COMBINED FINANCIAL POLICIES

DEDHAM, MASS. | AS VOTED IN 2024

TOWN OF
DEDHAM
MASSACHUSETTS

INTRODUCTION

Recognizing the importance of sound financial policies and continuity in their application, the policy makers and senior management of the Town of Dedham adopted broad policies on finance, investment, and debt. Although the basic principles that were originally adopted in 2003 still guide the Town's financial management, we have evaluated the policies based on our experience and changes in the law, the economy and market conditions. The review and codification of these principles, also completed in 2012, demonstrate our resolve to affirm to Town Meeting and the taxpayers that Dedham will continue to conduct business on a fiscally responsible basis.

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Dedham's 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 policymakers, administrators, and advisors with the understanding that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits, such as Proposition 2½.

The principles outlined in this policy are designed to ensure the Town's sound financial condition now and in the future; sound financial condition as defined below:

- The ability to pay bills in a timely fashion.
- The ability to annually balance the budget.
- The ability to pay future costs.
- The ability to provide needed and desired services.

Guiding Objectives

- Provide full value to Dedham residents and businesses by delivering quality services on a cost-effective basis.
- Preserve the Town's quality of life by providing and maintaining financial resources to sustain a sufficient level of services.
- 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.
- Provide guidance to Town leaders for the stability of Dedham's finances.

Financial Goals

- Maintain the highest possible bond rating.
- Achieve and maintain a balance in the General Stabilization Fund between 5% and 10% of the operating budget.
- Include in the annual budget amounts sufficient to fully fund the agreed upon payment schedules related to the Town's pension and other post-employment benefits(OPEB) obligations. The Town's goal is to attain and maintain full funding using the agreed upon payment schedules.

Financial goals are necessary to maintain a sustainable budget model and provide complete disclosure of current and future conditions. Annually, the Town Manager shall include a statement in the comprehensive Budget Message identifying progress toward meeting the above goals. The Finance and Warrant Committee shall include a similar message in the Annual Town Meeting Warrant Book.

Policy Principles

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 the tax levy, new growth revenues, local receipts, state aid, available funds, and a report on the status of maintaining or achieving the goals stated herein. The Budget Message should also include comments on the budget's impact on the Town's statement of net position.

2. The Town will avoid budgetary actions that balance current expenditures at the expense of meeting future expenses, such as postponing expenditures, accruing future years' revenues, and rolling over short-term debt.

3. The Town follows the matching principle where ongoing operating costs will be funded by ongoing operating revenue sources. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed.

a. The annual unrestricted fund balance, otherwise known as Free Cash, should be used only for one-time expenditures (i.e., capital improvements and capital equipment) and unexpected or extraordinary expenses (i.e., unbudgeted snow and ice removal expenses).

b. The annual unrestricted fund balance shall not be considered in balancing the current year budget. Once certified, however, the Free Cash from the prior year shall be available for appropriation at any Town Meeting.

4. The Town will maintain a General Stabilization Fund as its main financial reserve in the event of an emergency or extraordinary need. Expenditures of the General Stabilization Fund can only be made with a two-thirds majority vote of Town Meeting. Prior to Town Meeting, the Select Board and the Finance and Warrant Committee should take positions on the warrant article seeking appropriation from the General Stabilization Fund.

5. Annual debt service, exclusive of debt exempt from Proposition 2 ½ limits and financed directly with additional taxes or matching funds, should be no more than 7.5% nor less than 5% of the annual operating budget. The Town should strive to issue debt for shorter periods than the maximum allowable when the statutory limit exceeds 10 years. Please refer to the Town's Debt Management Policy for a more complete discussion of this subject matter.

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

7. Capital planning and capital expenditures will be in accordance with the Town's Capital Policy.

2.1 THE INVESTMENT OF GENERAL FUNDS, SPECIAL REVENUE FUNDS, AND CAPITAL PROJECTS FUNDS

Introduction

Section 1.1 of the Investment Policy applies only to short-term operating funds, such as general funds, special revenue funds, enterprise funds, and capital project funds. Section 2.2 will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. The Town Retirement Board is responsible for the investment of the pension funds.

Objectives

Massachusetts General Laws (MGL), Title VII, Chapter 44, Section 55B requires the municipal Treasurer/Collector to invest all public funds except those required to be kept uninvested for the purpose of immediate distribution. Modern banking systems enable the municipal Treasurer/Collector to maintain these funds in interest bearing form until the date a disbursement order clears through the banking system. State law further requires that invested funds be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity, and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of Town's business.

Safety of principal is the foremost objective of the investment policy. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be lessened by diversification and prudent selection of investment instruments and choice of bank or brokerage house. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.

Liquidity is the second most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer/Collector shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings and loss of principal, in some cases.

Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints, as well as all legal requirements.

Investment Instruments

Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the town, of a lower interest rate. The Treasurer/Collector negotiates for the highest rates possible, consistent with safety principles.

