

Town of Saugus

Financial Management Policies

Introduction

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Saugus resources. In addition, these principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators and advisors. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject of course to statutory limits.

The principles outlined in this policy are designed to ensure the Town's sound financial condition now and in the future. A review of said policies will take place annually after the close of each fiscal year, following the annual state reporting requirements and the completion of the Town's annual audit.

Sound Financial Condition may be defined as:

- *Cash Solvency* - the ability to pay bills in a timely fashion
- *Budgetary Solvency* - the ability to annually balance the budget
- *Long Term Solvency* - the ability to pay future costs
- *Service Level Solvency* - the ability to provide needed and desired services

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.

Policy Statements

1. The Town Manager shall annually prepare a balanced budget and comprehensive Budget Message as required by state law and town charter. The Budget Message shall include a detailed examination of trends in tax levy "new growth" revenues, local receipts, state aid, and other available funds.
2. The town will avoid budgetary practices that balance current expenditures at the expense of meeting future years expenses, such as postponing expenditures, accruing future years' revenues, rolling over short-term debt.
3. Recurring operating costs will be funded by recurring sources of revenue. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed which create a structural deficit. In addition in order to budget prudently and plan for contingencies the town sets the following:
 - a. Unreserved Fund Balance (free cash) will be planned at 3% to 5% (State Average is 3.79%, GFOA 5%-15%, Bond Rating Agency Guideline 5%) of the operating budget and used only for one-time expenditures such as capital improvements, capital equipment, unexpected or extraordinary expenses such as unbudgeted snow and ice removal expenses and/or to meet the stabilization reserve policy. As of Fiscal Year Ending 06/30/12 the undesignated fund balance was 1.26% of the operating budget.
 - b. New operating costs associated with capital projects should be funded through the operating budget in year two and forward, but reflected in year one of the capital improvement plan.
 - c. The Town will maintain a Stabilization Fund as its main financial reserve in the event of an emergency, unforeseen circumstances or a extraordinary need. It shall be the goal of the town to achieve and maintain

a balance in the Stabilization Fund equal to 5% (State Average 2.90%, GFOA 5%, Bond Rating Agency 5%-10%) of its operating budget, understanding that this will take several years to accomplish. The established target will be reviewed upon meeting this goal. As of Fiscal Year Ending 06/30/12 the stabilization fund balance was .63 % of the operating budget.

5. Capital Plans: The Board of Selectmen and the Town Manager shall be responsible for preparing a 5-year capital improvement plan for the Town of Saugus, which shall be updated annually. The School Committee shall provide input to the Board of Selectmen and the Town manager relative to such plan. Such plan shall include, but not be limited to, cost estimates, methods of financing, recommended time frames and such other information as requested by the Board of Selectmen or the Town manager. The Capital plan will include an estimate of the related maintenance costs for the ensuing 3 years, year one to be budgeted in the capital year and future years within the operating budget.
6. Revenue Policies: Our Revenue Policies will address the need for diversification and stabilization, revenue estimating, user fee methodology and taxes.
 - a. Diversification and stabilization: The Town will maintain a diversified and stable revenue system as protection from short-term fluctuations. We will seek to reduce our reliance on property taxes and intergovernmental transfers, such as state aid, state and federal grants, which are outside our control and typically, are reduced during periods of fiscal crises. Performance indicators will be established in order to monitor the % of revenues by source, categorized by own source revenues and intergovernmental revenues.
 - i. Use of Onetime Revenues: The Town will exercise fiscal conservatism using onetime revenues to fund ongoing expenditures.
 - ii. Reduce reliance on Intergovernmental Revenues: The Town will establish a long-term plan with the intent to reduce its reliance on state aid. When preparing the 3-5 year forecast the town will use a flat line estimating approach.
 - iii. Diversity of Local Industry: The diversification of local commercial and industrial development creates economic resiliency, and a more stable revenue stream. To this end the following items will guide us in the economic development/redevelopment of the Town.
 1. Economic development should increase our revenue source while maintaining or strengthening our overall resiliency during an economic downturn.
 2. Economic development will take into consideration the impact that such development would have on the Towns infrastructure and the demand on services.
 - b. New Revenues: The institution of a proposed new revenue will take in consideration the following:
 - i. Community acceptability
 - ii. Competitiveness: the revenue or tax burden as compared to neighboring communities.
 - iii. Diversity: the balance of revenue sources that can withstand the changes in economic

conditions.

