

TOWN OF EASTON
FINANCIAL MANAGEMENT GUIDELINES



AS ADOPTED BY THE BOARD OF SELECTMEN ON AUGUST 8, 2016

Table of Contents

Financial principles	4
Financial planning	5
Revenue budgeting	5
<ul style="list-style-type: none">• Property taxes• Motor excise taxes, hotel room occupancy taxes, inspectional services permits, investment\income• Unrestricted state and federal aid• Transfers from other funds• Free cash	
Expenditure budgeting	7
<ul style="list-style-type: none">• Salaries and wages• Employee benefits• Pension contribution• Other post-employment contribution• Energy and utilities• State and county charges• Property and liability insurance• Snow and ice control• Debt service• Capital outlay and improvements	
Financial contingencies and reserves	8
<ul style="list-style-type: none">• The stabilization fund• Capital stabilization fund• Other post-employment benefits trust fund	
Cash management and investments	9
Risk management	9
<ul style="list-style-type: none">• Property insurance• Vehicle insurance• Liability insurance• Crime/employee dishonesty• Workers compensation• Group health insurance	
Official and officer compensation	10
Procurement	10

Capital planning	10
Financial reporting	11

TOWN OF EASTON, MASSACHUSETTS FINANCIAL MANAGEMENT GUIDELINES

The government of the Town of Easton exists to provide quality community services to residents, businesses and visitors to the Town. Governmental services that benefit all or substantially all community stakeholders are financed principally from the local property tax and accounted for in the Town's General Fund. Business-like services that benefit distinct segments of the population are financed principally from user fees and charges and are accounted for in enterprise and special revenue funds.

Budgets are used for planning and accountability purposes. Formal fixed budgets, developed by the Town Administrator and recommended by the Board of Selectmen for Town Meeting approval, are used for all governmental and business-like services.

Financial principles: The Town of Easton is committed to sound financial policies that meet long-term needs, lead to a balanced operating budget, and maintain our Aa3 bond rating from at least one national rating agency. The following fundamental financial principles guide these financial management guidelines:

- **Balanced Budget** — The Town is committed to the financial principle of a balanced budget.
- **Financial Planning** — The Town will follow financial planning processes that assess the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, and programs.
- **Asset Management** — The Town is committed to inventorying and assessing the condition of all major assets in order to plan for the ongoing financial commitments required to maximize the public's benefit.
- **Fees and charges** — The Town is committed to identifying the manner in which fees and charges are set and reviewing such fees annually.
- **One-time revenues** — The Town discourages the use of one-time revenues for operating expenses.
- **Unpredictable revenues** — The Town will identify the expected volatility of revenue sources and develop allocation actions or contingency plans when one or more revenue sources are substantially higher or lower than projected.
- **Debt capacity, issuance and management** — The Town is committed to using debt appropriately and having an appropriate amount of debt outstanding and debt service at any time.

- Revenue and stabilization accounts — In accordance with the Town’s fund balance policy, the Town will maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes or fees due to unforeseen revenue fluctuations, unanticipated expenditures or other similar circumstances.
- Expenditure accountability — The Town will compare actual expenditures to budget on a quarterly or more frequent basis and decide on actions to bring the budget into balance if necessary.
- Inter-period equity in the financing of long term liabilities — The Town will match debt terms associated with capital debt with the projected useful life of related capital assets.

These financial management guidelines describe the policies and practices that the Town Administrator and the Board of Selectmen will follow when developing financial forecasts, operating budgets, insurance and reserve policies, capital plans, financial reports, compensation practices and other financial decisions. While the Town Administrator and the Board of Selectmen expect to follow these guidelines, the Town Administrator has the authority and responsibility to recommend the allocation of financial resources in the manner in which he or she determines best meets the needs of the Town, and Town Meeting has the authority and responsibility to confirm or reject those financial allocations.

The Town Administrator will recommend to the Board of Selectmen modifications to these guidelines, policies and practices when appropriate.

Financial planning: The Town will update annually the Town's General Fund multi-year financial forecast. Revenue estimates and expenditure assumptions for the annual budget will be developed by the Town Finance Team.

The multi-year forecast will be revised each year following the setting of the tax-rate and shall include actual revenue and expenditures for **the previous** fiscal year; the current year budget; and complete operating and capital expenditure and revenue projections for the next three fiscal years, and shall be structured around major revenue and expenditure classifications in the Town's accounting system chart of accounts.