The Treasurer/Collector may legally invest in the following instruments:

1. Massachusetts Municipal Depository Trust (MMDT) Cash Portfolio: The MMDT Cash Portfolio offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation on capital and liquidity. Seeking to preserve capital investment through prudent management and sound investment policies and restrictions, it aims to maintain sufficient liquidity to meet reasonably foreseeable participant redemption activity. The investment objectives of the MMDT Cash Portfolio are preservation of capital, liquidity, and yield. The MMDT Cash Portfolio offers participants an investment option for operating capital and bond proceeds consistent with their investment time horizons.
    a. Under Governmental Accounting Standards Board Regulation (GASB Statement Number 3), the MMDT Cash Portfolio is not considered an uncollateralized product.

2. Massachusetts Municipal Depository Trust Short Term Bond Portfolio: This offers participation in a diversified portfolio of investment grade short-term fixed-income securities that seek to generate long-term performance exceeding the Bloomberg Barclays 1 to 5 Year Government/Credit Index. It presents a fixed-income alternative with a longer time horizon than the cash portfolio. It offers participants an investment option for operating capital and bond proceeds that is consistent with investment time horizons. that is consistent with investment time horizons.

3. United States (U.S.) Treasuries of unlimited amounts that are intended to be held to maturity up to one year from the date of purchase.

4. U.S. Agency obligations of unlimited amounts that are intended to be held to maturity up to one year from the date of purchase.

5. Bank accounts or Certificate of Deposit (CD); Unlimited amounts fully collateralized through a third-party agreement. Collateral pledged should be 102% of the deposit, and should consist of US Treasury Bills, Notes, Bonds, Federal Home Loan Bank notes, bonds or senior obligations or General Obligation Bonds of the Commonwealth rated AA or higher.

6. Bank accounts and CDs should be fully insured by the Federal Deposit Insurance Corporation (FDIC) and, in some cases, the Depository Insurance Fund of Massachusetts (DIF) or the Share Insurance Fund (SIF). All bank accounts and CDs in one institution are considered in aggregate to receive the $250,000 FDIC insurance coverage.

7. The Treasurer/Collector should consider choosing banks with FDIC and either the DIF or SIF insurance to fully protect Town funds, or a firm offering collateralization.

8. MGL c.44, §55 states a town shall not at any one time have on deposit in a bank or trust company or banking company an amount exceeding sixty percent of the capital and surplus of such bank or trust company or banking company. These investments will be limited to no more than 5% of an institution's assets and no more the 25% of the Town's liquid cash.

9. Repurchase Agreements, commonly referred to as Repos, are not to exceed ninety days.

10. Certain mutual funds, under MGL c.44, §55, as amended by Chapter 314 of the Acts of 1996.

Diversification

Diversification should be interpreted in two ways: in terms of maturity, as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. Except for US Treasuries or Agencies and the MMDT, no more than 25% of the Town's liquid cash should be invested in a single financial institution, unless that institution's investment is fully insured or collateralized. Diversification strategies will be determined and revised by the Treasurer/Collector on an ongoing basis.

Authorization

The Treasurer/Collector, and Assistant Treasurer/Collector in the Treasurer/Collector's absence, has authority to invest Town funds, subject to the statutes of the Commonwealth cited above.

Ethics

The Treasurer/Collector, Assistant Treasurer/Collector, Commissioners of Trust Funds, and any other officers authorized to invest Town funds shall refrain from any personal activity that may conflict or appear to conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any personal financial investment positions or loans that could be related to the performance of the Town's investments.

Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be licensed, insured dealers.

The Treasurer/Collector shall require any brokerage houses and broker/dealers, wishing to do business with the Town of Dedham, to supply the following information annually:

- Audited financial statements.
- Proof of National Association of Security Dealers certification.
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of $10,000,000).

Reporting Requirements

It is important to keep the public informed of the Town's investments. The Treasurer/Collector will provide the following:

1. Information to be included in the Town's Annual Report, including at a minimum, a listing of individual accounts held at the end of the reporting period. The Treasurer/Collector will also include a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
2. Information as required for the Annual Comprehensive Financial Report (ACFR).

Custodial Credit Risk
The custodial credit risk for deposits is the risk that in the event of a failure of a depository institution, the Town would not be able to recover deposits, or the securities used to collateralize the deposits from the institution, or third party. For investments, the risk occurs if the Town is unable to recover the value of an investment, or collateral in possession of a third party.

The Treasurer/Collector will review each financial institution conducting business with the Town on a quarterly basis, using a recognized bank rating service. In addition, required monthly activity statements must be reconciled to the Town's records to ensure the timely resolution of any errors, discrepancies, etc. Securities held directly by the Town must be registered in the Town's name and tax identification number to prevent loss.

Investment pools managed by the Pension Reserves Investment Management Board (PRIM) for the Pension Reserves Investment Trust (PRIT) Fund, and at the MMDT document the Town's shares as units of the investment pools. Otherwise, securities purchased on the Town's behalf by a financial/investment firm must be in the Town of Dedham's name.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Treasurer/Collector will negotiate for competitive interest rates that are locked in for long terms. The Town will seek to structure its investment portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity.

