



TOWN OF SHERBORN, MA

Fiscal Guidance Policies



FINAL

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TOWN OF SHERBORN

FINANCIAL POLICIES

Introduction

The financial integrity and economic sustainability of the Town of Sherborn is of utmost importance to all stakeholders of our municipality who rely on the delivery of high-value services.

This guidance and specific financial policies are intended to assist the Town's elected officials, departmental leaders, financial staff, and volunteer committee members in fulfilling their roles and responsibilities. This document may be updated as needed.

The following financial policies, principles and best practices set forth a broad framework for overall fiscal planning, control, and management of and accountability for Sherborn's resources. These principles are intended to be advisory in nature and serve as a foundation and framework for many of the issues and decisions facing the Town. It is fully understood that Town Meeting retains the legal right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits such as Proposition 2^{1/2}.

Guiding Principles and Goals

The following guiding principles and best practices are designed to help ensure the Town's economic sustainability and fiscal health for current citizens and future generations drawn to Sherborn's cherished rural agrarian heritage and excellence in education.

1. *Revenue and Expenditure Objectives*: setting annual policy goals.
2. *Budget Planning and Process*: outlining the tactics to achieve the budget objectives.
3. *Long Term Financial and Capital Planning*: establish and maintain strategic guidance aligning goal congruency with tactics and operations.
4. *Investment Management*: Maintain policies pertaining to investments.
5. *Cash Reserves and Liquidity*: investment management best practices ensuring availability of funds to meet current obligations and reserve funds to absorb unexpected needs.
6. *Accounting, Auditing and Financial Reporting*: maintain high standards for accounting and reporting in accordance with GASB.
7. *Debt Management*: borrowing for short- and long-term assets that minimizes the average weighted cost of capital and corresponding debt service.

It is equally important that the Town maintain flexibility in its finances so that the Town can react and respond to both changes in the economy and new service challenges and opportunities without measurable financial stress.

1. Revenue and Expenditure Objectives

Managing annual property tax rate changes and operational expenses that support the Town's citizens and other stakeholders is the main objective in achieving economic sustainability into the future. Guidance to ensure the Town's financial assumptions and projections are realistic and well-grounded based on recent trends as well as long-term projections is outlined below:

Revenue

Design, maintain, and administer a revenue system that will ensure a reliable, equitable, diversified and sufficient stream of funds to support the Town services.

- A. Growth in tax levy should not exceed Proposition 2 1/2 guidelines.
- B. The Town will work to develop a diverse property tax base that will increase tax revenue while minimizing the impact on operational costs and preserving the character of the Town consistent with the Town master plan.
- C. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasts when available.
- D. The Advisory Committee along with the Finance Director will oversee an ongoing process to analyze historical revenue trends and will make periodic assessments to determine whether revenue sources will deviate from short and long-term trends observed.
- E. Annual estimates of local receipts should be less than or equal to averages of the last three (3) years except where current income trends or other information indicate a change is underway.
- F. The Town will continue use of user fees and revolving funds as a means of financing services not supported equitably through the existing tax structure.
- G. The Town (Departmental Directors in consultation with the Advisory Board and Select Board) will annually review fees and charges so that said charges may be modified to reflect the cost of providing services.

Expense

Identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

- H. Department Directors are responsible for managing their budgets within the total appropriation for their department.

- I. Periodic reviews of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
- J. The Town will make every effort to maximize any discounts offered by creditors/vendors. The Town will also use competitive bidding to attain the best possible price on goods and services.
- K. The Advisory Committee along with the Finance Director will oversee an ongoing process to analyze historical expense trends and will make periodic assessments to determine whether expenses will deviate from short and long-term trends observed.

2. Budget Planning and Process

Budget planning and control is a continuous activity for the Town which provides both a baseline of services and evaluation of expenses for current and subsequent years.

- A. Based on local, Commonwealth and national economic conditions coupled with initial fiscal projections of revenue and expense, budget guidance will be provided by the Town's Advisory Committee to the accountable managers of the Town's finances, department leaders, agencies, and School Committee on the expense parameters necessary for achieving the current year's expense objectives and an outline of anticipated revenues.
- B. On or before December 31st of each year the Finance Director will submit to the Select Board and the Advisory Committee a proposed operating budget for all town departments.
- C. The Town will maintain a budget structure where recurring revenues are sufficient to cover recurring expenditures.
- D. The Town will adopt and maintain a balanced annual operating budget.
- E. The operating budget shall serve as the annual financial plan for the Town. It will serve as the policy document of the implementation of operational goals and objectives. The budget will provide the staff the resources necessary to accomplish determined service levels.
- F. Budget control and accountability is maintained at the departmental level.
- G. Capital Budgets will be presented to The Advisory and Capital Budget Committee for input and recommendations.
- H. Should the Town establish Enterprise funds, they should reimburse the general fund for town administrative services and other applicable costs.
- I. Monthly, all Town department heads will conduct revenue and expenditure reviews with year-end projections to identify potential budget opportunities or problems early. Said issues will be reported to the Town Administrator and Town Accountant promptly.