Revenue budgeting: General Fund revenue financial forecast estimates will be modified from the guidelines below when necessary to take into consideration unusual economic conditions, recent trends and anticipated state aid.

- Property taxes — The Town expects to annually levy property taxes up to the statutory limit imposed by Proposition 2 1/2. Projected new growth will be estimated by the Chief Assessor by evaluating currently approved building projects and historic data. The allowance for exemptions and abatements will be budgeted at an amount between 0.75% and 1.0% of the gross property tax levy. Should the amount budgeted fall below 0.75%, it shall only be under circumstances where the amount budgeted is not less than the prior year’s allowance as long as that allowance was sufficient.

- Motor excise taxes, the local option meals tax, inspectional services permits, investment income and all other local non-tax revenue will be estimated based on the prior year actual, adjusted for recent trends and forecasted changes.
- State and federal aid — State "Cherry Sheet" aid will be estimated based upon the most recent information posted on the Massachusetts Department of Revenue website, or, in the absence of any such information, the Town Administrator's best estimate of the probable amount of such state assistance for the next fiscal year. All other state and federal aid will be estimated based upon actual revenues for the most recent fiscal year, adjusted for any known changes in reimbursement policies and rates.
- Transfers from other funds — Reimbursements to the General Fund for the administrative and support services provided to other self-supporting funds will be based upon an annual analysis of the estimated value of such administrative and support services to the other funds. Under no circumstances shall the dollar amount of any reimbursement exceed the estimated value of services provided by the General Fund to the other self-supporting funds, in accordance with state law.
- Free Cash — Free Cash represents the accumulated difference of unrestricted funds between General Fund revenues and expenditures, on a cash basis of accounting. The Town expects to generate a limited amount of Free Cash which comes from unanticipated actual revenues in excess of revenue estimates (including overlay surplus), unexpected unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year.

It is the intent of the Town to use Free Cash in the following manner:

- A minimum of 25% of the annual certified free cash balance will be transferred to the stabilization account until reserves (stabilization plus free cash) reach 10% of general fund expenditures in accordance with the fund balance policy as measured concurrently with the setting of the tax-rate.
- A maximum of 50% of the annual certified free cash balance will be set aside to fund the following year's operating budget. Every effort will be made to minimize this use of free cash. In unusual economic circumstances, an additional portion of Free Cash may be used for the ensuing year's School or municipal operating budget.
- Any remaining free cash will be used to fund capital expenditures, one-time expenses, or for supplemental appropriations necessary during the year.
- When reserves (free cash plus stabilization) reach the 10% level in accordance with the fund balance policy, free cash will be transferred to other reserve accounts such as the Capital Stabilization Fund and the OPEB trust fund.

Expenditure budgeting: It is the goal of the town to prepare expenditure budget estimates that will be sufficient to address not less than 100% of projected operating requirements of the various departments of the Town.

- Salaries and wages — Budgeted salary and wage appropriations will be sufficient to fund all full-time and permanent part-time positions at the appropriate union contract or non-union compensation plan rates for the new fiscal year. General Fund employee salaries and wages that are expected to be partially funded in the General Fund will be noted in the departmental budget. In the event that salary rates are not known at the time that the budget is being prepared, all salary and wages will be budgeted at current rates and provisions will be made for future wage and salary increases as part of the employee benefits and insurance budget. Public safety overtime will be analyzed annually, taking into consideration the mean annual requirements for the trailing five year period, adjusted for any extraordinary and non-recurring overtime requirements (i.e., overtime to cover significant staff vacancies that have been filled).
- Employee benefits — Funding will be included in each department operating budget for the projected cost of providing contributory health, life, dental and Medicare payroll taxes for all eligible employees at the benefit rates expected for the new fiscal year, except for pension and other post-employment contributions.
- Pension contribution — The annual contribution to the defined benefit contributory retirement fund shall not be less than the annual required contribution (ARC) prescribed by the Bristol County Retirement Board.
- Other post-employment contribution — The Town will make an annual contribution to the Other Post-Employment Benefits (OPEB) Liability Trust Fund. The Town will make every effort to make each subsequent contribution at a greater amount than the year before until full funding is accomplished.
- Energy and utilities — Funding for energy and utility needs of the various departments of the Town will be included at consumption levels estimated by the various departments and at consistent unit prices estimated to be reasonable by the Town Accountant.
- State and county charges — The appropriation for "Cherry Sheet" assessments will be the most recent estimates posted on the Massachusetts Department of Revenue website, or, in the absence of such information, 2.5% greater than the current year assessment and charge total.
- Property and liability insurance — The town purchases a comprehensive package of property and liability insurance. Coverage is reviewed each year to adjust for changes in law, asset value and other factors that may affect the Town's risk profile.