Credit Risk
Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. Investments in any of the following are safe from credit risk: state-chartered banks' depository accounts (including CDs), obligations backed by the US Treasury or other US government agency, and the MMDT. For any other investments, the Treasurer/Collector will only purchase investment grade securities highly concentrated in those rated A or better.

2.2 THE INVESTMENT OF TRUST FUNDS AND MANAGEMENT OF BONDS PROCEEDS

Scope
Section 2.2 of this policy applies only to funds that could be invested long term (i.e., bond proceeds, trust funds, and stabilization funds).

Bond Proceeds
The management of bond proceeds is governed by the same restrictions as general funds, with the additional caveat of federal arbitrage regulations. The investment goals are the same as those for general funds.
Arbitrage violations may lead to penalties and fines as well as the loss in tax-free status of the debt. In order to avoid having to pay a rebate to the Federal government on investment income earned on borrowed funds, all funds should be used in accordance with the relevant spending schedule.

Trust Funds
The investment of trust funds for library purposes is subject to the direction of the Board of Library Trustees. Unless otherwise directed by the terms of the trust instrument, all other trust funds are under the jurisdiction of the Commissioners of Trust Funds. The investment goal is long-term preservation of capital.

Trust Funds may be commingled and invested according to the prudent investor rule set forth in MGL c.203C. Each trust fund must be accounted for separately as to its nonexpendable principal (if any), its expendable balance, and its income.

Stabilization Funds
This paragraph shall apply to all general and special purpose stabilization funds of the Town. The total of all stabilization funds shall not exceed ten percent of the equalized valuation of the town, and any interest shall be added to and become a part of the fund. The Treasurer/Collector may invest the funds according to the prudent investor rule set forth in MGL c.203C.

Stabilization funds can be expended only upon a two-thirds vote of Town Meeting. Therefore, the investment goals are mid-term preservation of capital with foreseeable liquidity horizons.

Other Post-Employment Benefits Liability Trust Fund
The OPEB Trust Fund was established by vote of Town Meeting on May 18, 2009, in accordance with MGL c.32B, §20. The OPEB Trust Fund shall be invested by the Treasurer/Collector consistent with the prudent investor rule set forth in MGL c.203C.

The OPEB Trust Fund is intended to ensure the long-term availability of funding of benefits. Current benefit expenditures are not paid from the OPEB Trust Fund. Therefore, the investment goals are long-term preservation and appreciation of capital.

As of December 30, 2015, the Town is investing 100% of its OPEB Trust Fund with State Retiree Benefits Trust Fund (SRBTF).

CAPITAL MANAGEMENT POLICY

Purpose and Scope

Purpose: The purpose of the Capital Management Policy is to document the capital process and define how capital expenditures are presented to Town Meeting for approval.

Scope: This policy is intended to be comprehensive of all capital improvements, as defined by the Town Bylaw in Article 2, Chapter 39, Section 8, including land acquisition, construction of buildings, building improvements, equipment, roads, sewer and other infrastructure of the Town, including Schools.

Committees Involved in the Capital Process

The Building, Planning and Construction Committee (BPCC), as outlined in Article 4, Chapter 12 of Town Bylaws, is responsible for surveying the growth of the Town, the building needs of the community and the physical condition of all existing town buildings. The BPCC may be assigned by the Town Manager to supervision of approved projects for the addition to, or renovation of, existing Town buildings and the construction of new Town buildings. The BPCC does not have jurisdiction over roads, bridges, sewer, sidewalks, parks or buildings under the control of the School Department.

Capital Expenditures Committee (CEC), as outlined in Article 2, Chapter 39, Sections 8 and 9 of Town Bylaws, is responsible for making recommendations to the Town Manager on all matters relating to expenditures for capital improvements in the Town. The CEC shall ascertain the annual expenditures for capital improvements and what will be required for the ensuing five years after conferring with the Finance and Warrant Committee, Director of Finance, and Town boards, commissions, committees, officers, employees, etc. The Finance and Warrant Committee (Article 1, Chapter 39, Sections 1 through 6) is responsible for hearing and making recommendations on all articles, which are to be considered by Town Meeting, including accepting a report of the Capital Expenditures Committee.

The Mitigation Funds Committee (Article 3, Chapter 39, Section 32) advises and makes recommendations to the Finance and Warrant Committee and Town Meeting as to the expenditure of funds on deposit in the Mitigation Stabilization Fund. The recommendations may be, but are not required to be, Capital in nature.

School Building Rehabilitation Committee, established by a vote of Town Meeting in December of 2000, initiates and directs engineering/architectural studies to determine the current physical condition of school buildings and to make recommendations as to rehabilitation and/or expansion.

