

Budget and Financial Management Policy

(Adopted August 13, 2013 as Policy 2013-02)

Introduction

The financial management policies of the Town of Wellfleet are derived from the Town's adopted By-laws and Charter. The implementation of these policies is driven by our commitment to attain the following goals on a continual basis:

- Provide a full range of municipal services to the community in order to preserve our citizens' high quality of life.
- Maintain a stable tax levy commensurate with economic growth.
- Recruit top tier personnel.
- Promote a seamless flow of communication among staff, committees and boards.
- Retain our AA credit rating.

The financial management policies are intended to be used, and therefore, must be flexible enough to accommodate changing social and economic conditions. It is appropriate for the Board of Selectmen to review these policies every three years and make adjustments as required.

Policies Relating to Financial Management

Financial Planning and Forecasting:

- Revenue and expense estimates should be realistic, yet conservative, to minimize the potential shortfalls in the subsequent year's operating budgets and corresponding impacts on free cash.
- The Town Administrator shall provide a three-year financial plan that includes revenue and expenditure forecasts as updated annually. The forecasts prepared for the annual budget process begin with a preliminary forecast which is used to make tentative decisions on the budget instructions, borrowing expectations, and capital expenditures. Periodic and final forecasts will be updated and presented to the Board of Selectmen and Finance Committee.

Operating Budget Policy:

- The annual operating budget shall be appropriated on a balanced basis where recurring revenues are used to fund recurring expenses:
 - Recurring revenues include property taxes, vehicle excise, fees for services, licenses and permits, fine and forfeits, interest earnings, state aid, and available funds.
 - Recurring expenses include salaries and wages, employee benefits, materials, supplies, contractual costs, and debt service for capital projects.
- The operating budget shall be voted upon at the annual town meeting with each line item as a separate appropriation.

Revenue Policy:

- All decisions to add new or expanded municipal services shall be accompanied by an analysis the impact on the tax levy resulting from providing such service and a determination of the portion of the cost of furnishing such service to be defrayed by user fees.
- Fees for all municipal services shall be reviewed on an annual basis.
- Estimated receipts shall be monitored on a monthly basis.
- One-time revenues or free cash shall be used to fund one-time operating expenses.
- Balances in prior town meeting funding articles shall be reviewed annually and excess balances shall be closed out.
- In order to maintain as low a tax rate as possible, debt drop-off (the increased debt capacity created as previously incurred debt is paid down) shall be utilized to fund the Capital Improvement Plan.

Expense Policy:

- The Town shall maintain a Three-Year Staffing Plan in order to respond to the needs of the organization and to plan for offsetting revenue sources and/or reorganization efforts.
- Department Heads must receive approval for exceeding budgeted expenses from either the Town Administrator or Accountant before costs are incurred.
- All efforts shall be made to identify and implement cost containment/reduction initiatives and operational efficiencies on an annual basis.
- New spending initiatives, departmental reorganizations, By-Law amendments, property acquisitions, gifts, and grants – as well as State mandates - can have significant long-term impact on revenues and operating costs that may not be immediately apparent. Reasonable efforts will be made to identify such long-term costs for incorporation into future capital improvement plans and operating budgets.
- Purchase orders shall be submitted for operating expenses incurred over \$2,000. Purchase orders shall include the account line item to be charged. If the amount is subject to procurement all bid documents must be submitted with the Purchase order.
- The Town Administrator shall serve as the chief procurement officer and be responsible for the purchase of all materials and equipment, supplies and approve the award of all contracts for all Town departments.

Reserve Policy:

The establishment and maintenance of adequate financial reserves provide the Town of Wellfleet with financial flexibility and security. This policy is recognized as an important factor for consideration by bond rating agencies, the underwriting community and financial advisors.

Stabilization Fund:

- The Town of Wellfleet shall maintain a Stabilization Fund.
- Standard Stabilization Fund uses include, but are not exclusively limited to, settlement of litigation and emergency expenditures.
- The Town may, with town meeting approval, use the Stabilization Fund as an “internal bank” to borrow from itself for capital projects.
- The Town shall have a goal to maintain a minimum Stabilization Fund balance of 5.00% of the Operating Budget. If the fund is used for any reason, the goal is to replenish it as soon as possible and no later than within five years.

Finance Committee Reserve Fund:

Its purpose is to respond to extraordinary and unforeseen events/obligations. The Town has established an annual budget reserve in accordance with the provisions of Massachusetts General Law, Ch.40 §6.

