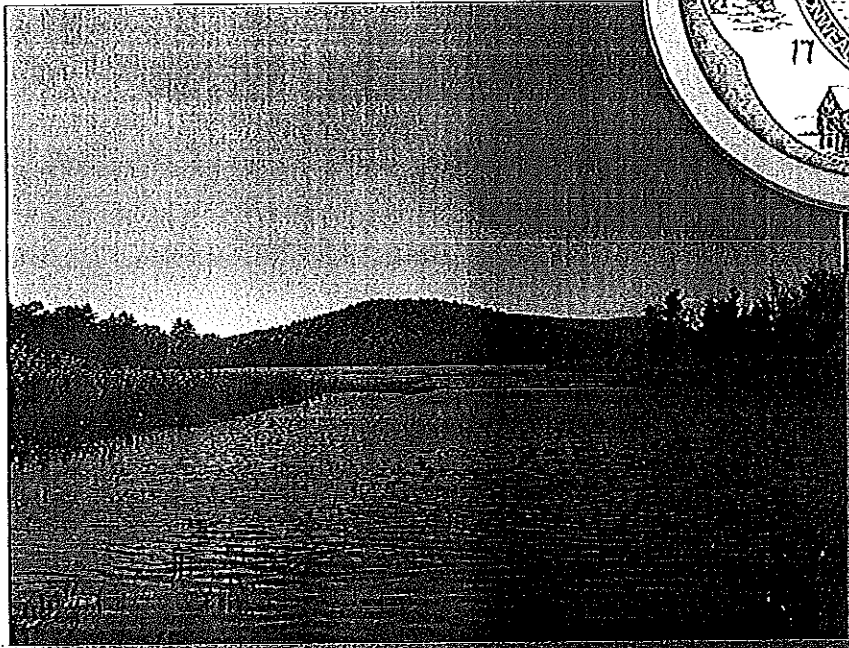
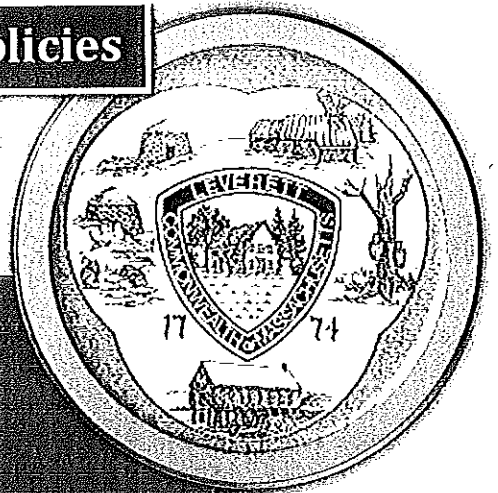


**Town of Leverett**

**FY2017**

**Financial Policies**





# Franklin Regional Council of Governments

August 29, 2016

Selectboard  
Town of Leverett  
9 Montague Road  
Leverett, MA 01054

Dear Selectboard Members:

I am pleased to transmit the final copies of Leverett's new Financial Policies. The documents, attached herewith, were developed and funded under the Baker-Polito Administration's Community Compact Program — an initiative designed to encourage Massachusetts cities and towns to adopt and implement best practices.

Through its compact with the State Division of Local Services, the Town of Leverett agreed to develop, adopt, and adhere to sound financial policies with the goal of providing important structure and consistency to local fiscal policy decisions.

To assist the town, consulting services were provided by the Franklin Regional Council of Governments. The FRCOG's Municipal Finance Specialist provided close guidance to and worked collaboratively with local officials and staff leading to the successful completion of this project.

On recommendation of the Leverett Finance Committee, the Selectboard formally adopted these policies on July 12, 2016. Each year, it shall be the responsibility of the Finance Committee to determine whether the operating and capital budget recommendations presented to it for review comply with the financial policies of the Town.

The Town of Leverett now has documented guidelines for financial decision-making and a foundation on which it can further build. It has the means to establish consistent, sound practices which, over time, can help strengthen public confidence that taxpayer dollars are managed well and spent wisely.

Congratulations to the Town of Leverett for this accomplishment.

A handwritten signature in black ink, appearing to read "Linda Dunlavy", is written over a horizontal line.