In addition to the above committees, depending on the nature of the project, a capital project may, prior to implementation, require permits from the Zoning Board of Appeals, Building Department, Conservation Commission, and Planning Board.

Capital Improvement Program Timeline

- **Late Summer** – The Director of Finance will send to every Department Head the guidelines and forms for Capital Expenditure submissions for the current year and the four years to follow. Department Heads complete a capital request, detail the need for the capital improvement, whether it is replacement or new, the estimated useful life for the capital improvement, given the historical use as applicable, method of replacement, total cost of the project/item, and if there is additional maintenance cost above what is in the operating budget.
    - In the event a large project requires mitigation funding, the Mitigation Funds Committee, using similar guidelines and forms, solicits requests for the current year if mitigation funds are available. The Mitigation Funds Committee will hold a public hearing and make recommendations to the Town Manager.
- **Autumn** – A consolidated 5-year capital plan is prepared by all department heads. The Director of Facilities and Maintenance prepares an assessment report of each facility and assigns a priority and recommended timeframe for completion. If a capital request involves construction of a new Town Building, the report should also be provided to the Building, Planning and Construction Committee for a hearing and recommendation.The Director of Finance will prepare an estimated impact model of the requested capital items in preparation for the following budget cycle.
- **Late Autumn/Early Winter** – The requests are summarized by the Finance Department, and a detailed capital expenditure request by department is assembled and distributed to the Capital Expenditures Committee for hearings and deliberations. The CEC deliberates, approves/alters the proposal, and makes a recommendation to the Town Manager.
- **January/February** – The Director of Finance will consolidate all department information and prepare a five-year financial plan including grants, current revenues, mitigation, free cash, available funds, and debt capacity and present the consolidated information to the Town Manager for review. The Town Manager completes final review of the capital plan, prepares for presentation, and presents the final capital improvement recommendation to the Select Board for review.

- **February/March** – The Finance and Warrant Committee reviews the Town Manager's recommendation and prepares their recommendation for Town Meeting.
- **May** – The capital budget is presented and voted at Town Meeting.

All of the above applies to the School Department capital projects unless they relate to building rehabilitation or the construction of a new school. The School Building Rehabilitation Committee (SBRC) develops the plan for the renovation or expansion of school buildings and, only when they have approved a project does it become part of the School Department's annual capital expenditure request.

INTRODUCTION

The use of long-term debt is a common and necessary way for a community to address major infrastructure and equipment needs. It is also a means of spreading the cost of large capital projects over a larger and changing population base. When a local government incurs long term debt, it establishes a fixed obligation for many years. Accumulation of fixed obligations can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. The purpose of this policy is to establish guidelines governing the application of long-term debt and demonstrate the Town's commitment to full and timely repayment of all issued debt.

Large projects, such as new, replacement, or major improvements to buildings may be funded by borrowing paid for from debt exclusions or regularly budgeted debt service or town reserves, including the Robin Reyes Major Capital Facilities Stabilization Fund. All references to debt service ceiling limits and debt strategies which follow are exclusive of such voter approved exclusion.

MGL c.44, §7-8 regulates the purposes for which municipalities may incur debt, and the maximum maturity for bonds issued for each purpose. MGL c.44, §10 specifies the debt limit for towns as a percentage of Equalized Valuation. There are two "annual" limitations applicable to municipal debt. First, if a municipality borrows $5 million in a fiscal year, it may be subject to a federal arbitrage penalty, unless the money raised by borrowing is spent within certain time periods (10% within 6 months; 45% within 12 months; 75% within 18 months; 100% within 2 years; 5% contingency allowed). Second, if a borrowing is over $10 million in one calendar year, it is considered not to be "bank qualified." (Please note: These limitations do not apply to loans from a state agency, such as the Massachusetts Water Resources Authority and the Massachusetts Clean Water Trust.) The borrowings that are not "bank qualified" prohibit some banking and underwriting institutions from bidding on the Town's debt, since the bidder, if holding the security in portfolio, will not be allowed to deduct the interest expense (IRS Code 1986 Section 265.)

Massachusetts General Law allows communities, subject to voter approval, to exclude certain debt from the limits imposed by Proposition 2 ½, otherwise known as excluded debt. A voter-approved exclusion for the purpose of raising funds for debt service costs is referred to as a debt exclusion. The Town considers this to be a viable option of its debt management program. All references to debt service ceiling limits and debt strategies which follow are exclusive of such voter-approved exclusions.

Capital Improvement Plan
It is the Town’s goal to provide a safe, pleasant, and sustainable physical environment for its residents and businesses. The Town will establish and maintain a five-year Capital Improvement Plan (CIP), which will support that goal and will include all proposed projects and acquisitions that meet the Town's criteria for capital items.Projects and acquisitions within the CIP will be prioritized as to the needs of the Town, the ability to fund them, and foreseeable circumstances. The Town will establish policies for the verification of costs and schedules, for the addition and removal of items, for the review of long-standing low-priority items, and other procedures to ensure long-term foresight, stability, and fairness.

