

**Financial Reserve
Policies and Procedures -
DRAFT**

**Approved by:
Select Board &
Finance
Committee
Effective: 9/4/19**

PURPOSE:

To formalize policies for the level of reserves and appropriate uses of the reserves in order to reduce risk in managing the town's short and long-term needs, to improve financial planning, and to help preserve the town's financial position and credit rating.

AUTHORITY:

MGL Chapter 40 §5B
MGL Chapter 69 of the Acts of 2002 (Special Act ¹ Monterey Stabilization Funds)

APPLICABILITY:

This policy applies to the short-and long-range budget decision-making duties of the Select Board, Town Administrator, and Finance Committee. It also applies to the related job duties of the Board of Assessors. It pertains to free cash, stabilization funds, and overlay surplus.

POLICY:

The Town is committed to building and maintaining its reserves to have budgetary flexibility for unexpected events and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall general fund reserves in the level of 13 to 27 percent of the annual operating budget. This target refers to free cash and the general stabilization fund combined.

Free Cash

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it.

The Town will strive to realize year-to-year free cash certifications equal to five to seven percent of the annual operating budget. To achieve this, the Select Board, Town Administrator, and Finance Committee will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. If the Town generates free cash consistently higher than seven percent of the budget, the Select Board, Town Administrator, and Finance Committee will closely examine future budget proposals to determine if revenue projections should more closely align with historical trends, and make adjustments accordingly.

As much as practicable, the Town will limit its use of free cash to building reserves, funding nonrecurring costs (i.e., one-time expenditures, such as capital projects, unforeseen and extraordinary deficits, and emergencies), and offsetting the Town's unfunded liabilities. The Town will avoid the applying free cash to fund the operating budget. The Town will similarly avoid using free cash to reduce the tax rate on the annual tax recapitalization sheet, since this is essentially using it to fund recurring costs.

During the annual budget process, the Town should aim to leave one to two percent of the annual operating budget in free cash in order to maintain a minimum level of funds in free cash, without leaving too much unused money regularly in free cash.

General Stabilization Fund

A stabilization fund is a reserve account allowed by state law 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 established one general stabilization fund.

The Town will endeavor to achieve and maintain a minimum balance of twelve percent of the current operating budget in its general stabilization fund. If the fund falls below the target minimum balance, the Town will annually appropriate to it an amount of at least two percent of the annual operating budget, sourced either directly from the levy or by transfers from excess free cash, in order to build the fund gradually to meet the target minimum balance.

The Town will endeavor to maintain a maximum balance of twenty percent of the current operating budget in its general stabilization fund. If the fund is below the target maximum balance, the Town should consider appropriating to it a discretionary amount during the annual budget process, sourced either directly from the levy or by transfers from excess free cash, in order to build the fund gradually, but not to exceed the target maximum balance.

Withdrawals from the general stabilization fund should be used to fund one-time capital expenditures, mitigate emergencies, or in response to other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the twelve percent minimum target. If any necessary withdrawal drives the balance below this minimum, the withdrawal should be limited to one-third of the fund's balance, and the Select Board, Town Administrator, and Finance Committee will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

PROCEDURES:

- Within 75 days of the close of the Fiscal Year the Accountant shall report the balance in the General Stabilization Fund balance to the Treasurer, Town Administrator, and members of the Select Board and Finance Committee.
- Any votes to increase or to expend from the Stabilization Fund shall require a two-thirds vote of the Town Meeting, consistent with the requirements of state law.

Overlay Surplus

At the conclusion of each fiscal year, the Board of Assessors will submit to the Select Board, Town Administrator, and Finance Committee an update of the overlay reserve with data that includes, but is not limited to: the gross balance, potential abatement liabilities, and any transfers to surplus. If, and only if, the balance exceeds the amount of potential liabilities, the Select Board may request that the Board of Assessors vote to declare those balances surplus and available for use in funding the Town's capital plan or for any other one-time expense. The purpose of the overlay reserve is to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions. It can be used for other purposes only after it is determined to have a surplus. Therefore, unlike the other types of reserves, this policy does not set a funding target for the overlay.

Revolving Funds - ?

Capital Planning Policy and Procedures

PURPOSE:

To formalize standards and guidance for the development of the town's Capital Planning Policy (CPP) for the public's review of the proposed capital projects and their support of the CPP, and for the equitable formulation of the annual capital budget consistent with sound practices and legal requirements.

Capital Planning Policy (CPP) will be agreed upon by the Select Board and the Finance Committee with the Town Administrator as follows:

The CPP will designate responsibilities and processes for preparing the Capital Plan and presenting it to the Public. The Capital Plan must include all anticipated Capital Expenses in the foreseeable future and financing options (see attached request forms). The CPP shall include: 1) A clear and concise summary of its contents, 2) A list of all capital improvements proposed to be undertaken during the ensuing years and 3) Cost estimates, methods of financing and recommended time schedules for the improvement.

POLICY:

The Town Administrator and the Finance Committee will work to craft a Capital Plan in consultation with the Select Board which creates a formal application and evaluation process to be considered in the context of overall planning. Department Heads will submit their Capital Requests concurrently with their Operating Budget Requests at scheduled meetings no later than January 15th.

The Capital Plan will be revisited annually as part of the Budget Process which includes the Finance Committee, Select Board and Town Administrator. Capital Projects will be undertaken to satisfy documented needs or demands of the Town. The Capital Plan will be a realistic multi-year plan of capital spending, considering estimated revenues and other financial resources, which may reasonably be anticipated over the five-year term of the plan. All Capital project proposals shall be evaluated in terms of their necessity and estimated impact upon the annual operating budget of the Town. In the event the Town is awarded discretionary funds for disbursement the same standard will apply.

