Financial Management Policies

**Purpose**

The purpose of these policies is to guide financial management and planning for the town. It covers capital planning, the use of debt and cash for capital projects and the use and replenishment of reserves. The goal is maintaining the town’s financial flexibility so the town can respond to emergencies, changes in the economy or federal or state fiscal policies and new service challenges -- without measurable financial stress.

These financial principles set forth the overall goals for financial planning and management of town resources, recognizing that Town Meeting may vote as it determines in the best interest of the Town and outside of the goals stated in these policies.

**Capital Planning and Budgeting**

Investing in town facilities and critical infrastructure is vitally important to the delivery of high-quality municipal services. Multi-year planning provides proper sequencing of capital projects based on need and makes funding for capital projects more predictable.

Capital investment requirements typically vary, involving large projects such as fire apparatus, school buildings or other capital needs that are recurring in nature such as police cruiser replacement. Systematic identification of all potential projects provides a complete picture of the Town’s needs as identified by the town manager and the governing boards of other districts, discourages piecemeal improvements, and increases the likelihood that capital needs will be addressed before they become urgent, and potentially more costly to address.

To implement multi-year planning, the town manager submits a five-year capital improvement program (CIP) to the Finance Committee each year as part the annual operating budget. The CIP will include projects that provide for the on-going maintenance and improvement of the capital assets and infrastructure of the town identified by municipal departments, as well as the school system, the water district, and the fire district. While these entities have certain autonomy in managing their resources, it is expected they will provide this information in recognition that town residents ultimately pay for all these projects, and they will need to be approved at town meeting.

The Capital plan has the following objectives:

1. To identify current and future infrastructure needs, and to prioritize of projects so that available resources are used to the community’s best advantage.
2. To plan, and coordinate capital improvements to promote a systematic replacement and acquisition schedule.
3. To ensure that the capital needs of the community are met in a fiscally responsible manner.

The first year of the CIP constitutes the capital budget—the upcoming year’s spending plan for capital items in the annual budget. The sequencing of projects listed in subsequent years are provided for planning purposes and are funded in future years if they remain priorities.

**Definition of a Capital Project**

Capital projects generally involve the construction, renovation or purchase of buildings, equipment or infrastructure that have extended useful lives and whose costs is considered beyond the scope of normal annual operating budget.

Capital projects fall into one of the following categories:

1. Facility: Construction, expansion or renovation of a public facility or public infrastructure, including Fixtures, Furnishings, and Equipment (FF&E). Large facility maintenance projects including roof repair, HVAC, electrical, plumbing may also qualify, if costs are outside the scope of the annual maintenance budget. Projects may include the acquisition of land or other real property.
2. Infrastructure: Infrastructure maintenance and construction projects including street resurfacing, sidewalk construction and water and sewer projects. Projects may include the acquisition of land or other real property.
3. Vehicle / Equipment: Large equipment acquisitions including vehicles or technology equipment.
4. Planning: Planning, engineering, or design services integral to a capital project.
5. Other: Other projects that require significant capital not otherwise categorized.

Each area with capital needs is requested to fill out a table similar to this:

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**Evaluating Capital Requests**

The finance committee, working in conjunction with the town manager, school district, water quality district and fire district is responsible for evaluating capital requests and recommending a five-year schedule of capital expenditures to Town Meeting. When prioritizing capital projects, the finance committee should consider:

1. Whether the project improves public health or safety.
2. Whether the project improves the efficiency or effectiveness of municipal services.
3. Whether the project is necessary to comply with Federal or State mandates.
4. How soon does the project need to be implemented to address the needs identified.
5. What extent is the project aligned with other projects, policies, or established goals.
6. What value the project provides to the public.
7. Whether outside funding is available.

Since these are the Finance Committee’s considerations in making recommendations at Town Meeting, we suggest that the entities that are requesting capital share any of these considerations with the Finance Committee when proposing their capital budgets.

**Funding Capital Requests**

Capital projects/items may be funded using one of the following funding sources:

Borrowing or leasing– The town, or other entities can issue debt to fund capital projects. The debt should generally match the useful life of the project and should within the town’s debt capacity.

Reserves– Reserves established specifically for one-time items can be used for capital projects. These include the stabilization fund and free cash.

Available Revenues– Various tax and fee revenue may be used to fund capital projects. They include the general funds, water, and sewer revenues and federal, state, or private grants. Generally, these operating funds should be used for items with shorter useful lives or for on-going needs like vehicle replacement or routine maintenance projects.

Grant funding shall be pursued and used to finance capital projects whenever possible.

The annual operating cost of a proposed capital project, including debt service costs if applicable, will be identified before any long-term capital project is recommended.