For the purposes of the CIP, capital items are defined as assets or improvements to assets acquired through construction or purchase, each of which is non-recurring and has a useful life greater than three years.Design or feasibility studies directly related to such assets may be included in the CIP. The funding of capital items should reflect the prioritized needs of the departments, the financial circumstances of the Town, and the economic environment of the region. However, the following are the recommended guidelines:

Capital Improvement Financing
- Capital items costing less than $10,000 each shall not be included in the CIP and should be funded in the annual operating budget.
- Capital items costing more than $10,000 but less than $250,000 each, including improvements of a scheduled and recurring nature, such as safety equipment and vehicles, may be funded from available funds (i.e., free cash,) unless they are improvements to buildings.
- Improvements to buildings and other capital items costing more than $250,000 each, such as large vehicles, roofs, roads, and sidewalks should be paid for by borrowing. The debt service for that borrowing is paid from the operating budget until the maturity of the bonds.
- Lease-purchase agreements may be authorized to allow the Town to take advantage of special conditions or circumstances, where the terms are advantageous to the Town.
- Short-term debt may be used to provide necessary cash flow prior to bond sales, in order to start capital projects on optimal construction or acquisition schedules. However, when possible and economically beneficial, the Town will use interfund advance borrowing as a temporary source of funds until bonds are issued.
- The scheduling of bond issues will be arranged to provide the necessary on-going funds for each capital project.

DEBT GUIDELINES

Equalized Valuation: The MGL c.44, §7-8 regulate the purposes for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose. The MGL c.44, §10 specifies the debt limit for towns as 5 percent of the Town's equalized valuation. The Town may, upon the approval of the municipal finance oversight board, approve greater than 5 percent; however, in no case may authorized debt exceed 10 percent of the equalized valuation.

General Fund Debt Service: The community's regular and well-structured use of long-term debt signifies the municipality's commitment to maintaining and improving its infrastructure.

Debt service is defined as the total debt service paid through the operating budget minus excluded debt, the debt service generated from enterprise, mitigation, or major capital stabilization funds. The Town will observe a debt service "ceiling" of 7.5 percent as calculated based on the Town Operating Budget, as stated in Article 3 of the Annual Town Meeting Warrant, minus total debt service. The Town will also plan for a debt service "floor" of 5 percent as an expression of support for continued investment in the Town's roads, storm drains, public facilities, and other capital assets, including equipment.Debt service for sewer projects is paid with revenues raised by the Sewer Enterprise Fund and therefore should be excluded from calculations of the debt service ceiling. The Town may exceed policy limits based on extenuating circumstances such as a significant legal settlement or emergency.

Debt Maturity Schedule: As previously stated, MGL c.44, §10specifies the maximum maturity for bonds issued for various purposes. The Town will seek to issue debt with the lowest True Investment Cost (TIC) on the offering. Furthermore, the Town will seek other available options, with the consultation of the Town Financial Advisor, to lower the TIC such as, but not limited to, the term length, timing, and insurance.

DEBT STRATEGIES

Alternative Financing Strategies: The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing, such as grants, and low-or zero- interest loans from state agencies such as the Massachusetts Clean Water Trust (MCWT), Massachusetts School Building Authority (MSBA) or the Massachusetts Water Resources Authority (MWRA).

Debt Issuance: The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met. This includes preparation of the disclosure document (official statement), as well as preparation of the required documents to be signed by the Select Board and the Treasurer/Collector, and then signed/notarized by the Town Clerk. The Town will obtain the lowest possible interest rate on its debt through the use of competitive bidding, unless in the opinion of the Treasurer/Collector and the Financial Advisor a lower rate can be settled in a negotiated sale.

Debt Monitoring
The Town will maintain adequate internal controls to monitor the use of borrowed funds so as to provide reasonable assurance as to compliance with appropriate laws and regulations and covenants associated with the debt. The Town Manager's annual budget message will include a detailed analysis of outstanding debt and authorized and unissued debt. This detailed analysis can also be found in the Town's Annual Comprehensive Financial Report (ACFR).

Annually, the Town will review all open capital projects to ensure compliance with arbitrage regulations or any applicable law (please refer to Section 2: Investment Policy – Bond Proceeds). Any projects with residual funds will be closed by Town Meeting or otherwise in compliance with any applicable bylaw no later than five years from the time of issuance, provided no other action is taken by Town Meeting.

Bond Rating
The Town’s bond rating is important because it influences the rate of interest the Town 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. The following sets of factors will be taken into consideration prior to the issuance of debt:

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.

Financial Factors: Operating surpluses or deficits, free cash as a percentage of revenue, state aid reliance, property tax collection rates, unfunded pension, and OPEB liabilities.

Economic and Demographic Factors: Property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.

Management Factors: Governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.

Reserve Levels: Existence of stabilization funds and amounts held in those funds.

The Town will 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 General Stabilization Fund.