Capital improvement projects shall meet all of the following criteria:

- Ensure compliance with state or federal law or an administrative regulation or decree
- Enhance protection of public health or safety
- Reduce and/or stabilize operating budget costs and
- Prolong the functional life of a capital asset of the Town by more than ten (10) years.

Definition of Capital

Capital items are defined as costing \$20,000 or more for a single item or \$100,000 for a capital project consisting of multiple line items costing less than \$20,000 each. The capital item should have a useful life of three years or longer.

PROCEDURES:

The Town Administrator's office will distribute this policy and budget worksheets to town departments and gather information to identify and inventory the multi-year capital needs of the Town. Town Departments shall include the following information with their capital requests:

- Estimated cost of the project with supporting documentation
- Identify the problem and evaluate alternative solutions
- Estimated costs delineated by category: architectural, land acquisition, demolition, site improvements, and construction
- Effects on the operating budget (increases or evidence of savings in maintenance and repair)
- Description and explanation of projects needs and benefits for the community as a whole when applicable
- Estimated useful life of project/capital item
- Estimated implementation schedule and completion date
- A plan detailing projects awarded during the past three years and those planned for the next five years.

A sample *Capital Improvement Worksheet* is attached.

The department head shall also complete and submit a *Capital Projects Rating Sheet*. This rating sheet allows scoring and rankings by:

- Priority classification
- Project's expected useful life
- Project's effect on operating and maintenance costs
- Availability of state/federal grants or private funding

The *Capital Projects Rating Sheet* and instructions are attached.

Rating System:

The Town Administrator, Select Board and Finance Committee will rate requests using the following guidelines:

Monterey's Capital Policy includes a **Rating System of 10 criteria** for The Town Administrator, Select Board and Finance Committee to come to a consensus on projects. The finance committee suggests using 3 criteria to rank, choose and fund capital priorities. This overlays the 3 finance committee criteria with the 10 Criteria set out in the Capital Policy.

Fiscally Prudent

Factor 1 – Public Safety and Health – Consideration of the impact of a request and its impact on existing conditions of public safety and health. For example, the reliability of the police cruisers and fire department equipment could have an effect on the Town's ability to provide for the public safety and health.

Factor 2 – Legal Requirements – Consideration of requests based on mandates of local, state or federal regulations or laws. An example would be shoring for the Department of Public Works, which is required during certain excavation and-trenching operations.

Factor 3 – Budgetary Constraints – Consideration given to the effect of various requests on the capital budget in total.

Administratively Efficient

Factor 4 – Infrastructure Needs - Consideration of the impact of a request in relation to infrastructure problems and needs of the community. For example, does the current equipment the Town owns meet the needs of the community in relation to the infrastructure needs (roads/curbs/parks/lighting).

Factor 5 – Efficiency of Services – Consideration given to requests that increase the efficiency of services provided by the Town to the public. A specific example may be the purchase of a new computer system or software that would provide the same level of service that currently takes many hours to perform.

Factor 6 – Personnel Impact – Consideration of requests that are necessary based upon increased personnel or increased use by personnel.

Factor 7 – Administrative Needs – Consideration of requests that are necessary due to the administrative needs of various departments. Common examples would be copiers, fax machines, computer equipment, office furniture, etc. that arise due to other factors (i.e. new employees, volume of material that needs to be maintained, etc.).

Community Impact

Factor 8 – Quantity of Use – Consideration is given to the number of people that will utilize the facilities or equipment and/or how often the equipment will be used. For example, a high-cost item that is used for a specialty purpose on an infrequent basis, should be considered a low priority while an item that has broad uses and will be used by many people should be given a higher priority.

Factor 9 – Public Support – Consideration of requests in relation to public support of a specific project or program, specifically, you should consider how the public will view the purchase of specific capital items.

Factor 10 – Service Impact – Consideration of requests that are necessary due to increased, altered or new services the Town is offering.

CAPITAL IMPROVEMENT WORKSHEET

- 1. Requestor:**

- 2. Contact:**

- 3. Project Manager:**

- 4. Scope of Work: Detailed description of Request: INCLUDE DETAILED PLAN AND COSTS**

- 5. What other DEPTS/ Boards are/will be involved in process.**

- 6. Timeline: Start Date, Key Milestones and Anticipated Completion**

- 7. What impact does this project of operational budget?**

- 8. Have you spoken with the Chief Procurement Officer about your request?**

Vehicle/Heavy Equipment Replacement Request

1. Is this a new capital expense or replacing an existing piece of machinery?

2. Information about vehicle or piece of equipment you are asking to replace.
 - a. Year manufacturer.
 - b. Year went into service for Monterey.
 - c. Number of hours or miles on vehicle/equipment.
 - d. Maintenance cost for the vehicle/equipment. Looking to understand the maintenance costs of the vehicle/equipment over the last 3 years of operation. Three-year maintenance summary expenditures.

3. Will maintenance costs be reduced if you replace the vehicle or piece of equipment? If so, projected maintenance costs savings for the 1st year?

4. Information about the NEW vehicle or piece of equipment you are asking requesting to add to your inventory (if applicable).
 - a. Year manufacturer.
 - b. Year went into service for Monterey.
 - c. Number of hours or miles on vehicle/equipment.
 - d. Maintenance cost for the vehicle/equipment. Looking to understand the maintenance costs of the vehicle/equipment over the last 3 years of operation. Three-year maintenance summary expenditures.

5. Operational costs
 - a. Are there any other operational savings?
 - b. Are there any additional operational costs?
 - c. If the vehicle or piece of equipment going to be traded in? Estimate trade in value?

6. Tell us why you are recommending this purchase?