Linda Dunlavy, Executive Director  
Franklin Regional Council of Governments

# Town of Leverett

## *Financial Policies*

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## **Town Financial Policies**

The purpose of these policies is to provide the Town with an underlying foundation for financial decision-making and with guidelines that will:

- remain consistent from year to year and thereby enhance stability and continuity in government
- promote sound annual budget practices and accountability in government
- advance the achievement of long-term town-wide goals, including capital investment
- provide for the maintenance of reserves so that the town is well-positioned to address emergency or unforeseen events
- protect the town's bond rating and in turn reduce its borrowing costs and minimize the burden on taxpayers
- instill confidence among residents that taxpayer dollars and other town resources are spent wisely and responsibly
- reflect actions intended to help retain and enhance the character of the town and quality of life in it for residents

On recommendation of the Leverett Finance Committee, the Selectboard formally adopted these policies on July 12, 2016. The addition of new financial policies or revisions to existing policies shall take effect upon the review, consideration and formal approval of the Leverett Selectboard and Finance Committee.

The financial policies of the Town shall be reviewed periodically by the Finance Committee.

Each year, it shall be the responsibility of the Finance Committee to determine whether the operating and capital budget recommendations presented to it for review comply with the financial policies of the Town.

## Budget Guidelines

Implementation of a well-founded budget process is a measure by which residents often gauge the performance of municipal government. The budget document itself is a mechanism for communicating town revenue setting policies, spending priorities and financial goals. A consistent budget process sets clear expectations for department heads and valuable predictability for residents from year-to-year. To advance these worthwhile goals, it is therefore the policy of the Town that:

1. The annual budget development will consistently follow a process where roles and responsibilities assigned to public officials are clear.
2. A balanced annual operating budget will be presented to Town Meeting for its approval.
3. Efforts will be directed to produce a budget which is structurally balanced, that is, where recurring revenues fully fund recurring expenditures.
4. One-time, or non-recurring, revenue should not be used to support recurring expenditures, but will be reserved for capital, emergency or other one-time costs.
5. Revenue projections will be conservative with the intent to maximize the Town's ability to maintain Free Cash levels.
6. Annual budget appropriation requests by departments in the spring will represent amounts needed to fund respective programs and services for the entire ensuing fiscal year.
7. No department, board, committee, commission or person with spending authority shall knowingly incur an appropriation deficit, not already authorized by law.
8. Free Cash certified in the fall will be retained as a reserve for use in case of emergency or significant unforeseen circumstances.

## **Financial Reserves Policy**

The establishment and maintenance of adequate financial reserves are essential in providing the Town with financial flexibility and security and can be used to finance unforeseen or emergency needs, to hold money for specific purposes, or in some cases, to serve as a revenue source for the annual budget. Levels of reserved fund balance and unrestricted fund balance in the General Fund are monitored by credit rating agencies in evaluating creditworthiness that impacts the Town of Leverett's bond rating and consequently, its long term cost to fund major capital projects.

The Town shall establish the prudent financial goals and policies below for funding and maintaining reserves.

### **General**

It shall be the goal of the Town to maintain a combined reserve level from all sources of no less than five (5) percent of the annual General Fund operating budget with preferred target of 10 percent to 15 percent.

### **Reserve Fund**

It shall be the goal of the Town to establish a reserve fund under the provisions of MGL Chapter 40, Section 6 for extraordinary and unforeseen expenditures, and to strive for a funding level of between .50 percent and .75 percent of annual General Fund operating budget, but in any case no less than \$25,000. Any unexpended balance at the end of the fiscal year must revert back to the General Fund and toward the calculation of free cash.

### **Free Cash**

It shall be the goal of the Town to maximize opportunities to generate certified Free Cash at a level no less than five (5) percent of annual General Fund operating budget. Further, in any fiscal year, it shall be the goal of the Town to restrict the use of Free Cash for recurring and non-recurring expenditures, combined, to fifty (50) percent of the amount certified by the State Department of Revenue.

### **Stabilization Fund**

It shall be the goal of the Town to establish a general stabilization fund under the provisions of MGL Chapter 40, Section 5B and to achieve and maintain a fund balance of no less than five (5) percent of the Town's General Fund operating budget.