Abatement – A reduction or elimination of a real or personal property tax, motor vehicle excise, fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

Agency Fund – One of the four types of fiduciary funds. It is used to report resources in a purely custodial capacity by a governmental unit. Agency funds generally involve only the receipt, temporary investment, and periodic transfer of money to fulfill legal obligations to individuals, private organizations, or other governments. For example, certain employee payroll withholdings typically accumulate in an agency fund until due and subsequently forwarded to the federal government, health care provider, and so forth.

Appropriation – An authorization granted by a town meeting, city council or other legislative body to expend money and incur obligations for specific public purposes. An appropriation is usually limited in amount and as to the time period within which it may be expended.

Arbitrage – As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

Audit – An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor) resulting in a report on the fairness of financial statements and local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating a community's fiscal performance.

Available Funds – Balances in the various fund types that represent nonrecurring revenue sources. As a matter of sound practice, they are frequently appropriated for unforeseen expenses, capital expenditures, or other one-time costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and retained earnings.

Bank Qualified – When a municipality issues $10,000,000 or less in bonds or notes in a calendar year, these issuances are designated as "bank qualified." The bank that purchases the security receives a tax deduction (80% of the interest cost) for this type of purchase. This deduction makes bank qualified bonds and notes attractive purchases.

Bond – A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

Bond Anticipation Note (BAN) – Short-term debt instrument used to generate cash for initial project costs with the expectation the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be reissued for up to 10 years, provided principal repayment begins after two years (MGL c.44, §17).

Bond Authorization – The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor or the Select Board.

Bonds Authorized and Unissued – Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes but must be rescinded by town meeting or the city council to be removed from community's books.

Bond Rating (Municipal) – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard & Poor's, use rating systems that designate a letter or a combination of letters and numerals, where AAA is the highest rating and C1 is very low.

Capital Asset – Any tangible property used in the operation of government that is not easily converted into cash and that has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and minimum initial cost.

Capital Budget – An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method to finance each recommended expenditure (e.g., tax levy or rates) and identify those items that were not recommended.

Capital Improvement Program – A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital plan. It coordinates community planning, fiscal capacity, and physical development. While all the community's needs should be identified in the program, there is a set of criteria that prioritize the expenditures.

Capital Outlay Expenditure Exclusion – A temporary increase in the tax levy to fund a capital project or to make a capital acquisition. Such an exclusion requires a two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a communitywide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling.

Code of Ethics – The provisions and requirements of MGL c.286A pertaining to the standards of behavior and conduct to which all public officials and employees are held.

Collective Bargaining – The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and some or all of its employees, who are represented by a recognized labor union.

Contingent Appropriation – An appropriation that authorizes spending for a particular purpose only if subsequently approved in a voter referendum. Under MGL c.59, §21C(m), towns may make appropriations from the tax levy, available funds, or borrowing contingent on the subsequent passage of a Proposition 2½ override or exclusion question for the same purpose. If initially approved at an annual town meeting, voter approval of the contingent appropriation must occur by September 15. Otherwise, the referendum vote must occur within 90 days after the town meeting dissolves. The question may be placed before the voters at more than one election, but if the appropriation is not approved by the applicable deadline, it is null and void. If contingent appropriations are funded through property taxes, the State Division of Local Services (DLS) cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

Contingent Debt – Debt that is not in the first instance payable as a direct obligation of the governmental unit but has been guaranteed by a pledge of its faith and credit. The obligation to pay by the guarantor arises upon the default of the borrower. An industrial revenue bond guaranteed by a municipality would constitute contingent debt.

Debt Authorization – Formal approval by a two-thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL c.44 §1, 2, 3, 4a, 6-15.

Debt Burden – The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion – An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy but outside of the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit – The maximum amount of debt a municipality may authorize for qualified purposes under state law. Under MGL c.44, §10, debt limits are set at 5 percent of Equalized Valuations (EQV). By petition to the Municipal Finance Oversight Board, a community can receive approval to increase its debt limit to 10 percent of EQV.

Debt Service – The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

Deficit – The excess of expenditures over revenues during an accounting period. Also refers to the excess of the liabilities of a fund over its assets.

Department of Elementary and Secondary Education (DESE) – State department providing resources to school administrators, teachers, students and parents in Massachusetts. The DESE Finance section deals with a wide range of school finance issues and takes a major role in determining state aid to municipalities for education via the Local Aid projects that make up the Cherry Sheet process.

Enterprise Fund – Authorized by MGL c.44, §53F½, an enterprise fund is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of a service's total costs recovered through user charges and the portion subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery (including direct, indirect, and capital) are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus," or retained earnings, generated by the enterprise operation rather than closing this out to the general fund at year end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

Equalized Valuations (EQVs) – An estimate of the full and fair cash value of all property in the state as of a certain taxable date. The EQVs have historically been used as a variable in distributing some state aid accounts and in determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL c.58, §10C, is charged with the responsibility of biennially determining an equalized valuation for each city and town in the state.

