Adopted July 10, 2024 by Advisory Board
Adopted July 16, 2024 by Select Board

TOWN OF DUNSTABLE

FINANCIAL POLICIES
GENERAL FUND – OPERATING BUDGET

The financial policies included in this document are intended to establish a set of written financial management guidelines for the Town's general operating budget. Policies and guidelines are the terms which help guide and direct the town in making financial management decisions. They should be structured with the flexibility necessary to address the complexities of municipal finance that often include unique, unexpected, or extraordinary circumstances. Financial management policies and guidelines are established to support approaches and strategies as they are created or evolve to address ever-changing challenges that face municipalities in the Commonwealth.

Our hope is that this document will (1) provide the public with continued high levels of confidence in their local government's financial decision-making processes and (2) demonstrate to rating agencies and the financial markets that the Town has thoughtfully prepared for its future. These policy guidelines are tools that may be amended by the responsible public bodies, unless otherwise governed by MGL or local bylaws. These policy guidelines are annually reviewed by the Town Administrator, Advisory Board, and Select Board.

The framework for this policy guidebook was borrowed from Towns and Cities that took part in the State's Community Compact Best Practices Program.

The objectives of the Financial Policy Guidelines are as follows:

- To guide the Board of Selectmen, Advisory Board, Town Administrator, School Committee, School Administration, and other key Oversight Boards in making decisions that have significant financial impacts on the Town.
- To set forth planning and operating principles which require that the cost of government be clearly identified, and that financial risk be minimized.
- To regularly evaluate the Town's financial capacity to meet present and future needs.
- To promote credible and sound financial management by providing accurate and timely information on the Town's financial condition to elected officials, staff, the public, and external stakeholders.

- To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.
- To promote improvement in the Town's credit rating and provide financial resources sufficient to meet the Town's obligations on all municipal debt and other long-term obligations.

Balanced Budget

Background: Every municipality in the Commonwealth of Massachusetts is required by law to annually produce a balanced budget. The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

Policy Guidelines: The Town should adopt balanced budgets in which current revenues (recurring) equal or exceed current expenditures. In other words, the Town's operating budget should not grow at a higher rate than revenue growth. Expenditures should be realistically budgeted and estimated revenues should be conservatively budgeted to allow for unanticipated events. The Town will strive to avoid the use of one time or other nonrecurring revenues to fund ongoing expenditures. The Town's current use of free cash to balance the budget should be addressed incrementally over a period of time so that free cash is only used to support one-time expenses or to build up reserves.

The Town should avoid using budgetary procedures that balance the budget at the expense of future years. The Town budget should support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time.

At the beginning of the annual budget development process, the Town Administrator, Advisory Board, and Select Board will formally notify all municipal departments, and School Districts, of the estimated revenue projections for the upcoming fiscal year so that they are aware of the anticipated budget parameters.

References:

- Achieving a Structurally Balanced Budget, GFOA Best Practice, February 2012
- M.G.L. c.44, §31

Submission of Budget and Budget Message

Background: Two central principles of public budgeting are transparency and communication. The GFOA considers the preparation of the annual budget document as essential in providing detailed financial information, while also explaining the key issues that the community must address. It is also important to broadly distribute appropriate information to the staff, elected and appointed officials, and the public, in order to give them a greater understanding of the operations, financing, and key issues confronting the community. Thus, the annual budget document can be viewed as the key communication tool produced each year by a municipality, along with the Annual Town Report.

Policy Guidelines: The Town Administrator's budget proposal to the Advisory Board and Select Board will strive to include a financial plan including all general fund activities for the ensuing fiscal year, an accompanying budget message crafted by the Town Administrator, and all relevant supporting documents.

The budget message should provide context for the proposed budget for all Town departments. It should summarize financial policies for the Town for the ensuing fiscal year, describe the important features of the budget, indicate and explain any major differences in revenues and expenditures from the current fiscal year, summarize the Town's debt position, and include such other material as the Advisory Board deems desirable, or that the Select Board and Town Meeting may reasonably require.

Revenue and Expenditure Forecast

Background: A critical step in maintaining a sound financial plan is the preparation of multi-year revenue/expenditure forecasts. Long-term financial planning, including revenue and expenditure assumptions, is one of the financial practices that credit rating agencies evaluate when assessing a municipality’s credit worthiness. The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time. A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow the Town Administrator, Advisory Board, and Select Board to test various scenarios and examine the fiscal impact on future budgets.

Policy Guidelines: Each year the Town Administrator will work with the Advisory Board and Select Board to prepare a three to five-year Financial Forecast based on current service levels and current funding sources. The Town should strive to incorporate future anticipated Capital Improvement Program expenditures in the forecast. The forecast should be used as a budget tool to enable Town officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast may be utilized to examine the ramifications of changes in revenues and expenditures and allow for analyzing multiple scenarios.

As part of the forecasting process, the Town will conduct an annual Financial Summit detailing financial indicators and comparative benchmarks before the budget process begins within the first fiscal quarter with the Advisory Board, Select Board, School Committee, and School Administration.