The general stabilization fund shall serve as the Town's main financial reserve for use in the event of an emergency or extraordinary need, as well as for other non-recurring and/or capital expenditures. The non-emergency use of the general stabilization fund shall be restricted to expenditures no greater than 20 percent in the aggregate of the fund balance as of July 1 each year. Non-recurring or one-time expenditures include capital improvements, capital equipment and extraordinary snow and ice removal expenses. This policy shall not apply to any special purpose stabilization fund created under Section 5B by the Town.



## Debt Management Policy

The purpose of this policy is to establish written guidelines and restrictions for issuing debt and managing the outstanding debt portfolio, and to provide guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the Town of Leverett to establish a debt management policy to:

- ensure high quality debt management decisions
- impose order and discipline in the debt issuance process
- promote consistency and continuity in the decision making process
- demonstrate a commitment to long-term financial planning objectives
- ensure that the debt management decisions are viewed positively by the rating agencies, investment community, and taxpayers

Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt, and the maximum maturity for bonds issued for each purpose. MGL Ch. 44, Sec 10 specifies that the debt limit for towns is five (5) percent of Equalized Valuation. Various federal laws, regulations and agencies also have requirements with which the Town must comply.

### Bond Rating

The community's bond rating is important because it determines the rate of interest it pays when selling bonds and notes as well as the level of market participation (number of bidders). Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts including Moody's, Standard & Poor's, and Fitch typically look at the following four factors in assigning a credit rating:

- 1.) *Debt Factors* — debt per capita, debt as a percentage of equalized valuation, rate of debt amortization, and the amount of exempt versus non-exempt debt.

- 2.) *Financial Factors* — operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, and unfunded pension liability.
- 3.) *Economic Factors*— property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates, and population growth.
- 4.) *Management Factors* — governmental structure, the existence of a capital improvement plan (CIP), the quality of accounting and financial reporting, etc.

The Town of Leverett shall continually strive to maintain the highest bond rating through sound financial management, improved receivables management, accounting and financial reporting, and increased reserves such as the Stabilization Fund and the Capital Expenditure Stabilization Fund.

## **Debt Guidelines**

### ***General Fund Debt Service***

The Town recognizes that maintaining debt levels within supportable standards signifies a commitment to maintaining and improving its infrastructure, to controlling taxpayer burden and favorably impacts credit ratings. Due to Proposition 2 1/2 constraints it is important to limit debt service costs as a percentage of the town's total budget, therefore:

1. It shall be the Town's policy to establish a debt service ceiling of 10 percent. The annual debt service payable on issued General Fund debt including debt exclusions net of all subsidies, reimbursements and offsets shall not exceed 10 percent of the annual operating budget.
2. If by vote of the Selectboard, an emergency or significant unforeseen circumstance is declared which can only be addressed through borrowing, the Town may exceed the debt service ceiling.
3. In order to help stabilize the desired ceiling, the Town will make efforts to schedule future, new debt service to coincide with reduced principal and interests obligations due to maturing debt.
4. It shall also be the Town's policy to establish a debt service floor of two (2) percent as an expression of support for continued investment in the town's roads, public facilities, and other capital assets.

5. Debt financing for projects supported by General Fund revenue shall be reserved for capital projects and purchases which either cost in excess of \$250,000 or have an anticipated life span of five years or more.
6. Total outstanding general obligation debt shall not exceed 2.5 percent of the total assessed value of property.
7. It shall be the Town's policy that bond maturities will not exceed the estimated useful life of the capital purchase or project being financed; that the target average maturity of all debt shall be 10 years or less; and that at least 60% of the outstanding debt (principal net of debt exclusion and enterprise fund amounts) shall mature within 10 years.

These policies shall not apply to Enterprise Fund debt.

### **Alternative Debt Strategies and Issuance**

The Town shall continually pursue opportunities to finance the capital budget by means other than conventional borrowing such as state and/or federal grant funding whenever possible.

The Town shall work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the official statement, preparation of all required documents, and compliance with reporting requirements.

## **Investment Policy**

The purpose of this investment policy is to set general guidelines for the investment of the Town of Leverett's available General, Special Revenue and Capital Projects Funds in a manner that ensures:

- the preservation of capital of the overall portfolio through diversification and prudent selection of investment instruments
- sufficient liquidity to meet all operating and debt service requirements
- attainment of a market average rate of return throughout budgetary and economic cycles, taking into account the legal requirements detailed below and the cash flow characteristics of the portfolio.

If at any point this policy conflicts with the laws or regulations of the Commonwealth, such laws and regulations shall govern.

