



Finance Committee

Finance Committee Meeting Minutes
Wednesday, October 21, 2009 @ 2:00 pm
Larkin Hall at the Provincetown Center for Coastal Studies
Called to Order: 2:09 pm

Membership:

P	E	U	Name	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Thomas Coen, Chair	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ann Maguire, Vice Chair	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Virginia Ross	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Thomas Thurston	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Frederic Biddle	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Philip Gaudiano	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Gabrielle Hanna	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Daniel Hoort	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	David McChesney	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Erik Yingling, Alternate	<input checked="" type="checkbox"/> Voting
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Oliver Kamm, Alternate	<input type="checkbox"/> Voting

(Note: **P** = Present **E** = Excused **U** = Unexcused)

These minutes are in brief format. This meeting was filmed and is available on DVD at the Provincetown Television office.

Also Present:
Sharon Lynn, Town Manager
Alix Heilala, Finance Director

- Order of Business:**
1. To discuss whether or not to include a capital improvements policy within the current scope of proposed financial management policies.
 2. To draft proposed financial management policies for the Town.
 3. To review the minutes of prior meetings, as time permits.
 4. To review the State’s new Conflict of Interest training requirement.
 5. To discuss whether or not to include public statements as a routine

agenda item.

6. To consider any other business that may legally come before the Finance Committee.

Capital Improvements Policy

Mr. Coen distributed copies of a document titled DOR Recommended “*Capital Improvement Budget Policy vs. Provincetown Charter Requirements*” (attached). He then explained that he put this item on the agenda because so many other towns address Capital Improvement and Debt Management policies together.

After mapping the existing Capital Improvement Project (CIP) requirements in the Town the Town Charter to the Department of Revenue’s (DOR) recommended Capital Improvements Policy, Mr. Coen said he had concluded that more than half of the DOR’s recommendations are already covered and that we should probably address this policy at a later time.

Ms. Lynn confirmed that it is her intent to put together a five-year plan that catalogs all of the Town’s capital requirements, including replacement of capital equipment and projects such as repaving the roads; Town Hall maintenance; a new Police Station; and a new Highway Garage.

Proposed Financial Management Policies

Mr. Coen distributed two documents – “*Compiled Debt Management Policies (V.3)*” and “*Compiled Reserve Policies (V.1)*”. Copies of both are attached. Each of the documents maps the DOR’s policy recommendations to policy examples from other Massachusetts towns.

The Town Manager, the Finance Director and the Committee reviewed the various policy examples and selected the ones that they deemed most appropriate for Provincetown. Mr. Coen agreed, based on this discussion, to put together draft policies for review at the Committee’s next meeting.

Minutes

The Committee reviewed the minutes of its October 5th meeting. For the first time, Mr. Coen included links to all of the external documents that were distributed at the meeting.

Motion # 1: To approve the minutes of the Committee's October 5, 2009 meeting, as presented.			
Motion By: Ann Maguire		Second By: Erik Yingling	
For: 4	Against: 0	Abstain: 2	Recuse:

Conflict of Interest Training

The Town Clerk sent an email to all Town board members on October 16th outlining the State's new mandatory conflict of interesting training. A summary of the Conflict of Interest Law and an acknowledgement of receipt form are attached to the email message. The online program must be completed by all board members no later than December 28, 2009.

Public Statements

Mr. Coen proposed making public statements a routine agenda item. After some discussion, it was agreed that this is a good idea except during the annual departmental budget hearings.

Motion # 2: To make Public Statements a routine agenda item, except for departmental budget hearings.			
Motion By: Ann Maguire		Second By: Gabrielle Hanna	
For: 6	Against: 0	Abstain: 0	Recuse:

Other Business

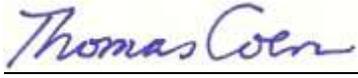
Mr. Coen distributed copies of a January 19, 1950 Provincetown Advocate article entitled "*Duarte Motors Acquires Railroad Land – Modern Garage,*

Parking Area Planned". It's very interesting in light of the recently proposed Transportation Center project.

