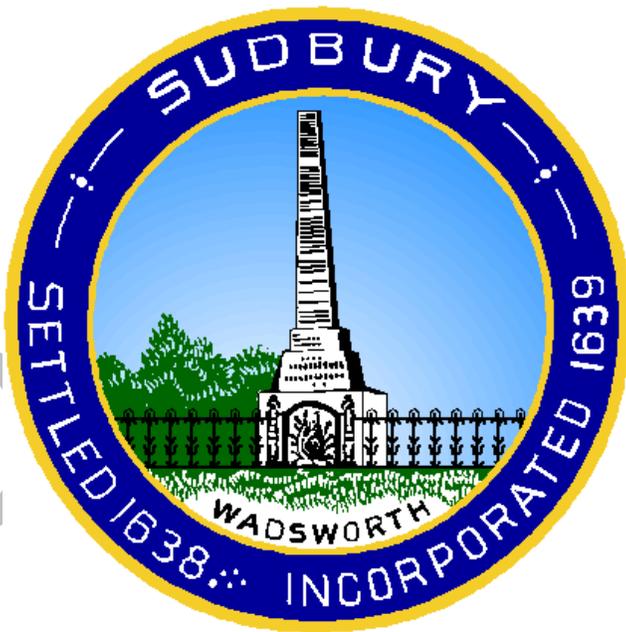


Town of Sudbury, Massachusetts

Financial Policies Manual



Commented [BS1]: Need to compare content with 2019 Draft (Dennis K and Melissa R) https://1drv.ms/w/s!AmRy3D3ZZHrDg17TsSUGR4r_UNzj?e=COB7t8 which had the following sections:

1. Operating Budget Policy 2
2. Revenue Policy 2
3. Expenditure Policy 3
4. Risk Management Policy 4
5. Capital Budgeting and Planning Policy 4
6. Debt Management Policy 5
7. Protection of Credit Rating Policy 6
8. Free Cash Policy 6
9. Stabilization Fund

Commented [BS2R1]: from Dennis: to this doc vs. 2019 added Overlay section and OPEB section

Introduction

The Town of Sudbury is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. To that end, this manual of financial policies provides guidance for local planning and decision making. The policies as a whole are intended to outline objectives, provide formal direction, and define authority to help ensure sound fiscal stewardship and management practices. Each is a living document that should be reviewed periodically and updated as necessary.

With these policies, the Town of Sudbury, through its Board of Selectmen, Town Manager, and employees, commits to the following objectives:

- Sustaining a consistent level of service and value for residents
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Ensuring the quality and maintenance of capital assets
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure

Commented [BS3]: Charlie suggests the one-pager, Bridge letter, shows here are the targets, here's our progress on it, here's the plan.

Dan asks the How, how are we going to replenish funds when we dip into it.

Commented [BS4R3]: Jennifer: more specific to not Policies overall but to CIP program recommendations (actions...)

Commented [BS5R3]: Bill: Policy vs. Procedure/ActionPlan

Commented [BS6]: Todo: incorporate definition of Capital within this document. See drafts by Jennifer which were discussed by the Board.

Commented [BS7R6]: done stuck in Appendix A for now

DOCUMENT ORIGIN: JAN 5 2021 DRAFT BY DENNIS KEOHANE (Finance Dir.) BASED ON 2020 DLS. POLICIES SUBCOMMITTEE IN REVIEW MODE (COMMENTS, REVISIONS)

Town of Sudbury, Massachusetts
Financial Policies Manual

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DRAFT

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, Sudbury can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

APPLICABILITY

This policy pertains to short- and long-range budget decision making and applies to the Board of Selectmen, School Committee, and Town Manager in those duties. It also applies to the related job duties of the Finance Director, the Town Accountant, the Board of Assessors, and the Finance Committee.

POLICY

The Town of Sudbury commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall reserves in the level of 8-10 percent of the annual operating budget. These reserves are comprised of Stabilization funds + Free Cash target + Overlay funds. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

A. Free Cash

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

By August 15th each year, the Town Accountant shall submit to DLS a year-end balance sheet, free cash checklist, and year-end reporting checklist. Once DLS certifies free cash, the Town Accountant will provide copies of the certified balance to the Board of Selectmen, Town Manager, and Finance Director.

Each spring, the Town Manager shall include the Town's free cash balance in the proposed budget submitted to the Board of Selectmen and Finance Committee for the ensuing fiscal year, along with details on the proposed uses of and/or retention level of free cash. Any proposed use of free cash for capital equipment or improvements shall be consistent with needs identified in the Town's capital improvement program.

The Town shall set a year-to-year goal of maintaining its free cash in the range of 3-5 percent of the annual budget. To achieve this, the Finance Director shall assist the Town Manager in proposing budgets with conservative revenue projections, and department heads shall carefully

Commented [BS8]: 8-10 where did target come from and how close are we now
Stabilization funds (5%) + Free Cash (3%) + Overlay Surplus

Commented [BS9R8]: question: confirm DENOMINATOR 'operating budget'.

Commented [BS10]: Who decided and how close have we been?
From DoR recommendation
Dennis states "it doesn't mean overtaxing by \$3M/yr"

manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) and will appropriate any excess above 5 percent of the annual budget to reserves or to offset unfunded liabilities.

B. Free Cash Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Prior to the adoption of this policy, the Town established and appropriated to a general stabilization fund and a special purpose stabilization fund for capital projects.