References:

- Revenue and Expenditure Forecasting, MA DLS Best Practice, February 2016
- Financial Forecasting in the Budget Preparation Process, GFOA Best Practice, February 2014

Use of One-Time Revenue

Background: The GFOA recommends that communities develop guidance on the use of one-time revenues to minimize service disruptions due to the non-recurrence of these sources. The DLS states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as nonrecurring revenue.

Policy Guidelines: To the extent consistent with Town priorities, one-time revenues should be appropriated to reserve funds and used to fund one-time budget or capital costs.

Reserve Funds

Background: Formal written policies 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, and to hold money for specific future purposes. Reserve balances can also impact a community's credit rating and, consequently, long term debt costs. The major reserves that credit rating agencies generally focus on are fund balances, free cash, stabilization funds, and special purpose stabilization funds.

Free Cash

Background: Free cash results from the calculation, as of July 1, of a community's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended free cash from the previous year. Any free cash use requires an appropriation approved by Town Meeting but only after DLS has certified the free cash total.

Policy Guidelines: The Town will strive to generate free cash in an amount no less than three to five percent of its annual budget. Free cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves. Over the next two fiscal years (FY26 and FY27), the Town will incrementally remove Free Cash from supporting operating, re-occurring expenses.

Beginning in FY26, the Town's free cash balance after supplementing operational expenses, will be distributed annually in the following manner: at least 5% to general stabilization fund and no less than 30% to support short-term capital expenses.

References:

- Free Cash, MA DLS Best Practice, February 2016

Stabilization Funds

Background: A stabilization fund allows a Town to maintain a reserve to enhance the Town's fiscal stability. By Massachusetts General Law, it allows a town 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. The Town has a General Stabilization Fund. A community may establish one or more special purpose stabilization funds and may appropriate into and from them in any year. Generally, a majority vote of town meeting is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority vote is required to appropriate money from a stabilization fund. In accordance with MGL Chapter 40, Section SB, the total of all stabilization fund balances should not exceed 10% of a municipality's equalized value (the sum of the valuation of all property in town).

Policy Guidelines: The Town should strive to build the General Stabilization Fund to guard against unexpected needs or a downturn in economic conditions. The Town should begin to fund the Stabilization Fund annually at a level no less than $25,000 with an eventual target balance of 8-10% of the annual operating budget, as is considered a best practice. The Town will utilize special purpose stabilization funds where and when appropriate, to provide budgetary consistency and solvency over the short and long-term.

References:

- M.G.L. c. 40, §5B
- Special Purpose Stabilization Funds, MA DLS Best Practice, March 2018

Capital Improvement Plan

Background: Planning for and financing the replacement, repair, and acquisition of capital assets is a critical component of any municipality's budget and operations. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sustainable manner. A balance must be maintained between operating and capital budgets, so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financing plan that can be achieved within the limitations of the budget environment. Long-term capital planning is another one of the important local government financial practices that credit rating agencies evaluate when assessing municipalities for credit worthiness.

Policy Guidelines: The Town, through the Capital Planning Committee, Town Administrator, and relevant municipal departments, will continue to annually provide a three-five-year capital improvement plan as part of the budget process. This plan will be based on input from all Town departments and a thorough review by any relevant stakeholders.

As has been the case in recent years, the following principles will guide the development of the CIP:

- The Town Administrator, working in conjunction with the Capital Planning Committee, will prepare forms and instructions and coordinate development of the capital improvement budget.
- Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts, as appropriate.
- Capital projects should be prioritized based upon review by the Capital Planning Committee and Town Administrator.
- The Town should project all capital needs for the next three-five years when developing this CIP. Once established, the projection should be updated each year at a minimum, but more frequently, as required.
- The estimated costs and potential funding sources for each proposed capital project should be identified before it is submitted to the Capital Planning Committee, Select Board, and Advisory Board for Town Meeting appropriation.

References:

- Capital Planning Policies, GFOA Best Practice, September 2013
- Capital Improvement Planning Guide, MA DLS, August 2016

Debt Management

Background: Debt management is essential to the overall financial planning of any municipality. Borrowing funds and repaying over time allows the Town to finance essential projects that it could not afford to pay from current operating dollars. It is critical to develop policies and guidelines for the issuance, timing, and tax impact of current and future debt.

Policy Guidelines: The Town will produce a rolling five-year capital improvement program annually to be reviewed and approved as part of the annual budget process.

The financing for the program will be based on the following guidelines:

- Outside Funding: State, federal, or private grant funding will be pursued and used to finance capital projects whenever possible.
- Pay-As-You-Go: The first source of Town funding for a capital need should be direct funding. The Town should strive to incorporate an appropriate amount into the operating budget so that this funding mechanism can be sustainable.
- Debt Financing/Borrowing: If it is determined that the most prudent course is the issuance of debt, the term of the debt must not extend beyond the useful life of the investment. When possible, on a case-by-case basis, efforts should be made to borrow for a reduced term thus saving in interest payments. The town has historically funded debt for all major projects through a Proposition 2.5 exclusion.