Here is a link to the article on the Provincetown History Project website:

<http://www.provincetownhistoryproject.com/archives/view/1893>

Next Meeting:	Wednesday, October 28, 2009 @ 10:00 am
Adjourn:	4:14 pm
Minutes by:	Thomas Coen

Approved by  on October 30, 2009
Thomas Coen, Chair

1. The town will make all capital improvements in accordance with an adopted capital improvement program. (DOR)

2-1-6 The board of selectmen shall include all proposed operating expenditures in a single article on the warrant, and all regular proposed capital improvement expenditures in a single article in the warrant.

2-3-5 The town meeting shall consider and act upon, with or without amendments, all proposed operating and capital improvement budgets, bond issues, and other financial proposals of the town.

9-2-3 The town manager shall submit the capital improvements program to the board of selectmen by the third Monday of December prior to the annual town meeting. The board of selectmen shall act thereon or before the thirty-first day of January and shall then submit it to the finance committee, which shall issue its recommendations as part of its printed report on the annual budget.

9-2-4 The finance committee shall publish, in one or more newspapers of general circulation in the town, the general summary of the capital program and notice stating:

(a) the times and places where copies of the capital improvement program are available for inspection; and

(b) the date, time, and place, not less than seven days following such publication, when the committee shall conduct a public hearing on said program.

2. The town will develop a multi-year plan for capital improvements and update it annually. (DOR)

7-2-11 The town manager shall be responsible for the development and annual revision of a capital improvements program in accordance with this charter.

9-2-1 The town manager shall prepare a five-year capital improvements program which shall include:

a. a clear summary of its contents;

b. a list of all improvements proposed to be undertaken during the next five fiscal years, together with supporting data, including:

1) acquisition and construction, including expansion of existing facilities;

2) repairs and major maintenance; and

3) replacement program, including existing equipment and vehicles;

- c. (c) cost estimates, methods of financing, and recommended time schedules; and
- d. (d) the estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

9-2-2 The above information may be revised and extended each year with regard to capital improvements pending or in the process of construction or acquisition.

- 3. **The town will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development or changes in economic base will be calculated and included in capital budget projections. (DOR)**

9-2-5 The board of selectmen shall present the capital improvements program to the annual town meeting.

- 4. **The town will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts. (DOR)**

9-2 -1 (d) the estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

- 5. **The town will use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and priorities, and whose operating and maintenance costs have been included in operating budget forecasts. (DOR)**
- 6. **The town will maintain all its assets at a level adequate to protect the town's capital investment and to minimize future maintenance and replacement costs. (DOR)**
- 7. **The town, as part of its capital planning process, will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection, a maintenance and replacement schedule will be developed and followed. (DOR)**

9-2-1 (c) replacement program, including existing equipment and vehicles;

- 8. The town will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Town Meeting for approval. (DOR)**

*9-2-1 (d) cost estimates, methods of financing, and recommended time schedules;
and*

- 9. The town will determine the least costly financing method for all new projects. (DOR)**

Provincetown Charter References to Capital Improvements

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2-3-5 The town meeting shall consider and act upon, with or without amendments, all proposed operating and capital improvement budgets, bond issues, and other financial proposals of the town.

7-2-11 The town manager shall be responsible for the development and annual revision of a capital improvements program in accordance with this charter.

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(1) acquisition and construction, including expansion of existing facilities;

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(3) replacement program, including existing equipment and vehicles;

(c) cost estimates, methods of financing, and recommended time schedules; and

(d) the estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

9-2-2 The above information may be revised and extended each year with regard to capital improvements pending or in the process of construction or acquisition.

9-2-3 The town manager shall submit the capital improvements program to the board of selectmen by the third Monday of December prior to the annual town meeting. The board of selectmen shall act thereon or before the thirty-first day of January and shall then submit it to the finance committee, which shall issue its recommendations as part of its printed report on the annual budget.

9-2-4 The finance committee shall publish, in one or more newspapers of general circulation in the town, the general summary of the capital program and notice stating:

(a) the times and places where copies of the capital improvement program are available for inspection; and

(b) the date, time, and place, not less than seven days following such publication, when the committee shall conduct a public hearing on said program.

9-2-5 The board of selectmen shall present the capital improvements program to the annual town meeting.