General Stabilization: The Town will endeavor to maintain a minimum balance of 5 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 5 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. Replenishment of the funds should be made annually at the Fall Town Meeting, or the earliest available meeting after Free Cash has been certified.

Special Purpose Stabilization

The Town should endeavor to achieve and maintain a combined target balance for all capital-related special purpose stabilization funds equal to 2% of prior year General Fund revenues. Such capital-related special purpose stabilization funds include: *** INCONSISTENT WITH SECTION FORECASTING THAT SAYS 2% ***

Capital Stabilization: The Town will appropriate annually to the capital stabilization fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. Doing so enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs.

- Circumstances for using Capitalization Stabilization Fund: Moderate-range capital expenditures... (e.g \$1M or less drawn) Given that the target balance of CSF is 2% of Gen Fund, could alternatively phrase as "capital expenditures of less than half of the CSF may be used"
- Replenishing:*** hot button topic, Capital funding.... any written policy about e.g. get to 2% then like the Gen Stabilization 5% policy... might we consider policy that each year top off the Capital Stab fund to get back to 2% ??*****

Commented [BS11]: Unfunded liabilities (including debt service) ?

Commented [BS12]: dare we get more specific/prescriptive about how to allocate free cash to various buckets as in the 2019 draft DennisMelissa policy 'circle of free cash'

Commented [BS13]: 5 percent is what we've always done

Commented [BS14]: Where did this guideline come from? One-third at a time? E.g. one-third of balance, then another one-third of remaining balance if needed again?

Commented [BS15R14]: Is more policy language needed to explain that regardless of how severe emergency need in any one fiscal year, max use 1/3 of stabilization fund. Is/should there be a policy about who to ask if need more? e.g the Fincom, special town meeting??

Commented [BS16]: DLS recommendation is to get rid of separate Melone Stabilization and Turf Stabilization... If so, might consider DLS recommendation on page 7 of DLS report of 2% of prior year general fund revenues... e.g. \$2M on a budget of \$100M. If one year you take \$800K, then next year replenish to get back to 2%

Commented [BS17]: What is this target and how calculated?

Commented [BS18R17]: and how to replenish...

Commented [BS19]: Define "moderate-range". Dollar threshold e.g. <\$1M. Percentage (to future-proof this policy...) Type of expense e.g. maintenance and anticipated replacement. Maintenance (not huge unanticipated maintenance...) is recommended by DLS to go in Dept OPERATING budgets. Replacement of trucks (<100K?), ambulances/firetrucks <\$1M.

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Commented [BS20]: Similar to General Stabilization Fund

Commented [BS21]: HOW TO GET THERE PLAN: the topic of achieving and maintaining the 2% target needs to be discussed in HOW TO PLAN... partially outside of policies

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Field Stabilization Trust is/remains separate from plain old Capital Stabilization Fund.
See DLS recommendation A-2

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C. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements and exemptions. Sudbury officials will prudently manage the overlay in accordance with the Town's Overlay policy to avoid the need to raise overlay deficits in the tax levy. At the conclusion of each fiscal year, the Board of Assessors shall submit to the Town Manager and Finance Director 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 Town Manager may request that the Board vote to declare those balances surplus available for use in the Town's capital improvement plan or for any other one-time expense.

Commented [BS22]: ensure consistency with language in Overlay policy section. Currently Overlay policy section is silent on timing when Board of Assessors determines balances, and surplus... 'at the conclusion of fiscal year' is ~ June 30, right

Commented [BS23]: here, are we saying that the Board of Assessors votes to declare the balances as 'Overlay Surplus' (end of sentence)? Or does the Board of Assessors vote prescribe / restrict how the balance declared as Overlay Surplus can be used? (Perhaps if we keep it simple and BoA declares as 'Overlay Surplus' another policy section can define what that can be used for.

DRAFT

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 the requirement to determine an expenditure strategy 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 Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, Board of Selectmen, School Committee, and Finance Committee.

POLICY

A. Revenue Guidelines

The Town will continually 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 generally 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, bond premiums, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- General Stabilization Fund (maintenance of 5% of operating budget)
- Annual Capital Budget (target of 3% of operating budget)
- Capital Stabilization Fund (target of 3% of operating budget) *** INCONSISTENT WITH SECTION RESERVES THAT SAYS 2% ***
- OPEB Trust Fund
- Debt Service

*** POLICY CONSIDERATION *** New growth (residential or commercial) permanently adds to the tax base. The Town should attempt to dedicate 50 to 75% of all (commercial?) new growth levy amounts to capital expenditures or reserves.

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Town Manager, in consultation with the Finance Director, can recommend its use for operational appropriations. Such use will trigger the Town Manager to develop a plan to avoid continued reliance on one-time revenues.

Commented [BS24]: is this the Circle of Free Cash

Commented [BS25]: clarify term 'Annual Capital Budget'. Does it mean: 'all the new capital in a given year', does it mean what DLS calls 'cash capital' on page 22?

Commented [BS26]: todo: clarify with Dennis Annual Capital Budget as a destination for free-cash ('one time revs') . The others Gen Stab, Capt Stab, OPEB are reserve funds.. Do we mean by bullet 2 in a great year spend less of Levy and instead use free cash towards that years capital needs within the budget?

Commented [BS27]: \$500K in it right now...

Commented [BS28R27]: see the history of the relative young Capital 'stabilization fund.... payments in, any withdrawals out... .

Commented [BS29]: need total consistency about the DENOMINATOR

DLS USES TERMINOLOGY 3% OF THE GENERAL FUND BUDGET. (Shall we adopt that term instead of 'operating budget' consistently throughout doc?

