

Elaboration of talking points at Collins Center presentation to the Finance Committee on 7/7/21

Annual Budget Process

The policy draft captures the Town's current practice where development of the annual budget resides with the Finance Committee and it is the Fincom's recommended budget that is presented to Town Meeting for approval.

But there is also language in the Applicability section of the policy that recognizes that the Town's current process, though effective, does not reflect practice that is found in other communities; and, that the Town should consider exploring "best practices" of other communities that vest more responsibility in a Town Administrator (TA) – as agent of the municipality's chief executives (the Selectboard) - for the development of the recommended annual operating and capital budgets, on the assumption that the TA has the most direct knowledge of departmental operations, demands on staff, the condition of capital assets, and the effectiveness of the allocation of current financial resources, and therefore is in the best position to propose funding of operations moving forward to enhance their effectiveness and meet the policy objectives of elected and appointed officials.

In this model, the TA's recommended budget typically is submitted to the Selectboard for discussion and modification based on the Selectboard's review and response and then is transmitted as the Selectboard's proposed recommended budget to the Finance Committee and Capital Committee for their review. Such review typically entails meetings with the TA and his/her staff and presentations by department heads on key elements of their requested budgets. The culmination of the budget process is, ideally, unanimous approval by all parties of the Selectboard's recommended budget – with agreed upon modifications based on Committees' review – and the transmittal of such approval to Town Meeting.

Below is one example of the schedule of an annual budget process that reflects the model described above. In this example, the annual budget process is inclusive of periodic "budget summits" attended by the Selectboard, Finance Committee, Capital Committee, and representatives of the school committee to ensure that all key players receive the same information, to foster agreement on key policy issues to be reflected in the final recommended budget to be submitted to Town Meeting, and to foster agreement on the allocation of resources reflected in the recommended budget.

- Early Fall – Town Administrator issues capital and operating budget guidelines to department heads to guide them in the preparation of their annual budget requests, and forms for the presentation of requests.
- Early Fall – Budget Summit I – TA presents multi-year revenue/expenditure forecast to provide a multi-year perspective to guide budget decisions for the upcoming fiscal year. Summit participants discuss key policy issues and objectives for consideration in the development of the Selectboard's proposed recommended budget.
- Fall – TA receives capital and operating budget requests from department heads. TA meets with departments heads and makes modifications, if any, to requests based on discussions with them.

- Fall – Budget Summit II – TA presents revenue projection for the upcoming fiscal year, changes from current year’s estimate and a general outline of the implications for the development of the operating and capital budgets for the upcoming fiscal year. (As new information becomes available regarding projected revenue, the TA will make it available along with revised revenue projections to all parties throughout the budget process)
- Late Fall – TA and department heads present budget requests in a budget workshop(s) to the Selectboard for the purpose of discussion, clarification of requests, and to hear Selectboard’s requests, if any, for modification of departmental budget requests.
- Winter – TA presents his/her final recommended budget to the Selectboard for review, and approval as Selectboard’s proposed recommended budget.
- Winter – Selectboard transmits its proposed recommended budget to the Finance Committee and Capital Committee for its review and approval.
- Winter – Finance Committee and Capital Committee conduct hearings on the Selectboard’s recommended budget including presentations from Town Administrator and department heads, if desired.
- Winter – Budget Summit III – participants convene to discuss Selectboard’s proposed recommended budget and discuss Committees’ proposed modifications, if any.
- Winter – Selectboard convenes to discuss incorporating modifications proposed at Budget Summit III and take a formal position on proposed modifications, and approve a final recommended budget for transmittal to Town Meeting.
- Winter – Finance Committee and Capital Committee draft their reports - as advisory to Town Meeting members - on the Selectboard’s final recommended budget.
- Town Meeting – Selectboard and/or Town Administrator present final recommended budget(s) with accompanying presentations by the Committees on their positions on the budget(s).