9-3-1 The budget and the capital improvements program shall be public records, published in the town report, and copies shall be kept available for inspection at the office of the town clerk and at the public library.

1. **PURPOSE: The town will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues. (DOR)**
 - a. Long-term borrowing will be confined to capital improvements too expensive to be financed from current revenues. In general, the Town will attempt to finance purchases costing less than \$25,000 with operating revenues. (Needham)
 - b. Debt financing shall be reserved for capital projects and expenditures which either cost in excess of \$100,000 or have an anticipated life span of five years or more, or are expected to prolong the useful life of a capital asset by five years or more. (Brookline)
 - c. The requirements for debt financing shall be an expenditure of at least \$25,000 and a useful life in excess of five (5) years for only those projects not able to be financed from current revenues. (Amherst)

2. **USEFUL LIFE: When the town finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project. (DOR)**
 - a. Bonds will be paid back within a period not to exceed the expected useful life of the capital project. (Needham)
 - b. Bond maturities shall not exceed the anticipated useful life of the capital project being financed. Except for major buildings and water and sewer projects, bond maturities shall be limited to no more than ten years. (Brookline)
 - c. The FINCOM encourages a prudent use of debt so as to spread out the cost of large capital assets over a period of time that should not exceed the expected useful life of the asset. (Reading)
 - d. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed.

State law strictly regulates both the purposes for which cities and towns can borrow and the time periods for which these borrowings can occur. Borrowing purposes and maximum loan durations are set out in Chapter 44 §§7 & 8. STATE LAW.

Chapter 44 enunciates numerous limitations and procedures that govern local debt issues. One of these limitations places a ceiling on the maximum amount of debt a town may have authorized at any one time. Chapter 44 §10 sets this limit at 5% of the equalized valuation (EQV) for towns. The statute permits municipalities to exceed these limits only with the approval of the Emergency Finance Board (EFB), established under the provisions of Chapter 10 §47. With EFB approval, the Town's borrowing limit may be increased by an

additional 5%. As of June 30, 2006, the Town's debt service equaled only 0.12% of EQV. (Amherst)

- e. Debt maturity will not exceed the lesser of: the useful life (as established by the Town Treasurer-Collector), or the period of probable usefulness (as defined in Massachusetts State Local Finance Law), of the object or purpose so financed, whichever is shorter. (Sudbury)
- 3. DOWN PAYMENT: On all debt-financed projects, the town will make a down payment of at least _____ percent of the total project cost from current revenues. (DOR)**
- a. The Finance Committee (FINCOM) of the Town of Reading hereby establishes and adopts a Debt & Capital Policy that a minimum of 5% of Net Available Revenue ('NAR' - as defined below) shall be devoted to construct and replace the capital plant of the community, both as debt repayment and annual payments as part of the budget for capital items. (Reading)
 - b. If debt service of any new capital project is expected to exceed 0.25% of NAR in any single year, the project should instead be brought forward as debt or capital excluded from the tax levy. (Reading)
 - c. Net Available Revenue is defined as all general fund revenues, excluding any MSBA reimbursements or revenues collected outside the tax levy. (Reading)
 - d. The most recent set of certified financial statements will typically be used to calculate Net Available Revenue. The FINCOM may use the best estimates from the Town's financial staff at other times. (Reading)
- 4. DEBT SERVICE LIMIT: Total debt service for general obligation debt will not exceed _____ percent of total annual locally generated operating revenue. (DOR)**
- a. The Town will strive to limit total debt service, including debt exclusions and self supporting debt, to 10 percent of gross revenues. (Needham)
 - b. General Fund debt service, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed 10% of General Fund revenues.
- The credit rating agencies, such as Moody's Investor Services, consider debt service exceeding 20% of net operating revenues as a potential problem. Dramatic increases in debt service also indicate potential problems unless revenue sources increase to keep pace with these additions to fixed costs. The 10% benchmark provides a policy to apply to new projects and the growth of revenues to finance such projects. As of June 30, 2006, the Town's debt service equaled 3.9% of net operating revenues. (Amherst)*
- c. Restrict debt service payments to a maximum 30% of the property tax levy*. (Great Barrington)

- d. Establish a target balance of the general undesignated fund balance at a minimum of 10% of the total operational expenditures of the general fund. (Great Barrington)

5. DEBT LIMITS: Total general-obligation debt will not exceed that provided in the state statutes. (DOR)

- a. Total outstanding general obligation debt shall not exceed 2.5% of the total assessed value of property. (Brookline)
- b. Long-term debt will be issued only for objects or purposes authorized by state law.

