

Town of Tewksbury Overall Financial Management Policies

Introduction

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Tewksbury'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 policy-makers, Managers and advisors. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject of course to statutory limits such as Proposition 2 ½. The principles outlined in this policy are designed to ensure the Town's sound financial condition now and in the future. Sound Financial Condition may be defined as:

- *Cash Solvency* - the ability to pay bills in a timely fashion
- *Budgetary Solvency* - the ability to annually balance the budget
- *Long Term Solvency* - the ability to pay future costs
- *Service Level Solvency* - the ability to provide needed and desired services

It is equally important that the Town 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.

Definitions:

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

Undesignated Fund Balance – Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

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 Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.

Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of Policy Statements the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown 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. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Overlay Surplus – Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within ten days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer, if any. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is "closed" to surplus revenue; in other words, it becomes a part of free cash.

Net Assets Unrestricted (formerly Retained Earnings) – An equity account reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss).

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

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

Policy Statements:

1. The Town Manager shall annually prepare a balanced budget and comprehensive Budget Message as required by state law town charter and by-laws.
2. Budgets will be established, and funds managed, using “generally accepted” accounting principles.
3. Finances will be managed to maintain financial stability over the long term.
4. Maintain facilities and provide services at a level that will ensure the public well-being and the safety of residents.
5. The town will avoid budgetary procedures that balance current expenditures at the expense of meeting future year’s expenses, such as postponing expenditures, accruing future years’ revenues, or rolling over short-term debt.


6. 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. In addition:
 - a. Fund Balances such as Certified Free Cash, Stabilization Fund, Overlay Surplus and Water and Sewer Net Assets Unrestricted (formerly Retained Earnings) should be used only for one-time expenditures such as capital improvements, capital equipment and unexpected or extraordinary expenses. In all cases, use of Fund Balances should be avoided for routine and recurring operational expenses.
 - b. Annually, after Free Cash Certification:
 - At least \$600,000 will be set aside for potential snow and ice deficit
 - At least \$350,000 will be set aside to be transferred into the Other Post-Employment Benefits Trust Fund
 - At least 25% of the remaining certified free cash will be used to fund the capital budget and one-time capital expenditures;
 - At least 25% of the remaining certified free cash will be placed in to the Stabilization Fund;
 - c. New operating costs associated with capital projects should be funded through the operating budget but reflected in the capital improvement plan.

Fiscal conditions may affect the implementation of this policy. The allocations stated in this policy do not mean that additional funds cannot be allocated to the Stabilization Fund from Free Cash. It means that these are minimum amounts recommended for the certified Free Cash.

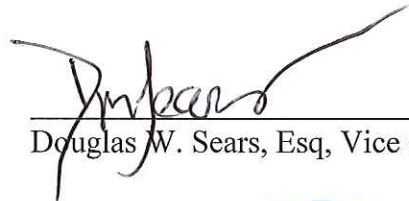
7. The Town will maintain a Stabilization Fund as its main financial reserve in the event of an emergency or extraordinary need and to be used to fund on-time expenses, capital projects or capital equipment. It shall be the goal of the town to achieve and maintain a balance in the Stabilization Fund of 3% to 5% of its operating budget.
8. Enterprise Funds pursuant to MGL Chapter 40, Section 39, shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt and provide debt service coverage, if applicable, and to ensure adequate and appropriate levels of working capital. Fees should be reviewed annually in relation to the cost of providing the service. Ongoing routine, preventive maintenance should be funded on a pay-as-you go basis. The term of debt for enterprise funds generally shall not exceed the useful life of the asset and in no case shall the term exceed thirty years. All enterprise funds shall maintain a reserve of Net Assets Unrestricted which is at a minimum from 3% to 5% of its operating budget.

9. Debt service payable, when taking into consideration debt, exempt from Proposition 2 ½ and financed directly with additional taxes, on an annual basis should be no more than 10% or less than 2% 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. The requirements for debt financing shall be an expenditure of at least \$25,000 and a useful life in excess of five (5) years. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and, in no case, shall it exceed twenty years. Long-term debt should not be incurred without a clear identification of its financing sources. The General Fund Non-exempt Debt Service shall not exceed 10 percent of General Fund Revenues. Excess appropriated bond issues shall remain in the Capital Projects Fund at the end of a project completion until appropriated out by Town Meeting vote. Betterments may be assessed on all capital projects where applicable. The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within ten years.

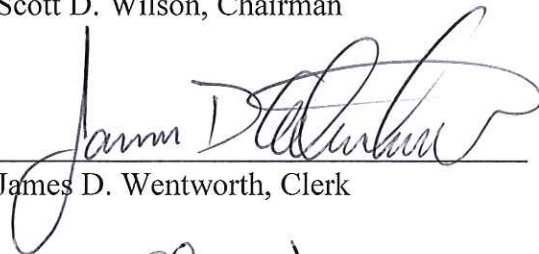
We, the Town of Tewksbury Board of Selectmen, do hereby set our hands in approval of the above written Town of Tewksbury Financial Management Policy.



Scott D. Wilson, Chairman



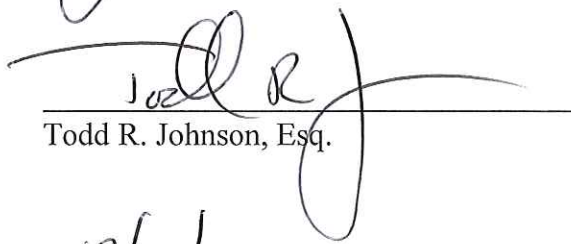
Douglas W. Sears, Esq, Vice Chairman



James D. Wentworth, Clerk



David H. Gay



Todd R. Johnson, Esq.

12/12/13

Date