- Snow and ice control — As of the Fiscal Year 2016 Budget, the annual appropriation for snow and ice control in the Department of Public Works will not be less than \$388,000.
- Debt service — The Town will maintain a non-exempt from proposition 2.5 debt service budget at a level equal to 7% of general fund revenues. The appropriation will be consistent with the long-term debt schedule for all issued and planned debt and will include interest, principal and anticipated issuance costs. When, in a given fiscal year, the funding need for principal and interest is less than 7% the difference will be set aside as a capital reserve.
- Capital outlay and improvements — Capital outlay and improvements will be budgeted in accordance with the Town's capital plan prepared in accordance with the Town's by-laws and based on available funds and projected debt service capacity.

Financial contingencies and reserves: Funds for financial contingencies and reserves are necessary in order for the Town to continue to provide essential public services in the face of extraordinary and unforeseen financial and natural events that could not have been reasonably anticipated and provided for in the annual operating budget. Sufficient financial reserves are also required by credit rating agencies.

In order to minimize the magnitude of reserves that must be held for extraordinary and unforeseen financial risks, revenues will be estimated conservatively; all known expenditure requirements will be funded at levels consistent with experience from prior years, along with any unique factors likely to impact the new fiscal year; and non-recurring revenues and/or financing sources will only be used for non-recurring expenditure purposes.

Similarly, in order to minimize General Fund reserve requirements, activities funded by fees and user charges will maintain adequate reserves within their appropriate special revenue fund(s). Fees and user charges will be set at least annually at levels sufficient, when appropriate, to meet the full operating and capital replacement costs, and maintain the level of financial reserves established for that fund.

- **The Stabilization Fund** will be used when the Town faces a multiple year economic recession or a rare, catastrophic expenditure. These funds would help the Town address cyclical declines in operating revenues, generally resulting from economic factors outside the control of the Town, or an unusually large expenditure resulting from a rare legal settlement or extraordinary weather event, etc. The primary reason for the segregation of such monies is to prevent these reserves from being used for unrelated Town needs, and to demonstrate that resources are in fact being set aside specifically for extraordinary and unforeseen revenue disruption.

In the case of the Town's General Fund, cyclical declines typically would be evidenced by significant reductions in: state aid, economically sensitive taxes such as the motor vehicle excise tax, the local option meals tax, and building permit and investment income revenues.

To ensure that the stabilization funds are available for multiple years of an economic downturn, no more than one quarter (25%) to one-third (33%) of the fund balance should be used in any single fiscal year. Appropriations may be made from the Stabilization Fund into the General Fund for operating purposes, upon recommendation of the Town Administrator and Board of Selectmen and require a two-thirds vote from town meeting.

- **Capital Stabilization Fund.** This stabilization fund is a mechanism for setting aside money for capital projects in order to equalize the effect of capital expenditures over time and supplement monies for capital projects from the General Fund. Appropriations made from the Capital Stabilization Fund require a two-thirds vote from town meeting.
- **Other Post-Employment Benefits Trust Fund.** This fund was established upon town meeting's acceptance of MGL Chapter 32B, Section 20 at the annual town meeting held on May 20, 2013. The purpose of this fund is to accumulate funds to be used in the distant future to reduce the unfunded actuarial liability for retiree health insurance. Appropriations into the fund require a simple majority town meeting vote and shall be made whenever surplus funds can be allocated for this purpose.

Cash Management and Investments: Absent legal and/or contractual restrictions, Town operating cash will be pooled, with ownership information maintained in the Town's accounting system. All investment income on temporarily idle cash will be credited to General Fund revenue, unless legal authority exists to allocate the investment income to another fund.

Investments will be limited to those authorized by state law and any applicable Town investment policies.

General ledger cash and investment totals are reconciled to the Treasurer's records and supporting bank statements on a monthly basis.

Risk Management: The Town will purchase comprehensive commercial insurance.