Commented [BS30]: Discuss each target to ensure not arbitrary

Commented [BS31]: Establish and state target (ending condition)

Commented [BS32R31]: there is a whole section on it now...

Commented [BS33]: Discuss whether there could be a scenario easing tax burden

Commented [BS34R33]: Question: has there ever been precedent scenario in Sudbury of paying off more than the required debt payment in a given year (i.e. prepaying)

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. 53A½
- Bond proceeds: M.G.L. c. 44, §20
- Sale of moveable property: M.G.L. c. 44, § 53
 - *** DLS option... if we want to divert to Captial Stabilization, we could accept 4th para of ... M.G.L. c. 40 § 5B and specify a percentage of each sale (of moveable property e.g. Vehicles that will be dedicated, without further appropriation, to the capital stabilization fund.

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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 market value as prescribed by state law.
- Town departments that charge fees (Enterprise Funds and recreation programs, for example) shall annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs and Endeavor to retain funds for asset replacement. *** Target retained earnings should be x% (2???) of prior year, blah blah.. (see DLS recommendation A-2 "Set a retained earnings target for any enterprise fund not subsidized by the general fund.")
- The Building Department will notify the Finance Director of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to be informed of 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.

Commented [BS35]: •Some language from earlier 2019 draft with some of Bill's edits: Recreational user charges and fees will be set with the intent to recover approximately at a minimum 100% of total direct costs generated by revolving fund recreation programs, ~~plus~~ all indirect costs (including OPEB contributions) for Town employees, and reasonable offsetting revenue for investments in recreational facilities and fields.

•Enterprise fund (Transfer Station, Atkinson Pool and Recreation Field Maintenance) user charges and fees will be set to recover all direct costs ~~and~~ associated with the activities of these funds as well as the indirect costs of employees of these enterprises for health insurance ~~and OPEB contributions.~~

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.

Commented [BS36]: Can fees be set so there is a contribution to capital expenses associated with the Enterprise
Dennis: hope to generate retained earnings so you have a little extra.

Dennis notes 2 of the 3 enterprise funds haven't been self sustaining. Transfer station has been sustaining, with some retained earnings.

Endeavor to retain funds for asset replacement

Definition of enterprise fund? Subsidized by levy or self sustaining. Currently enterprise funds covers cost of employees and benefits.

Commented [BS37R36]: Jennifer: should we have a section on Enterprise funds and Revolving funds?

Commented [BS38R36]: a policy section.... not just a 'definition;

C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the Finance Director will annually create and provide the Town Manager with a detailed budget forecast. The

Finance Director shall also annually prepare a three-year financial projection of revenues and expenditures for all operating funds.

These forecasts shall be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan.

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 shall be conservative based on historical trend analyses and shall use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., inspection fees, investment income, 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 forecast model should assume that:

- The Town will maintain its current level of services.
- Property taxes (absent overrides) will grow ~~at~~ within the limits of Proposition 2½.
- New growth will be projected conservatively, considering the Town's three-year average by property class.
- The Town will annually meet or exceed the state's net school spending requirements.
- Local receipts and state aid will reflect economic cycles.
- The Town will pay the service on existing debt and adhere to its Debt Management policy.
- The Town will make its annual pension contributions and continue appropriating to its other postemployment benefits trust fund.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.

Commented [BS39]: 'at' the limits? Suggest 'within' the limits

Commented [BS40]: Suggest 'within' the limits (instead of 'at' the limits

OVERLAY

PURPOSE

To set guidelines for determining the annual overlay amount in the Town's budget and for deciding whether any overlay balance can be certified as surplus.

The allowance for abatements and exemptions, commonly referred to as the overlay, is an account whose purpose is to offset anticipated abatements and exemptions of committed real and personal property taxes. Effective December 7, 2016, the Municipal Modernization Act ([Chapter 218 of the Acts of 2016](#)) provides for a single overlay account. Previously, a community had to maintain separate overlay reserves for each fiscal year and could not use the surplus from one year to cover another year's deficit without a multistep process involving the assessors, accounting officer, and local legislative body. However, the Act allows all existing overlay balances to be transferred to a single account. Although this policy treats overlay as a single account, to continue historical information and facilitate reconciliations, the Town may elect to maintain subsidiary ledgers by levy year for overlay balances.

APPLICABILITY

This policy applies to the job duties of the Board of Assessors, Director of Assessing, Town Manager, and Finance Director.

POLICY

A. Annual Overlay

Each year, the Board of Assessors shall vote in an open meeting to authorize a contribution to the overlay account as part of the budget process and to raise it without appropriation on the Town's Tax Recap Sheet. The Principal Assessor will propose this annual overlay amount to the Board of Assessors based on the following:

- Current balance in the overlay account
- Five-year average of granted abatements and exemptions
- Potential abatement liability in cases pending before, or on appeal from, the Appellate Tax Board (ATB)
- Timing of the next certification review by the Division of Local Services (scheduled every five years under the Municipal Modernization Act) The Board of Assessors shall notify the Finance Director of the amount of overlay voted

B. Excess Overlay

Annually, the Finance Director and Director of Assessing will conduct an analysis to see if there is any excess in the overlay account by factoring the following:

- Current balance in the overlay account after reconciling with the Town Accountant's records

Commented [BS41]: exactly when do Board of Assessors meet during 'budget process' to make this determination? Please clarify e.g. between months of August-October???

