of Capital Projects

The [Finance Committee Chair] will annually solicit capital project requests from department heads. The Finance Committee will then evaluate and prioritize the requests using the criteria below:

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

D. Multiyear Capital Improvement Plan

As part of the annual budget process, the [Finance Committee] will update the five-year capital improvement plan (CIP) in the Town's forecast workbook and use it to make budget recommendations. Based on departmental submissions and the forecast, the Finance Committee will create a Capital Plan Report that includes the proposed upcoming fiscal year's capital budget and a four-year projection of capital needs and expenditures with project descriptions, estimated costs, and anticipated funding sources. The Finance Committee will share a draft of the report with the Board of Selection and present a final version to town meeting.

E. Capital Financing

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

In accordance with Windsor's Financial Reserves policy, as targeted reserves for the CIP, the Town will maintain one special purpose stabilization fund for vehicles and another for buildings. Doing this provides the Town with flexibility to pay outright for moderate-range capital expenditures while preserving debt capacity for major, higher-dollar purchases or projects.

Annually, the Town will gradually increase the portion of the annual budget spent on capital investment allocations with the goal of achieving and maintaining a funding level of [three to five] percent of the general fund operating budget, net of debt. Funding shall be derived from a combination of property taxes and the general and special stabilization funds.

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

- Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.

- Before any long-term, bonded capital project is recommended, the project's annual operating costs and debt service costs shall be identified.
- Short-term debt may be used to fully finance purchases with useful lifespans of less than 10 years.
- In accordance with Windsor's debt policy, the Town will restrict long-term debt funding to projects with lifespans greater than 10 years and costs exceeding \$100,000.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.
- Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.

**REFERENCES**

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 33B](#)

Windsor policies on Financial Reserves, Forecasting, Debt Affordability Analysis, and Debt Management

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

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

**EFFECTIVE DATE**

This policy was adopted on [date].

## DEBT AFFORDABILITY ANALYSIS

### PURPOSE

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

### APPLICABILITY

This policy applies to the Treasurer's debt analysis responsibilities. It further applies to the Board of Selectmen and Finance Committee in their budget decision-making duties.

### BACKGROUND

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

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

### POLICY

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

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

#### A. Debt Affordability Factors

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

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

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

#### B. Benchmarking and Reporting

The Treasurer will use the debt ratio data to benchmark Windsor in comparison to peer communities. Using the DLS Databank's [Community Comparison](#) report, the Treasurer will first determine Windsor's peers based on factors such as population, general fund budget, equalized valuation per capita, income per capita, average single-family tax bill, geographic region, and population density. Note that in January 2019, the DLS Technical Assistance Bureau's five-year forecast for Windsor listed Cummington, Leyden, Montgomery, New Salem, Peru, Plainfield, Sandisfield, Savoy, Washington, and Wendell as peers for the Town.

Using the Community Comparison and other Databank reports, the Treasurer will calculate the current debt ratios listed in Section A for each community in the peer group. The Treasurer will then write a debt affordability report with an analysis summary and provide it to the Board of Selectmen.

#### C. Decision Making

The Board of Selectmen will review the Treasurer's report and consider the feasibility of financing projects through the State House Note Program or general obligation bonds. Factors to assess include the Town's ability to pay for annual audits and other necessary related financial costs.

The Board of Selectmen will vote to share the results of its analysis with the Finance Committee. The Finance Committee will review information and make a recommendation to the Board of Selectmen. The Board of Selectmen will then determine whether or not to include an article for a debt authorization in a town meeting warrant. Both boards will review and comply with the separately adopted Debt Management policy before recommending or rejecting any debt authorization proposal.

#### REFERENCES

[M.G.L. c. 41, § 59](#)

[M.G.L. c. 41, § 61](#)

[M.G.L. c. 44, § 4](#)

[M.G.L. c. 44, § 6](#)

[M.G.L. c. 44, § 6A](#)

[M.G.L. c. 44, § 7](#)

[M.G.L. c. 44, § 8](#)

[M.G.L. c. 44, § 17](#)

[M.G.L. c. 44, § 19](#)

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 21A](#)

[26 USC § 148](#)

Windsor policies on Debt Management and Capital Planning

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

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

#### EFFECTIVE DATE

This policy was adopted on [date].

## **DEBT MANAGEMENT**

### **PURPOSE**

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

### **APPLICABILITY**

This policy applies to the Board of Selectmen's and Finance Committee's budget decision-making, the Treasurer's debt management responsibilities, and Town Accountant's annual reporting duties.

### **POLICY**

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt.

#### **D. 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.

#### **E. Debt Limits**

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to [10] percent of general fund revenues.
2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

#### **F. 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 building or infrastructure projects, 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.

#### G. 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.

#### H. Protection of Bond Rating

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

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

#### I. Reporting

1. The Treasurer/Collector will report to the Board of Selectmen and Town Accountant on the Town's debt status at least annually.
2. The Town Accountant will include an indebtedness summary as part of a report on receipts and expenditures in Windsor's Annual Town Report.
3. Town Accountant, with the Town's financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

#### REFERENCES

[M.G.L. c. 41, § 59](#)

[M.G.L. c. 41, § 61](#)

[M.G.L. c. 44, § 4](#)

[M.G.L. c. 44, § 6](#)

[M.G.L. c. 44, § 6A](#)

[M.G.L. c. 44, § 7](#)

[M.G.L. c. 44, § 8](#)

[M.G.L. c. 44, § 17](#)

[M.G.L. c. 44, § 19](#)

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 21A](#)

[26 USC § 148](#)

Windsor policies on Debt Affordability Analysis and Capital Planning

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

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

Government Finance Officers Association Best Practices: [\*Refunding Municipal Bonds\*](#)

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

**EFFECTIVE DATE**

This policy was adopted on [date].