- J. The Town will meet or exceed the minimum school funding requirements prescribed by the Massachusetts Department of Education for all schools.
- K. The Town will strive to offer a compensation plan and benefits program that compares favorably with the Metro West and Middlesex County Areas public and private sectors.
- L. The Town will maintain vigilance regarding employees working beyond authorized compensated hours to avoid exposure to Fair Labor Standard Act liabilities and / or the unintended triggering of entitlements to health insurance and other benefits.
- M. Careful study will be exercised before creating new positions or increasing existing positions. Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The Town will invest in technology and other efficiency tools as appropriate to boost productivity. The Town will hire additional staff only after the need for such positions has been demonstrated and documented.
- N. The Town will consider in its budgeting plans any unfunded OPEB liabilities, and, in addition to any required annual contributions, will budget for such additional funding amounts as are deemed prudent and necessary in light of future projected liabilities.

3. Long Term Financial and Capital Planning

Review and monitor the state of the Town's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

- A. The Capital Budget committee shall send out capital guidance to departmental leaders each year and review the requests with the department.
- B. The Town will strive to maintain a five-year rolling Capital Improvement Plan with funding identified for all years that is linked to the operating budget and long-term revenue and financing strategies.
- C. The Town will maintain all its assets at a level adequate to protect the Town's capital investments and to minimize future maintenance and replacement costs. The Town Select Board or designee will identify, maintain, and maximize the utility and value of all land, buildings, and equipment, and identify present and future needs and/or alternative uses of said assets.

4. Investment Management

Maintain policies pertaining to investments, selection of financial services institutions, transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, investment performance reporting, benchmarking and disclosure.

Town funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.

- A. Liquidity – the overall investment portfolio shall remain sufficiently liquid to meet all funding requirements that may be reasonably anticipated.

- B. Monitoring and Reporting – on a regular basis, (annually), a report containing the following information will be prepared by the Treasurer and distributed to the Select Board, Town Administrator and Advisory Committee as appropriate:
 - a. A listing of accounts and securities held
 - b. A listing of short and long-term investment portfolios by security type and maturity to ensure compliance with the established diversification and maturity guidelines
 - c. A summary of income earned annually
 - d. An ongoing discussion throughout the year of general market and economic conditions
- C. The Town maintains a separate and robust policy to oversee the safety, monitoring and maintenance of funds available for investment.

5. Cash Reserves and Liquidity

Manage and invest the Town's operating cash in a manner consistent with all applicable laws and regulations, and provide for necessary liquidity, avoid imprudent risk, and optimize yield. Maintain the reserves, contingencies, and ending fund balances of the various operating funds at levels sufficient to protect the Town's credit as well as its financial position from emergencies.

- A. Cash and investments will be maintained in accordance with applicable laws and regulations and will ensure that proper controls and safeguards are maintained.
- B. The Town will maintain a Reserve Account in its annual operating budget to provide for extraordinary, unforeseen expenditures.
- C. The Town will strive to certify its free cash within 120 days of the close of the prior fiscal year. The Town will further strive to achieve average annual Free Cash certifications that are consistent with best practices recommended by the Commonwealth and not more than 5% of annual General Fund and Overlay appropriations.
- D. The Town will continue to follow a persistent, equitable and professional policy of collecting revenues consistent with DOR and auditor's best practices recommendations.
- E. The Town will strive to avoid the application of Free Cash to the Annual Town Meeting operating budget articles unless used to reconcile certain line-item deficits late in the fiscal year. Other miscellaneous operating needs may be addressed by the re-appropriation of account balances deemed to be surplus.
- F. The Town will strive to maintain a Stabilization Fund sufficient to cover significant and unanticipated expenses that cannot otherwise be covered by the operating Reserve Account.
- G. The Board of Assessors shall annually determine the amount of the overlay to cover anticipated abatements, exemptions, and uncollectible taxes sufficiently and conservatively. The overlay for a fiscal year remains open until it is exhausted, or the Board of Assessors vote to transfer excess no longer needed to cover future potential abatements, exemptions and uncollectible taxes to overlay surplus.

- H. Disbursement, collection, and deposit of all funds will be managed to ensure security, maximum cash availability and compliance with all legal and regulatory requirements and best practices communicated by the Commonwealth.

6. Accounting, Auditing and Financial Reporting

- A. The Town will maintain a strong internal audit capability.
- B. An independent audit will be performed annually in accordance with standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. The principals responsible for the conduct of the annual audit report, the Town Administrator and Finance Director, will present it in person to an open meeting of the Select Board.
- C. During the conduct of the audit, all underlying reports and written representations by Town officials to the auditor will be copied to the Select Board.
- D. The Town will comply with GASB Standards annually.
- E. The Town Administrator in conjunction with the Finance Director will prepare a written corrective action plan addressing the findings and recommendations of the Audit Management Letter(s). Particular emphasis shall be placed on repeat findings.

7. Debt Management

- A. The level of Debt and annual debt service is monitored continuously by the Treasurer and Finance Director. The Town aims to maintain an adequate level of debt service that maintains and replenishes the capital assets.
- B. The Treasurer in conjunction with the Select Board will actively minimize the weighted cost of capital (timing, interest rates) through the use of short-term borrowing in anticipation of issuance of short and long-term bonds.
- C. Departmental historic utilization and depreciation plus the interest is used as a basis for replacement and renovation of current and future needs.
- D. The Town will strive to ensure that appropriations for long term debt service, except self-supporting debt, will not exceed 10% percent of the total General Fund and overlay expenditures.
- E. The Town will strive to avoid the issuance of Revenue Anticipation Notes (RAN).
- F. The Town will maintain its bond rating at the highest level achievable so that future borrowing costs are minimized and access to the credit market is preserved. The Town will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.