Capital projects that support the operations of an enterprise fund shall be financed from the fund’s revenues, unless otherwise specified in a Warrant Article.

An important goal of the capital planning process is to provide a predictable level of investment so the town can maintain its physical infrastructure. While this policy does not dictate a specific level of funding each year, the expectation is that regular examination of the town’s capital assets and consistent multi-year planning will yield the appropriate level of funding to maintain the town’s assets.

This planning process will be used by the finance committee in making recommendations to town meeting. Other districts requesting capital project approval at town meeting should following these guidelines, but there is no expectation for them to formally adopt these procedures.

**Debt Policy**

The purpose of the debt policy is to provide a framework for decisions regarding the management of debt by the town. The policy provides guidance to the town manager on the use of debt and direction for the finance committee in fulfillment its debt management oversight responsibility. Adherence to this policy will help the Town responsibly address capital needs, control borrowing, and sustain capital investment capacity.

The policy is designed to provide guidance on managing the cost of capital, mitigating risks and monitoring debt capacity. The primary goal is to ensure debt is used strategically and fiscally responsibly in support the long-term capital needs as defined by the town manager.

The issuance of any debt will be subject to the approval of Town Meeting. The town manager will be responsible for implementing and monitoring the policy. The finance committee will oversee the policy and make periodic reports on the town’s debt.

**Debt Philosophy**

Debt is a critical financial tool for enabling the town to maintain and improve its physical assets and will be used prudently to finance long-term capital needs. Debt will be used to provide the lowest cost of capital within the town’s risk tolerance and will be managed to balance costs and risks. The town should strive to maintain a high credit rating to ensure access to capital markets at favorable interest rates, but the decision whether to issue debt will be driven by town needs.

**Debt Guidelines**

These guidelines provide direction for the town’s capital structure, including debt capacity, the use of fixed and variable rate debt, the amortization of debt, debt exclusions, and the use of tax-exempt and taxable debt.

Debt is defined as bonds or leases issued by the town for capital projects. It also includes over-lapping debt and other debt paid by Williamstown taxpayers.

The Town may issue short-term debt when necessary to fund immediate cash requirements, such as bridge financing in advance of receiving the anticipated funding or when market conditions make short-term financing a prudent option.

Priority will be given to the use of tax-exempt debt due to its lower cost, but the town may use taxable debt when financially advantageous and when a project does not qualify for tax-exempt debt.

Debt will generally match the useful life of projects financed.

Amortization of debt will generally be structured for level debt service to provide budget stability, but the town will evaluate the benefits of other structures based on operational needs, the timing of potential grant funding and market opportunities.

The town may utilize a mixture of fixed and variable rate debt. Fixed rate debt reduces interest rate risk but is generally more expensive. Variable rate debt provides less predictable interest costs and can introduce liquidity risks but has historically been less expensive.

All debt issuances will be supported by a financial plan that will specify how the town will fund the debt service and the incremental costs associated with the project to be financed. Before approving any debt financed project, the Finance Committee will analyze of the impact of on the town’s debt capacity.

Debt exclusions will be recommended for all debt issuances to provide financial flexibility with respect to the levy limit.

The town will minimize covenants and call provisions that limit financial flexibility.

The town may use credit enhancements in connection with a debt issue based on an analysis of the economic benefit, market factors and terms and covenant requirements.

Refinancing will be considered when there is a demonstrated financial or other compelling benefit.

**Reserve Funds**

The town maintains reserves to provide budgetary flexibility for unexpected events, fund one-time expenses and to withstand financial emergencies. Maintaining appropriate reserves is also critical to sustaining a strong credit rating, which lowers interest costs. The town has two reserve funds: the stabilization fund and free cash.

**Stabilization Fund**

The town maintains a stabilization, or rainy day, fund. In addition to providing liquidity, the fund can be used to cover town expenses in emergencies and for capital projects and other one-time expenditures.

Balancing the need for a reserve with the burden on taxpayers to fund it, the town will endeavor to maintain a Stabilization Fund equal to 5% of general fund revenues. General fund revenue being defined as property tax levy (both residential and commercial), excise taxes, and state aid. The Finance Committee may recommend additional funding of the Stabilization Fund as part of the annual budget process, for approval at Town Meeting.

**Free Cash**

Free cash is generated when the actual operating results compare favorably with the budget. Specifically, free cash is generated when actual revenue collections are more than budget estimates, and when expenditures and encumbrances are less than appropriations, or both.

Free cash provides communities with fiscal flexibility as it can be a source of funding for supplemental appropriations after the annual budget has been adopted and a tax rate set or used as a revenue source for a future budget.

Free cash will be used for capital projects, other one-time expenses, replenishing the stabilization fund, or reducing the tax levy.