



Town of Oxford

Finance Director

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Financial Policy

A well developed and practiced financial plan can provide guidance to Town Officials to ensure the best use of funds as well as provide stability both short and long term. Financial policies can improve a Town's credit rating and reduce interest cost on debt issued by the Town.

The Town Manager and the Finance Director should review these financial guidelines with the Finance Committee and the Board of Selectmen annually.

- Funds needed to provide the necessary balances must be appropriated prior to any appropriations for operations.
- If recommended balances cannot be attained in any given year, a plan to meet the balance guidelines must be established and affirmed by both committees.
- The Finance Director will provide annual projections and suggested levels for additions to the Reserve Fund, Stabilization Fund, OPEB Liability Trust Fund, Energy Contingency Account, Capital Projects, Debt Service and use of current year certified free cash.

Financial Guidelines

These recommended guidelines for the management of Free Cash, Reserve Fund, Stabilization Fund, OPEB Liability Trust Fund, Energy Contingency Account, Capital Projects and Debt Management should serve as a platform for the annual town meeting warrant. The principles contained in these guidelines must be incorporated in the recommendations by the Town Manager and Finance Director in each year's budget and used as the basis for any projections of the Town's future financial condition.

The following sections outline the longer-term financial goals of the Town. In some cases, the attainment of certain levels of funds or percentages may not be attainable in the short-term. Specific short-term goals are outlined in the Financial Planning section of this document.

"Free Cash"

The accumulation and use of "Free Cash", is an important component of the Town's overall financial management policies. The available amount is calculated and certified each year by the Massachusetts Department of Revenue using data submitted by the

Town. Free cash is made up of revenues in excess of projections and expenditures less than appropriations at fiscal year end. Free Cash is also reduced in order to cover any deficits (all funds) at year-end. Free Cash should never be used as a mechanism for funding the Town’s operating budget since it is not “recurring” revenue.

Therefore the following policy must be applied in each budget cycle:

<u>Use</u>	<u>Description</u>
a. Reserve Fund	Appropriate at least 0.25% of the Operating Budget for a Reserve Fund for Unforeseen and Unexpected Financial Crisis that may occur during the fiscal year. More may be required in years of difficult economic conditions.
b. Stabilization	Appropriate amounts at least 5% of Free Cash after Reserve Fund appropriation or until the balance in the Stabilization Fund meets the limit set by Massachusetts General Law (MGL) as detailed in the section below.
c. Other Post Employment Benefits (OPEB) Liability Trust	Appropriate amounts at least 5% of Free Cash after Reserve Fund appropriation or until the balance in the OPEB Liability Trust Fund meets the “fully” funded amount as detailed in the section below.
d. Energy Contingency Account	Appropriate up to 5% of Free Cash after Reserve Fund appropriation to the Energy Contingency Account whenever the balance in the account falls below 0.10% of the Operating Budget.
e. Capital Projects (No Long Term Debt Issued)	Appropriate amount not to exceed remaining balance of Free Cash after above appropriations. Capital Projects should have a value of \$25,000 or more and having a useful life of at least 3 years as described in the Town’s Charter.

Reserve Fund

It is imperative that the Town set aside a minimum balance of 0.25% of the operating budget in order to provide a Reserve Fund for unforeseen and unexpected financial crisis’s that may occur during the year.

Stabilization

The Stabilization Fund is special reserve accounts allowed by Massachusetts General Laws to fund any lawful purpose, including approved school projects under Chapter 70B and any other purpose for which the town may lawfully borrow money. Any appropriations into or out of this fund shall require a two-thirds vote at Town Meeting, except as provided in paragraph (g) of section 21C of MGL Ch. 59 for a majority referendum vote. Bond rating agencies rate municipalities more favorably if they maintain a healthy balance in this and other reserve type accounts. Since this is not a recurring source of revenue the Town should avoid the use of stabilization funds to fund operating expenses, with the exception of an established payment plan to pay down debt. The aggregate amount in all Stabilization Funds may not exceed ten percent of the equalized valuation of the Town and all interest shall be added to and become part of the fund. The Treasurer may invest the proceeds in keeping with the regulations as set in MGL Ch. 40, s. 5B.

The following policy is recommended:

1. A minimum balance of 5% of the current operating budget must be maintained in the Stabilization Fund.
2. Withdrawals from Stabilization should only be used to mitigate a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations or the pay down of planned debt.
 - a. Withdrawals of funds should be limited when possible to the amount available above the 5% minimum reserve previously referenced.
 - b. Withdrawals from stabilization that drive the balance below the minimum level should be avoided. If, however this was deemed necessary, the Town Manager and Finance Director should develop a detailed plan that will replenish the fund until it reaches at least 5%.

OPEB Liability Trust Fund

An Other Post Employment Benefit (OPEB) Liability Trust established under Ch. 32B, Section 20 from Chapter 479 of the Acts of 2008, is an Irrevocable Trust created as a tool to assist Towns in the funding of future Health Insurance Costs (Town Share). Every other year the Town should have an Actuarial Study performed to determine the amount of this liability. Every year the Town should put funds into this Trust until the Trust is “fully” funded and expenditures from this Trust should only be for payment of Retiree Premiums (Town Share) as determined by the Finance Director at the direction of the Town Manager.