Commented [BS42]: again, when during the year does the Excess Overlay determination happen? (our goal is to have an overall timeline of budget process...)

- Balance of the property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
- Estimated amount of potential abatements, including any cases subject to ATB hearings or other litigation

Upon determining any excess in the overlay account, the Principal Assessor shall present the analysis to the Board of Assessors for its review.

C. Overlay Surplus

If there is an excess balance in the overlay account, the Board of Assessors shall formally vote in an open meeting to certify the amount to transfer to overlay surplus and shall notify the Town Manager and Finance Director in writing of its vote. If the Town Manager makes a written request for a determination of overlay surplus, the Board of Assessors shall vote on the matter within the next 10 days and notify the Town Manager and Finance Director of the result in writing. In any case, the Select Board shall request an annual update from the Board of Assessors on the balance of the overlay account.

After being certified, Town Meeting may appropriate overlay surplus for any lawful purpose until the end of the fiscal year. However, the appropriation should be as prescribed in the Town's Forecasting policy (re: treatment of one-time revenues) and its Financial Reserves policy (re: overlay surplus). Overlay surplus not appropriated by year-end closes to the general fund's undesignated fund balance.

Commented [BS43]: when exactly does vote to certify Overlay SURPLUS occur in process? this statement 'shall' implies it is required to happen, and required to notify Town Mgr and Fin Dir.

Commented [BS44R43]: Note the Financial Reserves policy section has language about timing 'at conclusion of fiscal year'; ensure this is consistent / not duplicative

Commented [BS45]: We interpret this sentence about 10 days demand by Town Manager as mechanism to not wait for Assessors to get around to voting on their schedule. But to get an answer immediately (10 days). Correct? is 10 days arbitrary or is this pulled from some other standard or policy?

Commented [BS46]: 4 or 5 prioritized bullets in the Forecasting policy (re: treatment of one-time revenues) state: "Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- General Stabilization Fund (maintenance of 5% of operating budget)
- Annual Capital Budget (target of 3% of operating budget)
- Capital Stabilization Fund (target of 3% of operating budget)
- OPEB Trust Fund
- Debt Service "

Commented [BS47]: "for use in the Town's capital improvement plan or for any other one-time expense" is what the Financial Reserves policy (re: overlay surplus") states...

Commented [BS48]: does 'general fund's undesignated fund balance' mean "Free Cash"? If so, let's consider standardizing on terms.

DEBT MANAGEMENT

PURPOSE

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

Commented [BS49]: does "Debt" (types of debt?) beg for a fuller definition?

Commented [BS50R49]: explain somewhere debt within the levy versus debt outside the levy (Debt Exclusion, right?)

Commented [BS51R49]: TALK TO DENNIS re: DLS recommendation regarding 'Debt within the Levy' (debt that is not excluded from the limits of Prop 2 1/2)

APPLICABILITY

This policy applies to the Town Manager, ~~Board of Selectmen~~ Select Board, School Committee, and Finance Committee in their budget decision making and in the Finance Director's debt reporting. It also applies to the Finance Director's budget analysis duties. Additionally, in the role as Treasurer/Collector, the statutory responsibilities associated with debt management.

POLICY

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

Commented [BS52]: should we reference a specific MGL ?

Commented [BS53]: confirm - if debt obligations shall only be issued to construct, reconstruct, purchase capital assets... QUESTION: what about the debt (low interest loan from state) used to fund CWMP which is a STUDY?

Commented [BS54R53]: is "Issue" debt obligations and operative word? i.e. the town can Issue debt obligation by soliciting bids to sell bonds... different from borrowing from the state...

A. Debt Financing

In financing with debt, the Town will:

1. Issue long-term debt only for objects or purposes authorized by state law 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 ten years or whose lifespans will be prolonged by at least ten years.

3-a. **** DLS SUGGESTION: every debt exclusion proposal must meet all three of these criteria: (1) useful life of 20 years or more; (2) estimated cost of the principal payment in the first year of the debt issuance must be greater than 1% of the prior year's general fund revenue; and (3) the expenditure is either for town-owned land, buildings, or infrastructure or for a LSRHS capital assessment.

Commented [BS55]: Per DLS: defines RESTRICTIVE circumstances for debt and capital exclusions. Question: is >100K and 10years restrictive enough. Might we consider > \$1M

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Commented [BS56]: Language taken from DLS report Section A-1

4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.

B. Debt Limits and Targets

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, with a target balance of 5-7 percent.
2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.
~~Per DLS Recommendation, the Town shall endeavor to gradually and consistently pursue future debt issuances financed by within-levy dollars with a target of 3% of prior year's General Fund.~~
- 3.

C. Structure and Term of Debt

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

1. The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within ten years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than 10 years, except for major buildings, water and water facility 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.

D. Bond Refunding

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

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

E. Protection of Bond Rating

To protect its bond rating, the Town will:

Commented [BS57]: DLS recommendation was: "objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained."

Commented [BS58]: to be clear, 'total debt service' is how much we pay each year. Per DLS 'annual payout'. (we're NOT talking about the total Outstanding debt... here)

Commented [BS59]: did we make up the number 10 percent or did this come from some reference?

Commented [BS60]: 'general fund revenues' --- is that the same as what we call the total annual budget=total revenue? e.g. percentage of FY21 \$106.635M

Commented [BS61]: what is our actual percentage in past few years?

Commented [BS62]: did we make up the 5-7 percent target? or is it from some outside recommendation or ...

Commented [BS63]: the state statute is "under MGL ch 44 section 10" (as mentioned in municipal glossary from ...)