Capital Planning

The following are from page 10 of the report

- The target for spending from General Fund operating revenue in the annual Capital Budget – to finance debt service on projects proposed for funding with debt and those proposed for funding with cash (pay-as-you-go projects) - shall be equal to a minimum of 6 to 8% of the Prior Year’s General Fund operating revenue (PYGOR). The 6% to 8% shall be comprised of the following:
 - 2% of the Prior Year’s General Fund operating revenue shall be targeted for building renewal and equipment replacement on a pay-as-you-go basis.
 - 4% to 6% of PYGOR shall be targeted to fund debt service on debt-financed projects.
- If in any year funds needed for the Capital Budget recommended to Town Meeting are below the minimum target of 6% of the Prior Year’s General Fund Operating Revenue,

Commented [RA1]: From the Town’s 2014 policies. For clarity, I would propose eliminating the range. 7% would not be unreasonable but this may be a topic for further discussion before final approval of the policy,

Commented [RA2]: Debt service on non-exempt debt only. This should be reconciled with the 5% debt service target shown on page 16 of the debt management policy. I would propose consideration of replacing the 4%-6% range reflected in the 2014 policy with 5%.

the difference in revenue allocated for this purpose shall be appropriated into a capital stabilization fund to offset the costs of future capital projects.

Commented [RA3]: This should correspond to the 7% figure in my comment above or whatever benchmark is ultimately decided.

The following is from page 11 of the report

- The CIC shall have responsibility for coordinating the development of the annual Capital Improvement Plan, to be delivered on a timeline that supports the Annual Budget Process. The CIC shall create the form on which capital project requests are submitted. On or about October 1st, the CIC shall develop and transmit to the Town Administrator, the Select Board and the Finance Committee a calendar identifying dates in the development of the plan including:
 - A list of requested projects by department with estimated costs and indication of departmental priority for years 2 through 6 of the Capital Improvement Plan

Commented [RA4]: The “best practice” as described above as an alternative to the Town’s current budget process envisions vesting in the TA administrator the responsibility for developing a proposed recommended annual capital improvement plan as well as a proposed recommended annual operating budget.

Commented [RA5]: In my presentation I pointed out that the provision is a critical link to the Financial Reserves policy because years 2-6 of the capital plan identifies estimated costs of future capital projects and provides an important target for annual contributions to a capital stabilization fund to meet future project costs where the balance of the fund could be used to finance projects on a pay-as-you-go basis or to underwrite future debt service costs.

Debt Management

From page 16 of the report

The Town’s policy regarding debt management shall be as follows:

- The means of identifying projects that are candidates for debt financing shall be part of an annual capital planning process (see the Town’s Capital Planning and Financial Reserves policies).
- It is recognized that multiple capital investments may not be able to be financed on a pay-as-you go basis in a given fiscal year without the risk of adversely affecting general fund or enterprise fund operating budgets. Therefore, it shall be policy that any capital project in excess of \$25,000 may be a candidate for financing through the issuance of debt.
- Major new construction projects or significant renovations and capital expenditures to be funded with General Fund revenue, where the Town’s share is in excess of \$500,000, shall be candidates for funding through a Proposition 2 ½ debt exclusion.
- The Town will endeavor to structure non-exempt, exempt and enterprise fund debt in a manner that will minimize the impact on taxpayers and ratepayers.
- Projects recommended for funding through the issuance of debt shall not be approved without an estimate of the annual debt service that will result from bonds issued and consideration of the impact the debt service will have on the Town’s annual budget. In this regard, the Town will endeavor to manage debt so as not to exceed the following target:

Commented [RA6]: Highlights nexus among debt management, capital planning and financial reserve policies

Commented [RA7]: Recognizes debt as a important consideration in capital financing. \$25,000 threshold from 2014 town policies. Not unreasonable but could be subject to further discussion as to whether it is too low.

Commented [RA8]: Important for all parties to have a clear understanding of annual decisions on future operating budgets.

- Total General Fund, non-exempt, long term debt service (including the Town's share of GMRSD debt service) as a percentage of the Town's Prior Year's General Fund Operating Revenue (PYGOR) shall not exceed 10 percent with a target of 5 percent. In addition, as a general rule, the Town shall strive to maintain a debt service floor of 2 percent of the Prior Year's General Fund Operating Revenue representing a commitment to maintaining its capital assets from recurring revenue.