- Property insurance — Commercial insurance, will be purchased for all Town buildings and their contents. Insured values are adjusted annually for both improvements to the structures and an estimate of the increase in replacement values.
- Vehicle insurance — The Town fully insures all vehicles against damage and liability.\
Liability insurance — The Town purchases a comprehensive package of liability insurance including General Liability, Law Enforcement Liability, Public Officials Liability and School Board Liability.
- Crime/employee dishonesty — Individual fidelity bonds are purchased for the Town Treasurer/Collector, Deputy Treasurer/Collector and Town Clerk, as required by state law. All other employees of the Town are covered under a blanket honesty bond, subject to a deductible of \$10,000 per loss, except for school principals with custody of student

activity funds who are required to furnish individual fidelity bonds with no deductibles.

- Workers' compensation — The Town purchases worker compensation insurance for all employees except sworn Police Officers and Firefighters. Public safety employee injured on duty compensation is paid from the Police and Fire Department operating budgets. Police and fire medical bills are paid from the employee benefits and insurance budget.
- Group health insurance - The Town offers contributory group health benefits to employees regularly working 20 or more hours per week and to retirees. The Town currently participates in the Commonwealth of Massachusetts Group Insurance Commission program.

Official and officer compensation: The Town expects to maintain compensation policies (including salaries, benefits and deferred compensation) designed to attract and retain well qualified officials and officers. Management level employees will be expected to maintain the highest level of professional competency during their employment with the Town. To this end, the Town will provide resources for ongoing professional training and staff development.

- Elected officials — In accordance with the requirements of the Town Charter, compensation for the Town Administrator shall be set by contractual agreement with the Board of Selectmen. Elected official compensation shall be set by the Board of Selectmen.
- Non-union employees — The salaries of all Easton Public School management and non-union employees are determined by a vote of the School Committee. All municipal non-union employee salaries are governed by a non-union pay plan recommended by the Human Resource Board, approved by the Town Administrator and subject to funding by Town Meeting.

Procurement: In order to demonstrate that Town resources are being used in an effective and efficient manner, the Town shall fully comply with all relevant procurement law.

Capital Planning: The Capital Planning Committee is charged with the responsibility of planning and subsequently recommending to the Town Administrator a Capital Improvement Program identifying the Town's future capital projects, programs, improvements and acquisitions having a useful life of at least five years and a cost of at least \$25,000, including requests for funds for a class of assets that exceeds \$25,000. The development and implementation of a Capital Improvement Program is essential to the sound and cost effective maintenance of the infrastructure and capital assets of the community. Towards this end, the Capital Planning Committee is dedicated to accomplishing the following objectives in accordance with Chapter 6 of the Town's by-laws:

- To review, evaluate, plan and coordinate capital improvements so as to promote a systematic, organized replacement and acquisition schedule;
- To promote timely planning and the efficient implementation of capital improvements;

- To promote wider community awareness regarding the planning of projects and to reduce the pressure to fund a project which has not been weighed against immediate and long-range community-wide needs;
- To annually present a report to the Town Administrator, said report to include a five year (minimum) Capital Program, as well as a proposed one-year Capital Budget listing recommended projects in order of priority.

In order to spread the cost of capital improvements over the generations of Easton stakeholders expected to benefit from the improvements, debt financing is expected to be the principal financing source for major capital improvements. Debt maturity terms will not exceed the expected life of the capital asset being financed. Debt service for capital improvements benefiting all or the majority of the stakeholders of the Town is to be financed from General Fund resources. Debt Service for water and sewer will be financed from user fees whenever possible and debt service for eligible community preservation fund projects will be financed from Community Preservation Fund resources.

Financial Reporting: The accounting records of the Town will be maintained such that financial statements and supporting schedules can be prepared in accordance with the Town's budgetary basis of accounting; the requirements of the Commonwealth of Massachusetts Departments of Revenue and Education; and generally accepted accounting principles for state and local governments.

The Board of Selectmen, through an appointed Audit Committee composed of two at-large appointees of the Board, one representative from the Finance Committee, one representative of the School Committee, and one representative of the Selectmen with the Town Accountant as a non-voting member, shall make arrangements for an independent annual financial audit of the Town's financial statements and accounts, which is expected to be presented no later than March 31st after the end of the Town's fiscal year. Copies of the Town's audited Comprehensive Annual Financial Report, Federal Single Audit Report, and Management Letter will be posted on the Town's website.

Adopted by the Board of Selectmen on August 8, 2016