## **Delegation of Authority**

In accordance with Massachusetts General Laws Chapter 44, Sections 54 (trust funds) and 55 (other public funds), the investment of the Town funds is the responsibility of the Treasurer. The Treasurer shall make all decisions regarding the management of the Town's investment program, subject to the restrictions set forth in said statutes.

## **Legal Requirements**

Massachusetts General Laws Chapter 44 Section 55B requires that all funds of the Town which are not required to be kept liquid for purposes of distribution, shall be invested in such a manner as to require payment of interest on the money at the highest possible rate reasonably available, taking into account the three principles of government investment: safety, liquidity, and yield. Chapter 44 Section 55 limits the investment options for municipal Treasurer's to the following:

- Certificate of Deposit with a maturity of less than one year, issued by commercial banks, mutual savings banks, savings & loans and cooperative banks;

- Money Market Deposit Account from commercial banks, mutual savings banks, savings & loans and cooperative banks;
- Repurchase Agreement with a maturity of less than 90 days, issued by a bank and secured by a U.S. Government or Agency obligation; Pooled Investment Fund operated under the authority of the State Treasurer;
- U.S. Treasury instruments or U.S. Government Agency obligation with a maturity of less than one year;
- Money Market Mutual Funds registered with the SEC must be "AAA" rated from one nationally recognized rating organization (Moody's, S&P, Fitch, etc.).

Chapter 44, Section 55A provides that a municipal Treasurer receiving public money who, lawfully and in good faith and in the exercise of due care, deposits the same in a savings bank or trust company organized under the laws of the Commonwealth, on paid-up shares and accounts of and in cooperative banks, a banking company organized under the laws of the Commonwealth which is a member of the Federal Deposit Insurance Corporation, or in a national bank doing business in the Commonwealth or in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine cannot be held personally liable to a city or town for loss of said money due to the closing of any such depository for the liquidation of its affairs. This provision effectively precludes the use of out of state banks for municipal investment purposes.

## **Investing Guidelines**

### ***Safety***

Safety is the foremost objective of the investment policy.

### ***Credit Risk***

Limiting the investments to the safest types of securities and by investing in banks in accordance with the aforementioned policy may mitigate credit risk.

### ***Liquidity***

The Town will maintain liquidity in its operating funds by limiting the investments in shorter term securities to 90 days or less

### ***Trust Funds***

Investments of trust funds will be made in accordance with Chapter 44 Section 54 of the Massachusetts General Laws

### ***Diversification***

The Town of Leverett will diversify its investments by security type and institution. With the exception of U.S. Treasury securities or U.S. Government Agency funds and the State Treasurer's investment pools, no more than 75% of the Town's total investment portfolio, excluding U.S. obligations and Government Agency Funds will be deposited with a single financial institution.

### ***Selection of Banks for Investments***

It is the responsibility of the Treasurer to assess the financial condition of the banks that the Town of Leverett invests with. This is achieved by the review of bank rating guides, review of Banks' Reports of Financial Condition and annual discussions with the banks regarding their financial position. The Town will only invest in banks with a VERIBANC rating of green light. The Town will divest its money from banks that fall below the green light rating. Primary emphasis will be placed on a bank's capital adequacy, loan quality and profitability before determining suitability for Town investments. Consistent with Chapter 44, Section 55 of the Massachusetts General Laws, the Town will not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the institution's total equity presented on the institution's annual audited financial statements. In addition, it is the Town's policy that at no time shall any single bank or bank holding company, hold in excess of 75% of the Treasurer's cash balance for more than three consecutive days.

### ***Investment Size & Collateralization***

The amount of available funds that the Town of Leverett has in its possession at any one time makes it impractical to invest in banks and maintain the advantage of FDIC insurance. Most of the Town's Certificates of Deposit are purchased in \$1,000,000 blocks in order to take advantage of higher rates. Currently, Massachusetts is one of only four states that have no legal requirement for collateralizing public deposits. Legislation is currently pending to require collateralization. Until adoption of such legislation, the Treasurer will provide as much security as possible for the Town of Leverett's bank

investments through the prudent selection process described above. Preference will be given to banks that offer DIF insurance or collateralized deposits so long as the banks provide a comparable yield on investments.