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries of a capital investment to share in the cost of that improvement. Unlike most personal or private debt, towns have access to capital at very competitive tax exempt rates.

Properly managed debt helps to preserve the Town's credit rating, provides flexibility in current and future operating budgets, and provides the Town with long-term assets that maintain or improve our quality of life. (Amherst)

- c. Long-term debt will be issued only for objects or purposes authorized by state law under Chapter 44, section 7 and 8. (Sudbury)
- d. Debt limits established by law and policy will be calculated by the Town's Finance Director and Treasurer-Collector at least once each year and whenever otherwise requested or appropriate. (Sudbury)
- e. General Obligation debt ratio not to exceed 50% of statutory limit (5% of equalized valuation). (Great Barrington)

6. FUNDING SOURCES: Where possible, the town will use special assessment, revenues or other self supporting bonds, instead of general obligation bonds. (DOR)

- a. The FINCOM also recognizes that from time to time additional capital expenses over this 5% minimum will be beneficial for the long term financial health of the Town. These additional expenses may be funded either by use of excess Reserves (as described in the FINCOM Cash Reserves Policy), from the general fund (by way of a budget increase above this 5% minimum Policy), or through other methods outside of the tax levy. (Reading)
- b. The Town will attempt to vote all significant debt questions (over \$500,000) exempt from the limits of Proposition 2 1/2. (Sudbury)

7. **USE OF DEBT PROCEEDS FOR CURRENT OPERATIONS: The town will not use long-term debt for current operations. (DOR)**
 - a. Proceeds for long-term debt will not be used for current, ongoing operations. (Needham)
 - b. Short-term debt may be issued to finance current operating expenditures only in the event of extreme financial emergency. (Sudbury)
 - c. Prohibit the issuance of long-term debt to fund operational programs. (Great Barrington)
 - d. Allow no one-time fund balance transfers for operating purposes. (Great Barrington)

8. **RETIREMENT OF BANS: The town will retire bond anticipation debt within six months after completion of the project. (DOR)**

9. **FULL DISCLOSURE: The town will maintain good communications with bond rating agencies about its financial condition. The town will follow a policy of full disclosure on every financial report and bond prospectus. (DOR)**
 - a. The town will limit annual increases in debt service to a level that will not materially jeopardize the Town's credit rating. (Needham)
 - b. Ongoing communications with bond rating agencies will be maintained, and a policy of full disclosure on every financial report and bond prospectus will be followed. (Needham)
 - c. The Town will maintain good communications with bond rating agencies, bond counsel, banks, financial advisors and others involved in debt issuance and management. (Sudbury)

10. **OTHER: (not covered by DOR policy recommendations)**
 - a. **Capital Project Close Out**
 - i. For those previously authorized bonded projects with residual balances, the Town Administrator shall propose the reallocation of these balances for other capital projects in conformance with MGL Chapter 44, Section 20. (Needham)
 - ii. For those previously authorized projects funded with available revenue (tax levy or reserves), that have residual balances in excess of \$5,000, the Town Administrator shall propose the reallocation of these balances for other future capital projects in conformance with MGL Chapter 44, Section 33B. This practice will avoid abnormally inflating general fund surplus with one-time receipts. (Needham)
 - iii. For those previously authorized projects funded with available revenue (tax levy or reserves), with residual balances of less than \$5,000, the

Comptroller shall be authorized to close these balances to the appropriate fund surplus. (Needham)

b. Amortization

- i. Bond maturities shall be maintained so that at least 60% of the outstanding net direct debt (principal) shall mature within 10 years. (Brookline)
- ii. The Town will attempt to maintain a long-term debt schedule so that at least 50% of outstanding principal will be paid within 10 years.