Excess Levy Capacity – The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the select board or city council must be informed of excess levy capacity and their acknowledgment must be submitted to DLS when setting the tax rate.

Fiscal Year (FY) – Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. Since 1976, the federal government fiscal year began on October 1 and ended September 30. In each case, the designation of the fiscal year is that of the calendar year in which the fiscal year ends.

Fixed Costs – Costs legally or contractually mandated, such as retirement, FICA/Social Security, insurance, debt service, or interest on loans.

Free Cash – Remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimated on the tax recapitulation sheet, and unspent amounts in budget line items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash.

Full and Fair Cash Value – The Massachusetts Supreme Judicial Court defines fair cash value as the "fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January 1 of any taxable year in the hands of any owner, including the present owner", (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956)).

Fund Balance – The difference between assets and liabilities reported in a governmental fund. Also known as fund equity.

General Fund – The fund used to account for most financial resources and activities governed by the normal town meeting or city council appropriation process.

General Obligation Bonds – Bonds issued by a municipality that are backed by the full faith and credit of its taxing authority.

Home Rule Charter – An alternative, under MGL c.43B, to create a charter commission by which cities and towns may create, adopt, revise and amend local charters.

Investments – Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. The term does not include fixed assets used in governmental operations.

Levy – The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is reestablished every year in accordance with Proposition 2½ provisions.

Levy Ceiling – A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL c.59, §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, debt exclusion, or special exclusion.

Levy Limit – A levy limit is one of two types of levy (tax) restrictions imposed by MGL c. 59 § 21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

Long-Term Debt – Community borrowing, or outstanding balance at any given time, involving loans with a maturity date of 12 months or more.

Major Capital Stabilization Fund (Robin Reyes Fund) – This fund is to be used solely for the major renovation of existing buildings, the construction of new buildings or purchasing an existing building that meets the Town's needs.

Massachusetts Municipal Depository Trust (MMDT) – An investment program, founded in 1977 under the supervision of the State Treasurer, in which municipalities may pool excess cash for investment.

Municipal Bond Insurance – An insurance policy that guarantees the interest and principal on a bond issue will be paid as scheduled. The municipal bond insurer will pay the debt whether or not the default was caused by an economic crisis or a natural disaster.

New Growth – The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or revaluations.

Nonrecurring Revenue Source – A one-time source of money available to a city or town. By its nature, a nonrecurring revenue source cannot be relied upon in future years, and therefore, such funds should not be used for operating or other expenses that continue from year to year.

Operating Budget – The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

Other Postemployment Benefits (OPEB) – Many public employees earn benefits over their years of service that they do not receive until after their government employment ends. While pensions are the most common of these, other postemployment benefits generally include combinations of health, dental, vision, and life insurances. These are provided to eligible retirees and sometime to their beneficiaries, and as a group, are referred to as OPEB.

Outside Debt – Municipal borrowing for purposes enumerated in MGL c.44, §8. Since this debt is not measured against a community's debt limit per c. 10, the borrowing is outside the debt limit and therefore referred to as outside debt.

Override – A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

Override Capacity – The difference between a community's levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

Other Available Funds – Prior special article appropriation balances, such as, receipts reserved for appropriation, FEMA/MEMA reimbursements, insurance proceeds and other items authorized by law to be specifically used to fund appropriations.

Payment in Lieu of Taxes (PILOT) – An agreement between a municipality and an entity not subject to taxation, such as a charitable or educational organization, whereby the organization agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

Proposition 2½ – A state law enacted in 1980, Proposition 2½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

Recurring Revenue Source – A source of money used to support municipal expenditures, which by its nature can be relied on, at some level, in future years. (Please see Nonrecurring Revenue Source)

Reserve Fund – An amount (not to exceed 5 percent of the tax levy for the preceding year) set aside annually within a community's budget to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted on by the city council upon recommendation of the mayor.

Retained Earnings – Refer to the enterprise funds residual cash balance in which revenues exceeded expenditures. The retained balance may not be commingled with general operating and can only be used for the purpose of the enterprise fund. The surplus may be used for appropriation to capital projects associated with enterprise fund operations much like free cash may be used for general operating capital expenses.

Revenue Anticipation Borrowing – Cities, towns, and districts may issue temporary notes in anticipation of taxes (TAN) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year, and payments made by the state in lieu of taxes in the prior year. According to MGL c.44, §4, cities, towns, and districts may borrow for up to one year in anticipation of such revenue.

Revolving Fund – A fund that allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service.

Short-Term Debt – The outstanding balance, at any given time, on amounts borrowed with maturity dates of 12 months or less.

Stabilization Fund – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL c.40, §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate any amounts into them. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money from a stabilization fund. A majority vote of town meeting or city council is required to appropriate money into a stabilization fund.

Surety Bond – A performance bond that protects a municipality against financial loss arising from a breach of public trust by an employee who collects money on its behalf.