#### ***Utilization of State Treasurer's Investment Pool***

The Massachusetts Municipal Depository Trust (MMDT) combines the funds of Massachusetts public units and invests on their behalf in short term instruments of U.S. Treasury and Government Agencies and large corporations and financial institutions, thus offering investors (such as the Town of Leverett) the opportunity to earn higher yields through a professionally managed fund. Since its inception, the State Treasurer has employed Fidelity Investments as the Fund's manager. It is recognized that these investments are neither fully collateralized nor backed by the good full faith and credit of the Commonwealth of Massachusetts. However, there is a high degree of safety as a result of the pool's use of: delivery versus payment for many of their securities; utilization of full disclosure to ensure that investing officials are aware of significant investment and administrative policies, practices and restrictions; collateralization of all repurchase agreements; the application of FDIC pass through insurance; and limiting investments to high quality marketable securities as defined in the enabling legislation. This degree of safety is recognized by the Government Accounting Standard Board in its qualification of state investment pools in financial statements.

The Town of Leverett will continue to utilize this highly liquid, comparatively safe instrument as an integral part of its overall investment strategy contingent upon the competitiveness of its yield.

#### ***Third Party Custody***

For the custody of some book entry U.S. Treasury and Government Agency securities purchased by the Town, collateral for any repurchase agreements that the Town may enter into and collateral against any bank investments the Town may require, a custody account may be established in the name of the Town of Leverett in a trust company to receive and hold such securities.

#### ***U.S. Treasury and Government Agency Securities***

The Town will utilize these securities for reasons of diversification and security. Treasury securities will be purchased either at auction or through the secondary market. Agency securities will only be purchased through the registered dealers. The definition of Agency securities will include instrumentalities, but will be limited to Discount Notes and Variable Rate Notes. Coupon Securities may be purchased on the secondary market as long as the remaining maturity is less than one year.

***Repurchase Agreements***

Repurchase agreements will be used only on a limited basis for durations of less than 90 days. Except in the case of overnight repurchase agreements used for the investment of available float in one of the Town's operating accounts, any agreement entered into by the Town will be on a delivery versus payment basis and in the format of Public Securities Association Master Repurchase Agreement. Collateral will be in the form of U.S. Treasury or Government Agency securities delivered to the Town's third party custodian.



## **Audit Policy**

The purpose of this policy is to underscore the Town's commitment to the completion of periodic independent audits, and in doing so, to strengthen public confidence that the Town's year-end financial statements are reliable, accurate, and complete; internal financial controls are in place and executed to protect community assets; departmental procedures are sound; credit rating agencies have evidence that the Town's financial condition is healthy; and that the Town has a management tool for measuring performance. Therefore, it is the policy of the Town, that:

- an audit of the Town's year-end financial statements shall occur no less than bi-annually
- the principal person engaged to complete the audit, whether a sole practitioner or a member of a firm, is a Certified Public Accountant with Massachusetts municipal audit experience
- the Town's agreement with an auditor will, in addition to customary terms, include estimated dates for the start and completion of the audit, and a requirement to make a formal presentation of audit results to the Town
- the Town will, at least every five (5) years, consider issuing a new solicitation for an auditor or audit firm
- the Selectboard will address comments and issues arising in the auditor's management letter and monitor corrective action

## Other Post-Employment Benefits Policy

Other Post-Employment Benefits (OPEB) refer to benefits, other than pensions, that town employees earn while actively working, but don't receive until they retire. The largest OPEB cost is for health insurance, but coverage for dental, vision, prescription drugs, etc. can be included as well. In 2004, the Governmental Accounting Standards Board (GASB Statements 43 & 45) directed that towns account for these liabilities and every two years complete an actuarial analysis to identify their total OPEB costs. More recently, whether a Town has a policy for addressing OPEB has become a concern of auditors and bond rating agencies.

Therefore, in order to avoid any potential detrimental impact OPEB costs might have on the Town's annual operating budget; to help ensure positive audit results; and to protect the Town's bond rating, it is the policy of the Town to:

- Maintain the OPEB liability trust fund previously established under MGL, Chapter 32B, §20
- Arrange for the completion of an OPEB actuarial analysis every three years as required by GASB Statement 45.
- To appropriate from the Town's General Fund and from Special Revenue Funds, as available, an amount each year into the OPEB liability trust fund.
- To work toward the development of contribution schedule that projects full OPEB funding by a year certain.