- The Reserve Fund shall be budgeted annually to provide for extraordinary and unforeseen expenditures that could not have been anticipated before town meeting, and/or to allow immediate expenditures of funds in the event of an emergency or opportunity that cannot be deferred until the next scheduled town meeting.
- The annual funding target for Reserve Fund shall be 0.50% of the Operating Budget.
- A request for a Reserve Fund transfer will not be considered if it is contrary to the vote of town meeting, or as a ‘backdoor’ means to increase a budget.
- Any unexpended balance at the end of the fiscal year will be closed to expenditure.

Free Cash:

Free Cash represents the result of favorable operations from the previous fiscal year. Receipts in excess of the estimated receipts amount used to set the tax rate and savings from expenditures which are less than amounts appropriated in the Operating Budget both have a positive effect on Free Cash. Receipts which fall short of the estimated receipts and expenses which exceed the appropriation both have a negative effect on Free Cash. The net change to Free Cash is added to the previous fiscal year Free Cash balance. In effect Free Cash is the Town’s net “profit” from operations. The resulting Free Cash balance, once certified by the Massachusetts Department of Revenue, becomes available to the Town to supplement the current year Operating Budget or to reduce the amount raised by taxation for the next Operating Budget. At the end of each fiscal year Free Cash is closed to further use until certified again.

- The goal for Free Cash balance shall be a minimum of 4.50% of the Operating Budget. Higher Free Cash balances are desirable, since the Free Cash balance is also available for cash flow management. Free Cash and the Stabilization Fund together represent the cost of about five weeks of Town operations.

- Free Cash will normally be used at the Annual Town Meeting for adjustments to the current year Operating Budget.

Capital Improvement Plan/Budget Policy:

- Items in the Capital Improvement budget shall fall into the categories of maintenance projects, equipment and new projects within a cost range of \$5,000-\$250,000.
- Capital items costing more than \$250,000, such as new buildings, significant building renovations, dredging projects and land purchases should normally be funded by borrowing and approved under a separate town meeting article.
- The Capital Improvement budget for any fiscal year, excluding expenditures financed by debt, should budget an expenditure amount equal to between (3.00% and 7.00%) of the Town's Operating Budget for that fiscal year except in extraordinary circumstances.
- The Capital Budget shall be primarily funded by Free Cash, the tax levy, and/or other onetime available funds.
- The Capital Budget shall be voted at town meeting with each item (vehicle or building) a separate appropriation.
- This goal should be revisited regularly to ensure that the Town is investing adequately in its capital needs.
- See Charter section 7-5 for additional capital budget requirements.

Debt Management Policy:

Debt is an effective way to finance large capital projects or improvements. Properly managed debt preserves our credit rating, enhances flexibility in current and future operating budgets and provides the Town with long-term assets that maintain or improve our quality of life.

- The Town will propose all new debt issues as debt exclusions.
- The Town will maintain good communications with banks, financial advisors, bond counsel and bond rating agencies.
- Bonds will be paid back within a period not to exceed the expected useful life of the capital project or the period defined by state law, whichever is shorter.
- The Town will structure debt payments in order to maximize cash flow.
- The Town will frequently analyze existing debt in order to take advantage of refinancing and early pay down opportunities.
- The Town's annual Town Report, Town Administrator's Budget Message and Annual Town Meeting warrant will give summaries of the debt obligations of the Town.
- Individual borrowings shall be used only for the purpose for which the borrowing was authorized.

Unfunded Liabilities Policy:

- Pensions – Barnstable County Retirement Assessment is paid as an annual assessment.
- Other Post-Employment Benefits (OPEB) – this is the cost of providing health insurance for retirees and their spouses. While there is no legal requirement to fund OPEB, the Town should strive toward fully funding the Annual Required Contribution, ultimately developing a funding schedule that fully funds OPEB. The Town shall continue its practice of having an independent actuary prepare biennial valuations, which is in compliance with Government Accounting Standards Board requirements.

Related Documents:

The policies set forth herein are intended to be in addition to existing finance documents including, but not limited to, the following:

- Wellfleet Town Charter Chapter 7 Financial Provisions and Procedures.
- Wellfleet General By Laws Articles III, Town Affairs.
- Board of Selectmen Policy 2008-4, Debt Policy.
- Board of Selectmen Policy 2009-2, Investment Policy.
- Massachusetts General Laws relating to municipal finance.