Debt service costs include annual principal and interest payments. Debt service costs are also a significant portion of fixed costs. A reasonable maturity schedule not only reduces interest costs, but recognizes that capital needs will continue to be identified and recommended. Credit rating bureaus review these maturity schedules and future capital needs. (Amherst)

- iii. 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. (Sudbury)
- iv. Authorize all debt service to have level or declining annual principal payments unless there is a better economically feasible schedule. (Great Barrington)

c. Annual borrowing limit:

- i. The Town will attempt to limit bond sales in any calendar year to \$10,000,000 in order to maintain bank qualifications and thereby receive lower interest rates on bonded debt. (Needham)

d. Enterprise Fund Debt:

- i. To the extent practicable, user fees will be set to cover the capital costs of enterprise type services or activities - whether purchased on a pay-as-you-go basis or through debt financing - to avoid imposing a burden on the property tax levy. (Needham)

e. Capital Improvements Policy:

- i. The FINCOM recognizes that a prudent Capital Improvement Program (CIP) will serve to avoid excessive maintenance and repair costs, and reduce the need for sudden and unexpected capital expenses that may have an adverse impact on the Town's operating budgets. (Reading)
- ii. The Capital Improvement Program will be a minimum of five years of projected capital projects that reflect the prioritized needs of the Town, subject to the anticipated funding provided by this Policy. This CIP will be presented at least twice each year to the FINCOM by the Town's

financial staff, in advance of both the Annual and Subsequent Town Meetings. (Reading)

- iii. Establish a target of 10% of the non-debt service tax levy for CIP operations annually if permissible under the restraints of the State Law. (Great Barrington)

f. Annual Reporting:

- i. The Town's annual Town Report, Town Manager's Budget Request and annual town meeting warrant will give comprehensive summaries of the debt obligations of the Town. (Sudbury)

g. Protection of Essential Services:

- i. Ensure debt management does not require elimination of essential Town services. (Great Barrington)

h. Amendments:

- i. Amend this policy document only by majority vote of the Board of Selectmen and majority vote of the Finance Committee. (Great Barrington)

i. Debt Ratios:

- i. Total outstanding general obligation debt per capita shall not exceed \$2,000. Beginning on July 1, 2004, the \$2,000 per capita shall be adjusted annually by the consumer price index (CPI) for all urban consumers (northeast region all items). (Brookline)
- ii. Total outstanding general obligation debt per capita shall not exceed 6% of per capita income, as defined by the Census Bureau of the U.S. Department of Commerce. (Brookline)

j. Debt Financing Sources:

- i. Long-term debt should not be incurred without a clear identification of its financing sources. (Amherst)
- ii. Authorize no new program without an identified financing source to pay for said program. (Great Barrington)

Reserve Policies (DOR Guidance)

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, its long-term cost to fund major projects.

The discussion of reserves, and the attention of credit rating agencies, generally focuses on free cash, stabilization funds, and sometimes, overlay surplus. Reserve funds under the control of the city council, town finance committee or a district prudential committee are not usually included. A prudent reserve policy will:

1. Establish target balances for the stabilization fund, annual free cash and other reserves in a total dollar amount or as a percentage of the total annual budget. It will develop a schedule of annual appropriations, i.e., to stabilization, or limitations on use, i.e., of free cash, designed to reach and sustain target balances gradually over time; (DOR)

- a. Reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5 – 15% of general fund operating revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses.

The Town will endeavor to maintain a certified Free Cash balance equal to at least 5% of general fund operating revenues. Unappropriated Free Cash in excess of the 5% benchmark may be appropriated to the Stabilization Fund in furtherance the objectives outlined in paragraph b) of this policy. (Amherst)

- b. The Town will endeavor to maintain a Stabilization Fund large enough to buffer the General Fund from the impact of two to three years of reduced state aid and/or declining local receipts. Appropriations from the Stabilization Fund may be for any lawful purpose (Chapter 40, §5) and may only be made by a two-thirds vote of Town Meeting. (Amherst)
- c. Stabilization Fund – a Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.