Commented [BS64]: total outstanding debt must be less than the debt limit. Debt limit = .05 * EQV.

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Commented [BS65]: confirm: does "long term debt schedule" refer to each a) individual project? each debt ...

Commented [BS66]: where did this come from? 50 percent of outstanding principal paid within 10 years" ...

Commented [BS67]: expected useful life according to who? industry standard? reference doc?

Commented [BS68R67]: next bullet says "useful life borrowing limit guidelines published by the Division of Lo ...

Commented [BS69]: is 30 years the max allowed by law" refer to a specific law?

Commented [BS70]: doc is referenceable (Jennifer looked it up)

Commented [BS71]: please explain. Bill and Jennifer not clear what this means

Commented [BS72]: does the town necessarily have an official 'financial advisor' other than the Finance ...

Commented [BS73]: is this boilerplate language from somewhere? please explain for us in laypersons terms.

Commented [BS74]: please explain 'net premium and accrued interest' in this context? Is this just saying reduc ...

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.
3. The Town will not rely on reserves to sustain operating deficits. Use of such reserves will be limited to helping the Town deal with short-term or emerging financial stress, but then the Town will either reduce spending to within the limits of recurring revenues, or seek approval for additional revenues from the voters of the Town.
4. The Town will not defer current costs to a future date. This includes costs such as pension costs or benefits costs. From time to time, the State offers municipalities the option of deferring payments to their pension system, or other costs, as a short-term way of balancing a fiscal year's budget. However, it is the intention of the Town of Sudbury not to rely on these options.
5. The Town will follow the policies as outlined in this policy statement.

F. Reporting

1. The Town's ~~A~~Annual Town Report, Town Manager's Budget Request and ~~A~~Annual ~~T~~own ~~M~~meeting ~~W~~warrant will give comprehensive summaries of the debt obligations of the Town.
2. The Finance Director will include an indebtedness summary as part of a report on receipts and expenditures in Sudbury's Annual Town Report.
3. The Finance Director, 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.

Commented [BS75]: file it with whom?

INVESTMENTS

PURPOSE

To ensure the Town's public funds achieve the highest possible, reasonably available rates of return while following prudent standards associated with safety, liquidity, and yield, this policy establishes investment guidelines and responsibilities. It is further designed to comply with the Governmental Accounting Standards Board's recommendation that each community disclose its key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and not subject to extraordinary risk.

APPLICABILITY

This policy pertains to short-term operating funds, including general funds, special revenue funds, bond proceeds, capital project funds, and to all accounts designated as long-term (e.g., trusts, stabilization fund, other postemployment benefits trust fund (OPEB), and others the Town may set aside for long-term use, including scholarship and perpetual care funds) It does not pertain to the Town's retirement fund, which is managed by the Middlesex County Retirement Board. This policy applies to the Finance Director, in the role as Treasurer, his or her designee(s), and any advisors or other professionals in their responsibilities for investing and managing Town funds.

POLICY

The Finance Director shall invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to generally accepted diversification, collateralization, and the prudent investment principles regarding safety, liquidity, and yield.

See additional details in the [Town of Sudbury Investment Policy](#) document as well as the [Town of Sudbury CPA Investment Policy](#) document.

Commented [BS76]: clarify: what is the Town's retirement fund as opposed to OPEB? OPEB includes health ins etc, but the pension is separate in Town's retirement fund. Is that right?

Commented [BS77]: Q: OPEB is acknowledged as underfunded. Is 'the Town's retirement fund' fully funded?

Commented [BS78]: hyperlink to the document on town website

Commented [BS79]: hyperlink to the document on town website

CAPITAL ASSETS

PURPOSE

To ensure Sudbury's capital assets can cost-effectively sustain the town's desired service levels into the future.

Commented [BS80]: what about LSRHS's desired service levels and capital assets?

APPLICABILITY

This policy applies to the Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, ~~Board of Selectmen~~ Select Board, School Committee, and Finance Committee.

Commented [BS81]: Note: LSRHS Committee is not subject to this policy?

POLICY

A. Capital Improvement Plan

A.

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The Town Manager will update and adopt annually a five-year capital improvement plan ("CIP"), including the upcoming annual capital improvement budget ("CIB") and a four-year projection of capital needs and expenditures, which details the estimated cost, description and anticipated funding sources for capital projects. Per DLS "CIP should govern projects undertaken either to build, buy, expand or replace a long-life asset or to an asset's condition beyond its original state of quality, efficiency, or useful life expectation."

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Commented [BS82]: Per DLS rpt section B-1: "CIP should govern projects undertaken either to build, buy, expand or replace a long-life asset or to an asset's condition beyond its original state of quality, efficiency, or useful life expectation."

Commented [BS83R82]:

Commented [BS84]: CIB is the things in this upcoming years budget that are capital

*** DLS RECCOMENDATION*** Annually, the minimum level of capital funding (spending) the town should target year to year should be equivalent to 6% of the prior year's general fund revenue, (drawn equally from within-levy debt and cash capital sources).

Commented [BS85]: Add a section on Funding Sources for Capital... to acknowledge Community Preservation Act (CPA) funds

The target shall guide how much of the CIP should be included in a given annual budget.

1. The Town Manager shall establish criteria to determine capital asset prioritization. [See DLS list of example criteria page 9 DLS report... DLS suggests Select Board est criteria including but not limited to:

Commented [BS86]: please explain what is the currently used criteria for determining capital asset prioritization.