Commented [RA9]: From the Town's 2014 policies.

- Annual debt service shall not, in any fiscal year, grow at a rate that exceeds the projected percentage increase in General Fund revenue for that year as calculated on the same basis as PYGOR.

Commented [RA10]: 10% is a rating service eyebrow raiser; 5% protects revenue devoted to financing general operating services from getting crowded out by debt service costs, particularly in a time of revenue downturn.

(There is an inferred relationship here to the proposed use of general stabilization funds in financial reserves policy to plug projected revenue losses in times of economic downturn so that services can be maintained.)

Commented [RA11]: This is another means of control on the growth in annual debt service to protect against service cuts described in the bullet above.

From page 17 of the report

- In an effort to free up capacity within the annual general fund debt service budget to accommodate proposed capital projects to be financed through the issuance of debt, The Town will (1) attempt to maintain a long-term debt schedule so that at least 50% of the outstanding principal will be retired at the end of 10 years; and, (2) where possible, issue debt on a level principal/declining interest basis (so that annual debt service will decline over the term of the bond).

Commented [RA12]: A good practice but might be subject to internal discussion to see if Montague's circumstances are applicable.

Enterprise Fund

From page 21 of the report

- The annual budget of any enterprise shall be included in the Finance Committee's annual recommended budget as described in the Town's Annual Budget Process policy.
- User charges shall be set at a level to cover all costs, direct and indirect and capital-related.

Commented [RA13]: This would be responsibility would be vested in the Town Administrator if the proposed change to the annual Town were to modify its annual budget process as described above.

Commented [RA14]: 2014 Town policy states that recreational user charges and fees will be set to recover approximately 75% of the total direct costs associated with recreational programs. This in conflict with this provision and 2014 policy is silent on indirect and capital costs.

Financial Reserves

From page 28 of the report

- **Free Cash** - In the development of the proposed annual general fund operating budget, the Town shall strive to estimate revenue and recommend appropriations at a level that will generate free cash at fiscal year-end equal to approximately 3% of the Town's Prior Year General Operating Revenue. As a general rule, the use of free cash equal to the 3% threshold will be limited to non-recurring operating or capital budget expenditures and extraordinary or unforeseen costs that cannot be financed from the Finance Committee Reserve Fund or through transfers between line items in the operating budget.

Commented [RA15]: this bullet consistent with 2014 town policies.

It shall be the policy of the Town to avoid the use of free cash to support the operating budget, except under extraordinary or unusual circumstances. Further, to the extent practicable, any

amounts of free cash certified in excess of 3% of the Town's Prior Year General Operating Revenue shall be appropriated to one or more of the Town's stabilization funds and/or to offset unfunded liabilities, e.g. other post-employment benefits (OPEB).

Commented [RA16]: this bullet consistent with 2014 town policies.

- **General Stabilization Fund** - The Town shall maintain a general stabilization fund whose primary purpose is to replace declines in general fund revenue due to economic downturn. The target level of the fund shall be 5% of the Prior Year's General Fund Operating Revenue, an amount estimated to support the operating budget through three years of economic downturn. The Town shall strive to annually appropriate to the general stabilization fund 35% of certified free cash in excess of 3% of the Prior Year's General Fund Operating Revenue (see above) until the target minimum balance is met.

Commented [RA17]: this target is consistent with 2014 town policies.

Commented [RA18]: In alignment with 2014 Town policies.

Commented [RA19R18]:

Once the target level of the fund is reached, if any use of the fund reduces the balance below the target level, a plan for replenishment of the Fund shall be developed per the procedure described below.

Commented [RA20]: this bullet consistent with 2014 town policies.

From page 29 of the report

In fiscal years when no appropriation into the General Stabilization Fund is required because it is at its target, funding sources historically targeted for this purpose but not needed will be re-directed to funding of the Town's OPEB liability. (FOR DISCUSSION)

Commented [RA21]: This provision is not in the 2014 Town policies and is a candidate for further internal discussion,

From page 30 of the report

- **General Stabilization Fund** - Pursuant to the policy governing the General Stabilization Fund, if use of the Fund results in a balance that falls below the target of 5% of the Prior Year's General Fund Operating Revenue, the Town Administrator, in consultation with the Selectboard shall develop a plan for transmittal to and consideration by the Finance Committee to bring the balance of the Fund back to its target level.