## FINANCIAL RESERVES

### PURPOSE

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

### APPLICABILITY

This policy pertains to the short- and long-range budget decision-making duties of the Board of Selectmen and Finance Committee. It also applies to the related job duties of the Town Accountant and Board of Assessors. It applies to three types of reserves: free cash, stabilization funds, and overlay surplus.

### POLICY

The Town is committed to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall general fund reserves in the level of [12 to 17] 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.

#### A. Free Cash

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

To generate free cash, the Finance Committee will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. As much as practicable, the Town will limit its use of free cash to funding one-time expenditures (such as emergencies, capital projects, or snow and ice deficits).

The Town shall set a goal of maintaining its year-end unappropriated free cash balance in the range of [three to five] percent of the annual general fund budget. The Town will appropriate the excess above this target range to build 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. As detailed below, the Town has three active stabilization funds, each of which is accounted for and reported as a trust fund, regardless of its use.

**General Stabilization:** The Town will endeavor to maintain a minimum balance of [five to eight] percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the [five] percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Further, the Finance Committee will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

**Building Stabilization and Vehicle Stabilization:** The Town will annually appropriate into these two funds until the balance in each can be maintained at [two to four] percent of the general fund operating budget. By sustaining funding in this reserve, the Town can balance debt with pay-as-you-go practices and protect against unforeseen costs

### C. Overlay Surplus

The purpose of the overlay reserve is to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. Each year as part of the budget process, the Board of Assessors will vote to authorize a contribution to the overlay account, which the Town will raise on the annual tax recapitulation sheet. The contribution amount shall be based on the following:

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

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Accountant and Board of Selectmen an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare that balance as surplus and available for use in the Town's capital improvement plan or for any other one-time expense.

### REFERENCES

[M.G.L. c. 40 §5B](#)      [M.G.L. c. 59 §25](#)      [M.G.L. c. 44 §53F½](#)

Windsor Capital Planning policy

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

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

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

### EFFECTIVE DATE

This policy was adopted on [date].

## FORECASTING

### PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for evaluating revenue sources and determining expenditure strategies as part of the annual budget process and longer range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

### APPLICABILITY

This policy applies to the Board of Selectmen and Finance Committee in their budget analysis and decision-making responsibilities. It also applies to the job duties of the Town Accountant and to the managers of all revenue-generating departments.

### POLICY

#### A. Revenue Guidelines

The Town will continuously seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, overlay surplus, legal settlements, and insurance proceeds. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- [General stabilization fund]
- [Vehicle stabilization fund]
- [Building stabilization funds]
- [Cash capital budget]
- [OPEB Trust Fund]
- [Other]

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Finance Committee may recommend a budget that uses free cash for operational appropriations. For the subsequent year, the Finance Committee must then develop an action plan with the Town Accountant to avoid continued reliance on one-time revenues.

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

- Sale of real estate: [M.G.L. c. 44, § 63](#) and [M.G.L. c. 44, § 63A](#)

- Gifts and grants: [M.G.L. c. 44, § 53A](#) and [M.G.L. c. 44, § 53A½](#)

This policy further entails the following expectations regarding revenues:

- The Assessing Department will maintain property assessments for the purpose of taxation at full and fair cash value as prescribed by state law.
- Town departments that charge fees will annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs.
- The Building Inspector will notify the Board of Selectmen of any moderate-to-large developments that could impact building permit volume.
- Department heads will seek out all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.

#### B. Expenditure Guidelines

Annually, the Town will determine a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

Under any chosen approach, the Finance Committee's expenditure projections will consider cost-of-living adjustments for the wages, salaries, or stipends of town employees and officials, none of whom are subject to collective bargaining agreements or established compensation plan tables.

#### C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the [Finance Committee Chair] will annually create a detailed budget forecast, including a five-year projection of revenues and expenditures for all operating funds. These forecasts will be used as planning tools in developing the following year's operating budget and the five-year capital improvement plan. The [Finance Committee Chair] will provide the forecasts to the Finance Committee and Board of Selectmen for use in their budget decision making.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid will be conservatively based on historical trend analyses and will use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., motor vehicle excise, inspection fees, license fees) should generally not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.

Additionally, the Town's forecast model should assume that:

- The Town's current level of services will provide the baseline for projections.
- Property taxes (absent overrides) will grow at the limits of Proposition 2½.
- New growth will be projected conservatively, taking into account three-, five-, or 10-year averages by property class.
- Local receipts and state aid will reflect economic cycles.
- Historical trends in the growth of specific operating expenses and employee benefits will prevail.
- All debt service obligations will be paid, and the Town's Capital Planning and Debt Management policies will be followed.
- Annual pension contributions will continue, and the Town will make appropriations to amortize its other postemployment benefits liability.
- Reserves will be built and maintained in compliance with the Town's Financial Reserves policy.

**REFERENCES**

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 53A](#)

[M.G.L. c. 44, § 53A½](#)

[M.G.L. c. 44, § 63](#)

[M.G.L. c. 44, § 63A](#)

Windsor policies on Capital Planning, Debt Management, and Financial Reserves

DLS Best Practice: [Revenue and Expenditure Forecasting](#)

DLS Informational Guideline Release 17-21: [Borrowing](#)

Government Finance Officers Association article: [Structuring the Revenue Forecasting Process](#)

**EFFECTIVE DATE**

This policy was adopted on [date].