The target funding level for the (Stabilization) Fund shall be an amount equivalent to 3% of the Town's prior year's net revenue, as defined in the CIP policies. The Fund shall be funded only with Free Cash or one-time revenues. (Brookline)

- d. The Town will work toward the goal of maintaining in the Stabilization Fund an amount equal to five percent (5%) of the total projected general fund operating revenues for the next previous fiscal year. (Sudbury)
- e. The Finance Committee (FINCOM) of the Town of Reading hereby establishes and adopts a Policy establishing a minimum target for cash reserves of 5% of Net Available Revenue (as defined below). Further, the FINCOM recognizes that circumstances may occur which would require the FINCOM to raise or lower this minimum from time to time.

The FINCOM recognizes that the financial health of the Town of Reading is of paramount importance to its residents who receive essential services; to its bondholders who provide funding for long-term Town projects; to its vendors who provide services and equipment to the Town; and to its current and retired employees. This Policy on Cash Reserves is designed to protect the community from sudden and unexpected changes in revenues or expenses.

Cash Reserves are defined as the sum total of free cash, uncommitted Stabilization Funds, and the FINCOM Reserve Fund. Other reserves (such as Sale of Real Estate funds, committed Stabilization Funds and overlay reserves) are excluded from the 5% minimum requirement, though these funds may be considered if circumstances require higher reserves.

Net Available Revenue is defined as all general fund revenues, excluding any MSBA reimbursements made inside the tax levy, or any revenues collected outside the tax levy.

The most recent set of certified financial statements will typically be used to calculate both Cash Reserves and Net Available Revenue. The FINCOM may use the best estimates from the Town's financial staff at other times. (Reading)

- 2. **Direct the use of all or a portion of free cash as a funding source for stabilization, or as an outlay for one-time capital projects. It will use revenue from a specific recurring income source (i.e., rental income) for similar purposes; (DOR)**
 - a. After funding the Town's reserves, as detailed in the Town's Reserve Policies and summarized below, available Free Cash shall be used exclusively to supplement the Capital Improvements Program (CIP).

FREE CASH FOR RESERVES

- Appropriated Budget Reserve – an amount equivalent to 0.25% of the prior year's net revenue shall be appropriated as part of the Town's 1% Appropriated Budget Reserve Fund, as allowed for under MGL Chapter 40, Section 6.

- Stabilization Fund – Free Cash shall be used to fund the Stabilization Fund at a level equivalent to 3% of the prior year's net revenue, as prescribed in the Town's Reserve Policies. If the Fund were drawn down in the immediate prior fiscal year, then an allocation shall be made to the Fund in an amount at least equivalent to the draw down of the immediate prior fiscal year.
 - Liability / Catastrophe Fund – to the extent necessary, Free Cash shall be used to reach the funding target of the Town's Liability / Catastrophe Fund, as outlined in the Town's Reserve Policies.
 - Affordable Housing Trust Fund – in order to support the Town's efforts toward creating and maintaining affordable housing, Free Cash shall be appropriated into the Affordable Housing Trust Fund according to the following schedule:
 - when Free Cash exceeds \$6 million, 5% shall be allocated to the Affordable Housing Trust Fund.
 - when Free Cash exceeds \$7.5 million, 7.5% shall be allocated to the Affordable Housing Trust Fund.
 - when Free Cash exceeds \$10 million, 10% shall be allocated to the Affordable Housing Trust Fund.
 - Special Use – Free Cash may be used to augment the trust funds related to fringe benefits and unfunded liabilities related to employee benefits.
- 3. If free cash must be used for operations, restrict its use as a general revenue source for the ensuing year's budget and to a maximum percentage of total free cash available; (DOR)**
- a. The Town will avoid relying on Free Cash to fund on-going operating expenses. (Sudbury)
- 4. Restrict the use of unexpected, non-recurring revenue, or surplus revenue, to one-time costs, to tax levy relief, etc.; (DOR)**
- a. One-time revenues will be used for capital improvements, additions to reserves or as legally restricted to a specific purpose. (Sudbury)
- 5. Restrict the use of the stabilization fund to non-recurring expenditures and only in an amount above a certain dollar threshold. It will set similar guidelines on use of free cash. (DOR)**
- a. The Stabilization Fund may only be used under the following circumstances:

- a. to fund capital projects, on a pay-as-you-go basis, when available Free Cash drops below \$2 million in any year; and/or
- b. to support the operating budget when Net Revenue, as defined in the CIP policies, increases less than 3% from the prior fiscal year.