Energy Contingency Account

This account is a “carry forward article” used to offset unforeseen increases in energy-related accounts (utilities and fuel). Amounts will be transferred from this account to the department requesting only when the Finance Director has deemed a shortfall in that line item exists and only with Town Manager approval. Once this account falls below 0.10% of the Operating Budget then an article to replenish will be placed on a subsequent town meeting.

Capital Projects (No Long Term Debt Issued)

Capital purchases are an important part of the overall fiscal and physical health of the town. Operating budgets must not displace the purchase of capital items. Capital Projects should have a value of \$25,000 or more and having a useful life of at least 3 years as described in the Town’s Charter. Using a five year plan the Finance Director and Town Manager can best plan for the capital needs of all departments and make those needs known to the Finance Committee for approval.

Debt Management

Debt Management is essential to the overall financial planning of the town. Borrowing funds and repaying over a number of years allows the Town to finance projects we could not afford to pay from our operating budget. The objective of debt management is to borrow at the least cost over the term of the repayment of debt and should only be used when costs do not outweigh the advantages thus reducing the effect on the taxpayers.

1. *Recommended Guidelines for Non-Dedicated Revenue Supported Debt*
 - a. Minimize amount of debt funded within the operating budget of the Town.
 - b. Principal, Long Term Interest, Short Term Interest, and borrowing costs should be approximately 5% of the total budget. The total of Non-Dedicated Revenue Supported Debt should never exceed 10% of the operating budget.
 - c. Repayment schedules should be in accordance with published requirements and be set as aggressive as possible.

Following the above guidelines will:

1. Ensure Capital Needs are not displaced by the fiscal demands of current operations.
2. Borrowing is controlled.
3. Interest Costs are minimized.
4. Capability to borrow is quickly restored.

2. *Recommended Guidelines for Dedicated Revenue Supported Debt*
 - a. All debt funded with a dedicated revenue stream (ex. Enterprise fund-user fees, betterments, etc.) shall also fund interest costs and borrowing costs from that dedicated revenue stream.
 - b. Principal, Long Term Interest, Short Term Interest, and borrowing costs should be approximately 5% of the total budget. The total of Dedicated Revenue Supported Debt should never exceed 10% of that departments operating budget.
 - c. Repayment schedules should be in accordance with published requirements and be set as aggressive as possible.

Following the above guidelines will:

1. Ensure Capital Needs are not displaced by the fiscal demands of current operations.
2. Borrowing is controlled.
3. Interest Costs are minimized.
4. Capability to borrow is quickly restored.
5. User Rates/Betterments are kept at a reasonable level.

Financial Planning

Proper financial planning is essential for the Town in order to continue the services necessary for its residents in the most cost effective method possible. Decisions made to alleviate issues in one budget cycle may carry impacts for several years down the road. The Town will maintain a budget forecast at a minimum of 3 years to assist in the planning of future projects, and quantify the impacts of today's decisions on future years.

Increases to the budget on the expenditure side cannot be allowed to increase greater than the recurring revenues available. This is essential for proper fiscal management. Inflating revenue projections and under budgeting expenses to balance an operating budget cannot be allowed to occur. Using other non-recurring revenue items and

moving dollars from older warrant articles should only be used for like non-recurring expenses. In addition, a savings plan that will allow the Town to set aside dollars in an effort to minimize the impacts of future economic downturns in the economy on Town operations will be incorporated into each budget cycle. We cannot move forward and continue to spend every available dollar within the operating budget.

The Town must take care to fund its obligations relating to health insurance, retirement benefits and snow and ice expenditures at the appropriate amount.

- Early retirement incentives offered must be adopted when a proven financial benefit will be recognized by the Town as determined by the Finance Director.
- At a minimum, the Snow and Ice budgets should be crafted using a five year rolling average expenditure total.
- All employment contracts shall be ratified by Town Meeting prior to becoming effective.

Underfunding these obligations will mandate the use of the following year's revenue stream to meet the expense, thus perpetuating the shortfall.

Planning for capital purchases as well as the ongoing maintenance of facilities and equipment is an essential part of the financial plan for the Town. The following guidelines must be adhered to:

- A five-year capital plan will be maintained in detail by department and projected funding sources.
- Capital purchases will be accomplished either as a capital exclusion item, raised by taxation when funds within the levy are available, an appropriation from Free Cash, or an appropriation from an available fund.
- Major capital projects such as new construction or major renovations to existing facilities will be accomplished through debt exclusions.
- Infrastructure maintenance budgets (such as Road Resurfacing Program, Chipsealing Program, and Road Maintenance) or facility maintenance budgets built into the operating budget will not be reduced to fund other department budgets.

It is the intention of the Town to minimize the amount of debt and capital exclusions since this amount has a direct impact on the taxpayer. As a general guideline, the tax impact of excluded items should be held to less than 10% of the single tax rate. In some instances, such as periods where multiple projects may be in process or recently bonded, this guideline may be exceeded. In those instances, the Finance Director should develop a plan to reduce this ratio by either reducing or eliminating capital exclusions or delaying future projects, if circumstances allow.

Adopted by the Board of Selectmen on April 19, 2011

Adopted by the Finance Committee on April 20, 2011