- mitigation of safety hazards
- legal compliance
- operating cost reduction
- service or efficiency improvement
- availability of outside funding sources
- conformance to asset replacement schedule
- enhancement of quality of life

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2. The Town Manager shall consult with Department Heads annually regarding the composition and prioritization of the capital plan and create an ordered list. [DLS: notwithstanding 1-5 'urgency' score that Dept Heads assigned, there wasn't a clear prioritization...]

- DLS: expand the information captured on Capital Project Submission Sheets
- Bill: require a Capital Project Submission Sheet for every item listed on CIB (this year) and CIP (5 years plan).

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3. The CIP shall not include items that cost less than \$20,000 or have a useful life of less than 5 years. Items that do not meet this threshold should be included within the Town's operating budget. Rather, such smaller, shorter life maintenance items should be included in Departmental budget capital line item. [DECISION: adopt this DLS section B-1 recommendation of putting in Dept budget???: clearly define what items included in capital plan]

Commented [BS87]: Department Budgets per DLS recommendation, should have capital line items for these smaller, shorter life maintenance items... QUESTION: do we currently have such a line item per department budget?

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4. Alongside the CIP prioritization, potential Funding Sources shall be identified. Wherever possible, funding sources should be derived from 'cash capital', and within levy debt funding options. Funding sources for capital may include:

Commented [BS88]: HOW TO GET THERE PLAN: consider over time increasing the in-levy debt capacity. E.g. when there is capital that we might have historically considered paying with debt or capital exclusions, attempt to fit within the levy. FIRE STATION EXAMPLE...

- Community Preservation Act (CPA) funds (if eligible; Open Space, Recreation, Historic...)
- Town Manager's Capital Budget (items <\$100K)
- *** POLICY New growth dedicated to capital (e.g. 50-75% of all New Growth, or 100% of Commercial New Growth) ****
- Capital Stabilization Fund

Commented [BS89]: Would acquiring Open Space ever be in the Capital Improvement Plan??

- Special-purpose stabilization funds??? (e.g. from Revenue generating assets like former Gravel Pit or Sewataro revenue share)

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- Free Cash
- In-levy Debt aka Nonexcluded Debt [DLS target 3% of General Fund]
- Capital Exclusion [DLS recommends very RESTRICTIVE circumstances for Debt exclusion...]
- Debt Exclusion [DLS recommends very RESTRICTIVE circumstances for Debt exclusion...]

2. —

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5. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.

6. DLS: put maintenance in Department budgets... <--- this would be a significant policy change

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7. DLS: Note: LSRHS capital assets, while funded by Sudbury and Lincoln taxpayers, are not to be itemized in the Town of Sudbury Capital Improvement Plan. Rather, a single line item per year in each of the 5 and 15 year plans shall represent Sudbury's contribution to LSRHS's own independent capital plan.

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3. —

B. Risk Management

1. The Town will maintain an effective risk management program that provides adequate coverage, minimizes losses, and reduces costs.

Commented [BS90]: what is the Risk Management Program (besides holding insurance policies...) who is the Risk Manager... (Town Manager?)

2. The Town will annually work with the Town's insurance carrier to update all listings of Town owned assets and the value and condition of such covered assets.

Commented [BS91R90]: does Risk Management flow down to various accountable departments

Commented [BS92]: and condition of assets

C. Reporting

1. The 5 year capital improvement plan shall be posted on town website for public review at all times. Updates to the plan shall be tracked (change history). Capital Improvement Budget Request Form (or Capital Project Submission Sheet) for each project on the 5 year CIP shall be posted and linked to from the CIP on the website.

4.2. The Town Manager will submit a capital program to the Capital Improvement Advisory Committee (CIAC). The proposed program will detail each capital project, the estimated cost, description and funding. **** POLICY DECISION – IF WE FOLLOW DLS TAB'S RECOMMENDATION TO ABOLISH CIAC FOR LEANER, CENTRALIZED PROCESS / EMPOWERED TOWN MANAGER... THEN CAN ELIMINATE THIS STEP OF SUBMITTING TO CIAC. ***

2.3. The Town Manager shall submit Town Meeting articles for the CIB by January 31st.

3.4. The ~~Selectmen~~ Select Board shall report all requests for capital appropriations to the Finance Committee on or before February 5. (Bylaws Article IV Section 5).

4.5. The Town Manager will present the CIB for approval at the Annual Town Meeting (generally the 1st Monday in May).

Commented [BS93]: submit annually? the one year CIB capital plan?

Commented [BS94]: worthy of SelectBoard discussion - to affirm need/value of CIAC committee? (DLS said reconsider the bylaw that states CIAC's composition... is it an extra level we don't need)

Commented [BS95]: in 2021 did we satisfy this Feb 5 bylaw deadline (i.e. did TM Henry on behalf of Select Board communicate all requests for capital appropriations)

DRAFT

OTHER POSTEMPLOYMENT BENEFITS LIABILITY (OPEB)

PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other postemployment benefits (OPEBs) to eligible current and future retirees. This policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEBs, thereby avoiding transferring costs into the future.

Commented [BS96]: This means don't underfund today and kick the can down the road for tomorrow. How is the required amount determined to not be 'underfunding'? Can we see an appropriate trend chart of fund balance, contributions per year, withdrawals per year.. and forecast future liabilities(withdrawals) in future years

APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment.

BACKGROUND

In addition to salaries, the Town of Sudbury compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health, dental, and life. These are collectively referred to as other postemployment benefits or OPEBs.

OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of a long-range plan to fund this obligation, the Town established an OPEB Trust Fund, which allows for long-term asset investment at higher rates of return than those realized by general operating funds.

Commented [BS97]: How is the liability measured? What metric should be tracked to inform whether we are contributing enough?

POLICY

The Town of Sudbury is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

A. Accounting and Reporting

The Finance Director will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

Commented [BS98]: two years (standard?)

The Town Auditor shall ensure that the Town's independent audit firm reviews compliance with the provisions of this policy as part of its annual audits.

B. Mitigation

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Finance Director shall monitor proposed laws

affecting OPEBs and Medicare and analyze their impacts. The Human Resources Director shall regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

Commented [BS99]: Q: roughly how to determine if (current balance and annual contribution) will be sufficient as a function of when, how many retirees roll on and off

C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town shall derive funding to invest in the OPEB trust from taxation, free cash, and any other legal form.

Commented [BS100]: Like what? How much to contribute each year? E.g. are we aiming for 70% of future need? How far off are we? Is there a metric/rule of thumb for 'usual' contribution level, distinct from 'catch up' contributions?

Commented [BS101]: For example in FY22, what sources of funds are we using to contribute toward OPEB fund? Only taxation? No free cash?

Appendices

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Appendix A: Definition of Capital

Commented [BS102]: proposed definition from 1/5/2021 SelectBoard discussion brought by Jennifer

Proposal for Sudbury Capital Asset "Definition"

Capital Assets are the community-owned collection of significant, long-lasting, and expensive real and personal property used in the operation of government, including land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. In order to be included in Sudbury's Capital Improvement Program, Capital Assets must cost \$20,000 or more and have a useful life of 5 or more years. Items or improvements that do not meet this threshold should be included within the Town's operating budget.

To consider: Capital maintenance costs should be budgeted within department-level capital line items instead of being included in the Capital Improvement Program.

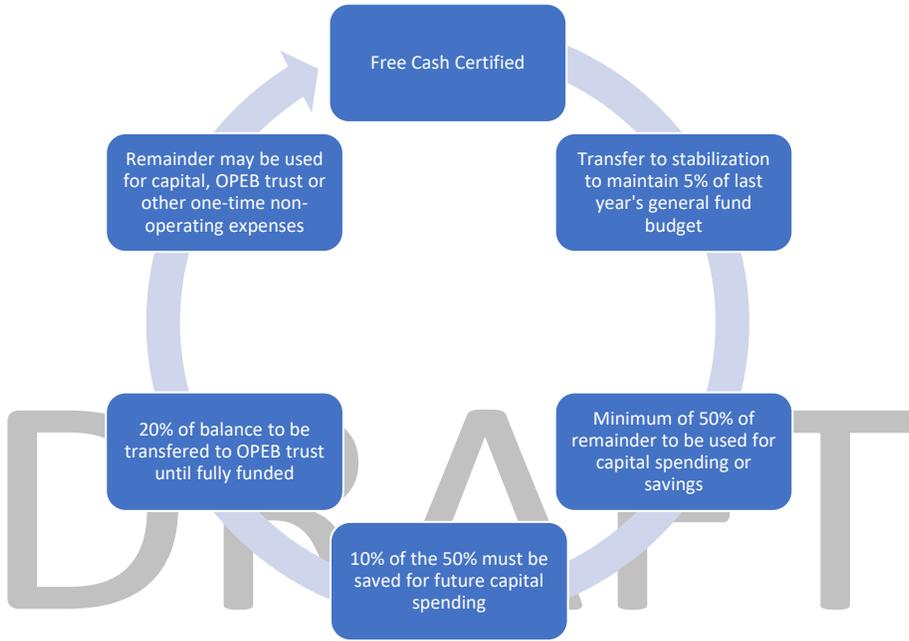
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Appendix B: Enterprise Fund Definition

Definition of enterprise fund? Subsidized by levy or self sustaining. Currently enterprise funds covers cost of employees and benefits.

BACKUP MATERIAL

Free Cash Flow Chart (from 'BOS Financial Policies 2019 mmranddkfinpolicies')



Commented [BS103]: Is it desired/valuable to codify a "Wheel of Free Cash" policy like this? The draft section earlier lists in some prioritized order what to consider using free cash for. Do we want rules like this to enforce discipline and reduce arbitrariness?

Observations of FY22 proposed Free Cash use:

Free Cash Certified 4.2M
Transfer to Gen Stabilization 281K
50% of remainder: would be ~ 2M...
Capital Spending ~3.137M (2.887M spend + 250K save)
Of which 250K for future (to Capital Stabilization Fund)
2M Capital Articles (1.987M)
900K TM Capital Budget

\$0 towards OPEB (i.e. no free cash catchup contributions)