The level of use of the Stabilization Fund shall be limited to the following:

- a. when funding capital projects, on a pay-as-you-go basis under #2a. above, no more than \$1 million may be drawn down from the fund in any fiscal year. The maximum draw down over any three year period shall not exceed \$2.5 million.
- b. when supporting the operating budget under #2b. above, the amount drawn down from the fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year net revenue to 3%, or \$1 million, whichever is less. The maximum draw down over any three year period shall not exceed \$2.5 million. (Brookline)

6. Similar guidelines for Free Cash per above.

- a. Free Cash in excess of the goal reserve amount should be used for nonrecurring emergency expenditures, or appropriated to a Stabilization Fund for future capital projects and equipment purchases, or used to provide property tax relief.

This policy, in combination with the other reserves policies, will provide a strategy to avoid creating future operating deficits by over reliance on Free Cash to subsidize the operating budget. (Amherst)

- b. FREE CASH FOR CAPITAL

After providing for the reserves and the Affordable Housing Trust Fund as stated above, 100% of any remaining Free Cash balance shall be dedicated to the Capital Improvement Program (CIP). (Brookline)

7. Other Reserves:

- a. Budget Reserve* – to respond to extraordinary and unforeseen financial obligations, an annual budget reserve shall be established under the provisions of MGL Chapter 40, Section 6. The funding level shall be an amount equivalent to 1% of the prior year's net revenue, maintained in the manner set out below. Any unexpended balance at the end of the fiscal year must go toward the calculation of free cash; no fund balance is maintained.
 - o Funding from Property Tax Levy – an amount equivalent to .75% of the prior year's net revenue shall be allocated from the Property Tax levy to the Appropriated Budget Reserve.

o Funding from Free Cash – an amount equivalent to 0.25% of the prior year's net revenue shall be allocated from Free Cash, per the Town's Free Cash Policies, to the Appropriated Budget Reserve. (Brookline)

* Equivalent to the Finance Committee Reserve Fund. Also known as an unrestricted fund balance or appropriated budget reserve.

b. Overlay Reserve – established per the requirements of MGL Chapter 59, Section 25, the Overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall, at the conclusion of each fiscal year, require the Board of Assessors to submit an update of the Overlay reserve for each fiscal year, including, but not limited to, the current balances, amounts of potential abatements, and any transfers between accounts. If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Board of Selectmen may request the Board of Assessors to declare those balances surplus, for use in the Town's Capital Improvement Plan (CIP) or for any other one-time expense. (Brookline)

8. Other - Stabilization Fund replenishment:

- a. In order to replenish the Stabilization Fund if used, in the year immediately following any draw down, an amount at least equivalent to the draw down shall be deposited into the fund. Said funding shall come from Free Cash. (Brookline)
- b. If and when the Town draws monies from the Stabilization Fund, the Town should also present a plan for replenishing the fund. (Amherst)
- c. Withdrawals from the Stabilization Fund will only be used for sudden and unexpected events such as a loss of a revenue source after Annual Town Meeting has approved the operating budget for the next fiscal year. Withdrawals from the Stabilization Fund will only be made by a two-thirds vote of Town Meeting, only if the balances exceed the 5% target and will not draw the balance below that point. (Sudbury)

9. Other – Interest on Stabilization Fund balances:

- a. Interest earned on Stabilization Fund balances will be retained in the Stabilization Fund. (Sudbury)
- b. Interest earned on Stabilization Fund balances will be retained in the Stabilization Fund. (Amherst)

10. Other – Use of Excess Reserves

- a. Funds in excess of the current Cash Reserves Policy may be:
- Added to reserves. This will increase the financial cushion against any sudden and unexpected changes in revenues or expenses.
 - Added to the Capital Improvement Program. This investment will reduce future maintenance and repair costs.
 - Added to the funding of any long term liability. This will reduce the need for future contributions towards the pension fund or other post-employment benefit costs.
 - Used for one-time expenses for community priorities.
 - Used to supplement the current fiscal year budget, including the opportunity to reduce property taxes or other fees for the Town's residents. (Reading)