- iv. Efficiency: the cost of administrating (collecting, accounting, etc.) a tax or a fee should bear a reasonable relation to revenues collected.
 - v. Fairness: the distribution of the Town's revenue burden by ability to pay, and the benefits (goods/services) received.
- c. Revenue Estimating: the revenues will be estimated conservatively, using an objective analytical approach. The goal of this policy is to predict revenues as accurately as possible while erring on the side of caution. Methodologies will be established that best fit the accuracy of forecasting, different methods for different revenue types.
- i. Multi-Year forecasts, which give the Town, lead-time to react to expected revenue shortfalls and to intelligently manage predicted revenue surges are a valuable component of sound long-term financial revenue estimating practices.
 - ii. The Town will maintain the historical data and a clear chronology of the budgeted to actual estimates results.
- d. User Fees: user fees are intended to directly recover the cost of the programs delivered to the specific segment of the population receiving the benefit. Prior to establishing a fee structure we will first distinguish between general public goods/services, which delivers a benefit to the public in general and one, which delivers a good/service to a particular group. Typically we will not charge a fee for general public goods/services, (e.g. Police, Fire, Roadway repair and maintenance, etc.). The Town will review all fees charged for good/services annually.
- i. Cost Recovery: when feasible and logically sound our fee-for-service structure will be designed to cover up to 100% of the direct costs, administrative (collection, accounting, etc.) and capital costs associated with the program. Establishing a separate fund for the accounting and managing of these programs should be used to properly track and account for costs and revenues. Fund balance should be maintained at a minimum and reserves should be used for onetime expenditures, such as capital costs.
- e. Revenue Reports: Revenue reports for all funds will be reviewed on a monthly basis by all department heads, or their designee. The official record of revenues is the Town's General Ledger as maintained by the Accountant. The department head must submit documentation to the Accountant and Treasurer/Collector to support a journal entry if a revenue account on the General Ledger needs adjustment.

7. Expenditure Policies:

- a. Maintenance of Capital Assets: Within the resources available each fiscal year the Town will maintain capital assets and infrastructure at a sufficient level to protect the Town's investment, minimize future replacement and maintenance costs, and to continue service levels.
- b. Program Review/Prioritization: The Town encourages delivery of services by other public and private organizations whenever and wherever greater efficiencies and effectiveness can be expected. In addition develop and use technology and productivity advancements that will help reduce or avoid personnel costs.

The intent is to control personnel costs as a proportion of the total budget, to more productively and creatively use available resources, and avoid duplication of effort and resources.

f. Budgetary Control:

i. Budgetary reports will be issued to the department heads and reviewed by them on a monthly basis. The official record of expenditures is the Town's General Ledger as maintained by the Accountant. The department head must submit documentation to the Accountant and Budgetary Control Officer to support a journal entry if a budgetary account on the General Ledger needs adjustment.

ii. The Budgetary Control Officer will issue budgetary summary reports to the Town Manager for review on a monthly basis to assist in managing the day-to-day operations of the town. These reports will be sent to the Finance Committee and Board of Selectmen on a quarterly basis to keep them informed of the Town's operating performance.

g. Special Revenue Funds/Capital Project Funds/Trust and Agency Fund Control: Fund balance reports will be issued to and reviewed by the department heads on a monthly basis. The official record of expenditures is the Town's General Ledger as maintained by the Accountant. The department head must submit documentation to the Accountant and Budgetary Control Officer to support the reconciliation of said funds to the General Ledger monthly and a journal entry if an expenditure account needs adjustment.

8. Debt Service: This policy is intended to establish parameters and provide guidance governing the issuance, management, continuing evaluation of, and reporting on all debt obligations issued by the Town.

- a. Purpose and Use of Debt: Debt shall be incurred for major expenditures. Bond proceeds should be used for planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs permitted by law.
- b. Types of Debt: Debt financing will include general obligation bonds, revenue bonds, leased/purchase agreements, short-term notes, and other obligation bonds. Where possible the Town will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
- c. Project Life: Debt financing will be used for major, no-recurring items with a minimum of a four-year useful life. The Town will strive to issue debt for shorter periods than the maximum allowable when the statutory limit exceeds 10 years.
- d. Restrictions on Debt Issuance: When issuing debt and adding to the current annual debt service budget, the Town will consider the implication of serving the debt within the levy and the impact that action may or may not have on existing budgetary requirements and current service level requirements. The annual debt service obligation is to be no greater than 10% of the operating budget. This will be reviewed annually and determine if changes to the recommended percentage of the operating is in order.

8. Investment practices will be in accordance with the Town's "Investment Policy."