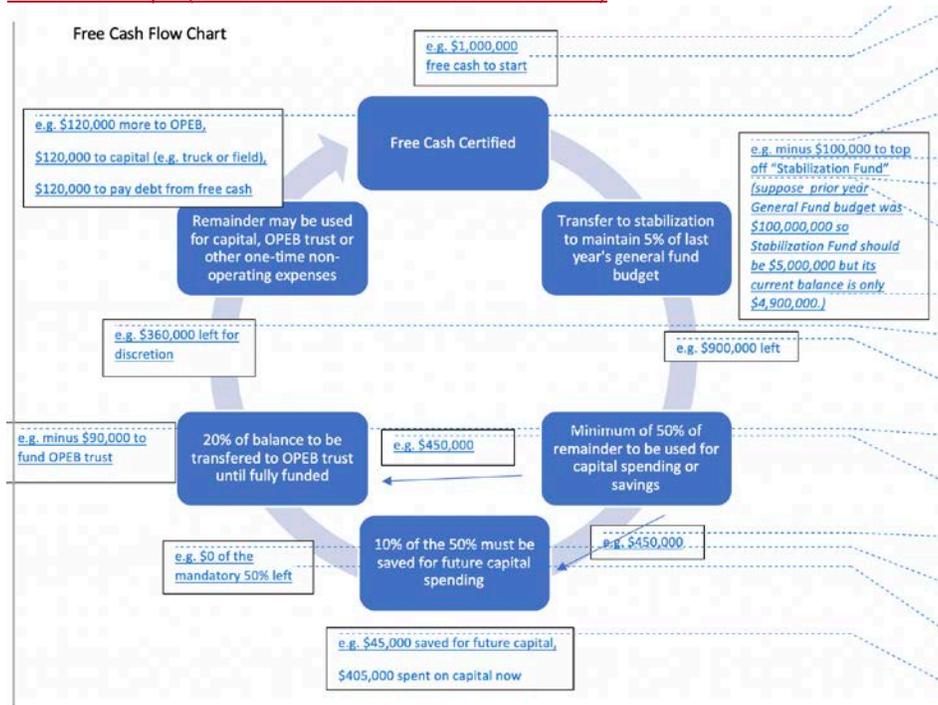
\$150K other one-time non operating (Eversource)

\$681K leftover

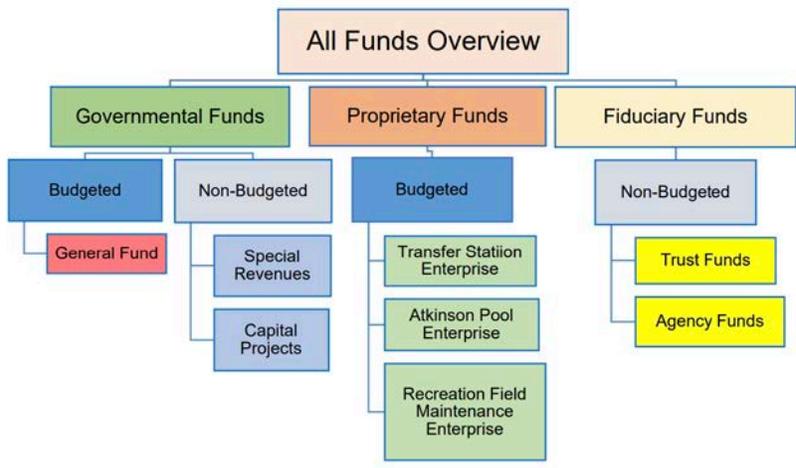
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Notional Example (Schineller annotations in November 2019)

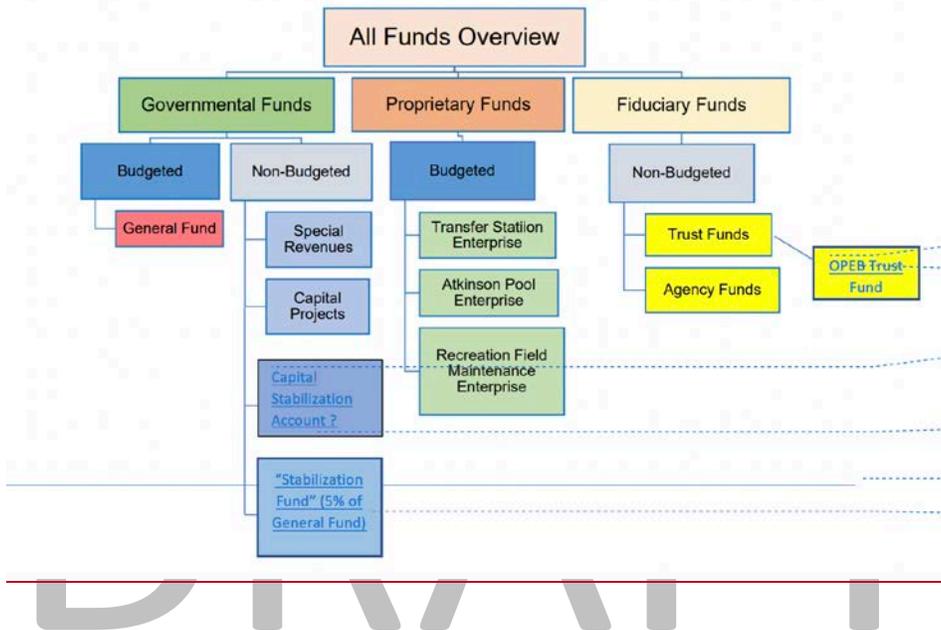


All Funds Overview
Diagram from the Town Manager's FY2020 Budget



DRAFT

All Funds Overview (marked up by Schineller in Nov 2019 to try to show other funds: Capital Stabilization Account, Stabilization Fund, and OPEB Trust Fund)



All Funds Overview (notionally marked up by Schineller in Nov 2019 to try to flow of Free Cash and Offsetting Revenue (e.g. Sewataro?) flow into other funds, and Debt Obligations)

Commented [BS104]: Would we like to codify what to do with income from Revenue Generating Assets like Sewataro? Put into a special 'Stabilization Fund' dedicated to some purpose (analogy=Melone Stabilization Fund from gravel sales). Put towards offsetting debt?