Commented [RA22]: Vests in Town Administrator and the Selectboard responsibility to make proposals for the replenishment of the General Stabilization Fund.

Tax Rate Setting

From page 45 of the report

- First meeting - a tax classification information session in which the Town Administrator or his/her designee(s) shall make a presentation that includes but is not limited to:
 - Property values by class and their change from the prior fiscal year
 - Each class of property as a percentage of total value and the change in percentages from the prior fiscal year
 - The tax levy limit for the fiscal year and the factors in its increase, and the change from the prior year
 - The proposed tax levy for the fiscal year and the amount, if any, of excess levy capacity that will result

Commented [RA23]: The policy calls for 2 meetings of the Selectboard for the setting of the tax rate. At the first meeting a final tax levy for the fiscal year shall be disclosed including projected excess levy capacity so that any excess capacity over and above what had been discussed during the budget process can be discussed as to its disposition.

- Options for shifting the tax burden from residential/open space to commercial/industrial/personal
- The projected tax bill for the home of average and median value and for commercial and industrial properties of average value based on selected tax rate options.
- Second meeting - tax classification hearing to allow for public comment and to vote a tax rate(s).

Adoption of a balanced budget

- Based on the recommendation from the Finance Committee (see Annual Budget policy) of (1) the proposed operating budget - including estimates of revenue to create a balanced budget that will survive ultimate review by DOR - and (2) other proposed financial articles, the Selectboard shall approve them for transmittal to the annual town meeting.

Commented [RA24]: This reference would be changed to Selectboard if alternative budget practice described above was adopted.

From page 46 of the report

If after the completion of the annual town meeting, circumstances require the convening of a special town meeting to make adjustments to the adopted budget – reductions in or supplements to appropriations – or appropriations for new special articles, such changes shall be presented by the Finance Committee to the Selectboard for review, approval and transmittal to Town Meeting; and the Selectboard, through the Town Administrator, Town Counsel and Bond Counsel, will develop the town special town meeting warrant and motions for approval of all financial articles by Town Meeting voters that meets all legal and procedural requirements.

Commented [RA25]: This reference would be changed to Selectboard if alternative budget practice described above was adopted.

Annual Audit

From page 52 of the report

- An audit committee be established by the Selectboard comprised of 5 members consisting of the Town Administrator, Town Accountant, Treasurer/Collector, a member of the Selectboard and a member of the Finance Committee to

Commented [RA26]: Policy recommends creation of an audit committee including a representative from the Fincom.

Procurement

From page 73 of the report

IMPLEMENTATION TIMELINE

It is intended that this policy will go into effect upon adoption with the following exception.

It is recognized that as of the date of adoption of this policy, the implementation of a purchase order/encumbrance software system cited below to enhance internal controls will be an extended process requiring identification of competing systems in the marketplace; evaluation of the these systems and their compatibility with the Town’s existing financial management software; approval of funding for the acquisition of a system; development of business rules to govern the system’s operation; and training of Town personnel on the system’s use. Consequently, it is agreed that, by adoption of this policy, there is a commitment to implement a purchase order/encumbrance software system though with a target starting date of July 1, 2024 for fiscal year 2025.

Notwithstanding the above, it is acknowledged that though the Town has yet to implement purchase order/encumbrance software system, the absence of such a system does not suggest that internal controls that would be automated by the software do not currently exist. At present, as part of standing practice, Invoices submitted to the Town Accountant's office are reviewed weekly, albeit after the fact, as part of the accounts payable process; and, regular reviews of departmental budgets are performed by the Town Administrator and Town Accountant and reviewed with department heads to identify potential budget shortfalls, including efforts to identify goods on order that would affect the calculation of the available budgetary balances.

Commented [RA27]: These 2 paragraphs call for a commitment to implement a purchase order/encumbrance system which will have cost implications, and provides a rationale for the implementation of the system.