Surplus Revenue – The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

Tax Anticipation Notes (TAN) – A short-term note issued to provide cash to cover operating expenses in anticipation of tax proceeds.

Tax Increment Financing Exemption (TIF) – In accordance with MGL c.59,§5(51), a property tax exemption negotiated between a community and a private developer, typically implemented over a period up to 20 years, and intended to encourage industrial/commercial development.

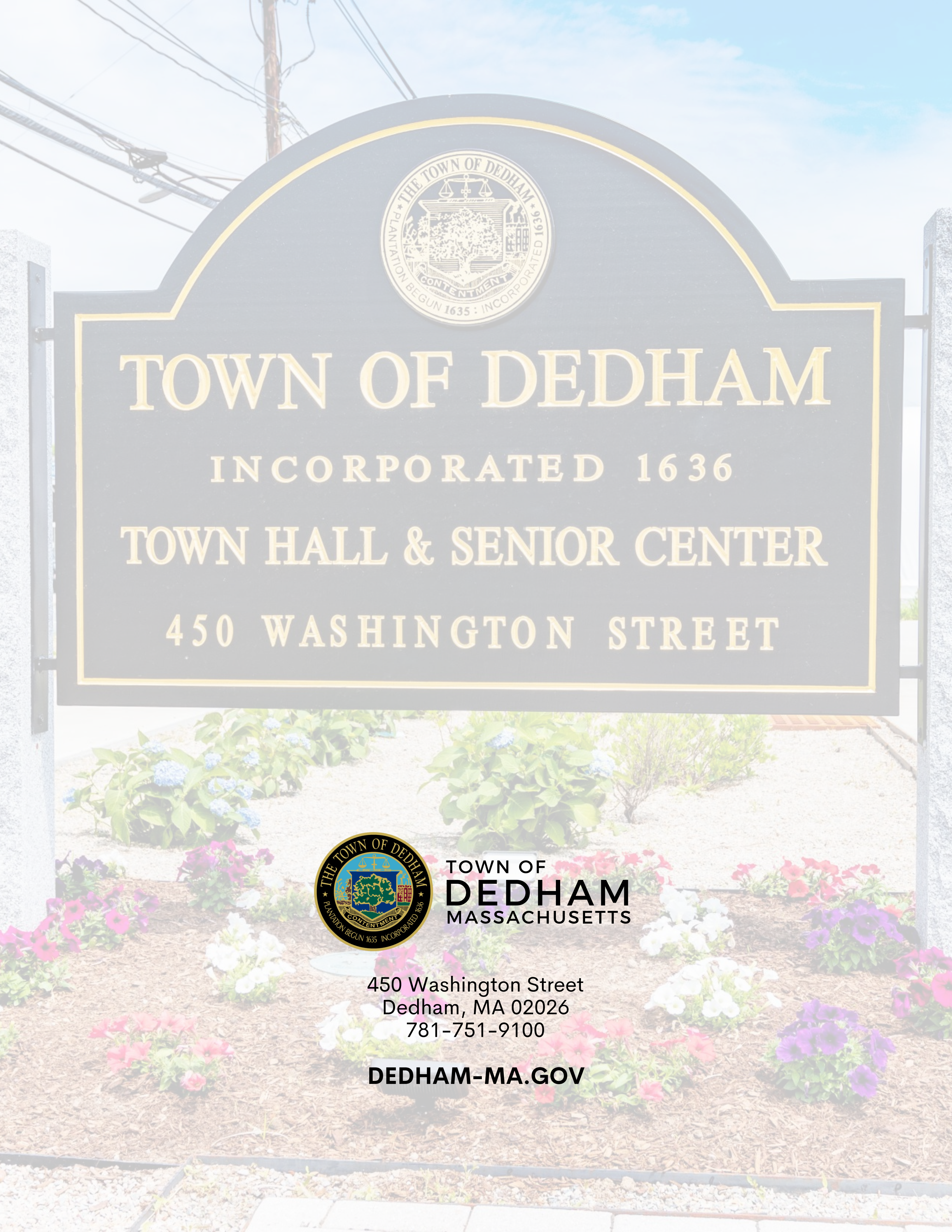
Tax Rate – The amount of property tax stated in terms of a unit of the municipal tax base; for example, $14.80 per $1,000 of assessed valuation of taxable real and personal property.

Trust Fund – In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds, or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For nonexpendable trust funds, only interest (not principal) may be expended as directed.

Unfunded OPEB Liability – This is the difference between the value assigned to the benefits (other than retirement) already earned by a municipality's employees and the assets the local government will have on hand to meet these obligations. (Please see OPEB)

Unfunded Pension Liability – This is the difference between the value assigned to the retirement benefits already earned by a municipality's employees and the assets the local retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is redetermined every three years and driven by assumptions about the interest rates at which a retirement system's assets will grow and the rate of the pensioners' future costs of living increases.

Warrant – An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The Assessors' warrant authorizes the tax collector to collect taxes in the amounts and from the persons listed.



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