

TOWN OF EASTHAM, MASSACHUSETTS

Financial Management Policies

Adopted September, 2021

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1. INTRODUCTION & SCOPE

The Town of Eastham, Massachusetts is responsible for the careful accounting and stewardship of public funds. These funds are provided by the taxpayers to provide services and to meet the goals and objectives established by the community, represented by Town Meeting and the Select Board of our Town. To help reach these goals and objectives, it is essential the Town provide guidance to our leaders and municipal staff, in the form of financial management policies, to ensure careful planning and adequate funding of desired municipal services is delivered and to ensure public funds are carefully accounted for and managed wisely. Through these efforts the Select Board strives to provide for the financial strength and stability of the Town of Eastham to ensure community services are affordable and sustainable.

The following are the financial management objectives the Select Board seeks to attain, and maintain over the long-term:

1. To provide value to the residents, business owners and visitors to the Town for each tax dollar by delivering quality services efficiently and on a cost-effective basis; and to seek opportunities for continuous improvement in cost and service delivery.
2. To preserve the Town's quality of life by providing and maintaining adequate financial resources necessary to sustain a sufficient level of municipal services, and to respond to changes in the economy, the priorities of governmental and non-governmental organizations, and other changes that may affect our financial health;
3. To guide Town decision makers on management and policy decisions which have significant fiscal importance;
4. To present operating principles that minimize the cost of government and financial risk;
5. To employ balanced, and fair revenue policies that provide adequate funding for desired programs;
6. To maintain appropriate financial capacity for present and future needs;
7. To maintain the highest achievable credit rating in order to minimize the cost of borrowing needed for the capital needs of the town;
8. To maintain public confidence in the Town's financial management;
9. To promote sound financial management by providing accurate and timely information on the various aspects of the Town's financial condition;
10. To ensure the propriety and legal use of financial resources through an effective system of internal control

To achieve these objectives, the Select Board adopts broad financial planning, revenue, and expenditure policies. General financial management policies are also adopted to promote operational effectiveness, transparency and accountability. Collectively, these policies, as listed in the Table of Contents, are intended to provide guidance to our decision-makers, leaders and professional staff and should be used to frame major policy initiatives and budgetary decisions.

2. GENERAL FINANCIAL MANAGEMENT POLICY

INTRODUCTION & SUMMARY

The Select Board is responsible for establishing and formulating broad financial policy of the Town, as indicated in the Table of Contents. However, given specifics of the statutory and regulatory environment, the changes therein, the evolving changes in technology and best practices, The Select Board recognizes the leaders hired to manage the Towns finances are in the best position to establish the procedures associated with their area of expertise. Certain areas of our financial operation also warrant additional attention to adequately address the Select Board's financial management objectives. Therefore, the Select Board adopts the following General Financial Management Policies:

GENERAL FINANCIAL MANAGEMENT POLICIES (GFM)

1. Each of the financial offices of the Town, consisting of: The Office of the Finance Director, Town Accountant, Collector/Treasurer, Assessor, and others as directed shall prepare policy guidelines, for approval by the Town Administrator, establishing the following:
 - a. Standards of Performance
 - b. Identification of significant office functions and responsibilities
 - c. Adoption of policies related to each significant function and responsibility
 - d. Documentation on the performance of each significant function and responsibility by internal office personnel and external users.
 - e. Identification of key internal controls for each significant function and responsibility.

These policy and procedure guidelines shall be kept up to date and amended as circumstances, such as, regulation, technology, and best practices dictate.

2. Financial policies shall be accompanied by summary information which provide background and document the key considerations used in arriving at the policy decision. Where possible, reference to professional references should be disclosed.
3. The Director of Finance shall prepare, for approval by the Investment Committee, a cash and investment policy which ensures an appropriate level of stewardship of public funds. The policy should reflect the statutory responsibility and authority of the Town's designated Town Collector/Treasurer.
4. The Director of Finance shall prepare, for approval by the Town Administrator, broad policies addressing risk management and financial controls.
5. All employees in the finance offices shall affirm annually Town policies and provisions regarding Code of Ethics and Standards of Conduct and shall comply with all provisions in carrying out their duties and responsibilities.

3. BUDGET POLICY

INTRODUCTION & SUMMARY

Operating and capital budgets are developed on an annual basis to provide a comprehensive plan to deliver services to our residents and visitors. These budgets shall align the resources with the policy, goals, mission and vision of the Town. The formulation of budgets is one of the most important financial activities the Town undertakes each year. This budget policy is intended to provide guidelines to assist in the formulation and consideration of broader implications of financial discussions and decisions, which ultimately assist in completing financial planning cycles that deliver the best value.

With these concepts in mind, the Select Board adopts the following budget policies:

BUDGET POLICIES

1. The Town will follow the provisions of the Town Charter in drafting, acting and adopting an annual operating budget. These provisions include procedures on the budget submission timeline, budget message, annual policy statement, budget presentation and adoption.
2. MGL and this policy require annual operating budgets to be recommended to Town Meeting on a balanced basis, where operating revenues are used to fund operating expenditures.
 - a. Operating revenues include property taxes, recurring local estimated receipts and state aid and transfers in from other funds established for recurring operating purposes.
 - b. Operating expenditures include: personnel costs; ordinary maintenance and operating expenses, and contractual costs. Operating expenditures include debt service previously approved as non-exempt debt.
3. Recommendation of a balanced budget proposal to Town Meeting shall be done with consideration provided to other areas of the Select Board's Financial Policies, including, but not limited to: Revenue Policy; Financial Planning Policy; Debt Management Policy; Contingent Liability Policy; Financial Reserve and Liquidity Policy.
 - a. The Town will avoid non-recurring revenue sources, including available fund balance and free cash to fund recurring operating expenditures.
 - b. The annual budget presented will first secure core services and required mandates.
 - c. Commitments to new wage rate increases and service enhancements can be considered after core services have been secured with recurring revenue.
4. Expenditures may not exceed budgeted appropriations, as pursuant to MGL.
5. Where available, one-time or non-recurring revenues that are not restricted by law, contract, or other provision will be used for non-recurring commitments, such as: addition to Town reserve funds; mitigation of contingent liabilities; or supplemental capital costs.

6. The Town will follow the provisions of the Town Charter with regard to a Capital Improvements Plan. These provisions provide for the preparation and content of a 5-year capital improvement plan as well as timelines and process for inclusion in the annual operating budget.
7. The Towns' financial offices shall monitor budget status as provided under MGL and Department of Revenue guidelines. Budget to actual reports on appropriations and estimated local receipts will be maintained and available on an ongoing basis and provided to the Select Board and Finance Committee, quarterly.
8. Budget amendments and transfers shall be made as authorized by Town Meeting, or as authorized by the Select Board and/or Finance Committee as provided under Town Charter provisions or MGL.
9. Select Board will set specific priority budget targets (subject to change due to extraordinary circumstances).
 - a. Annual operating budget presentations should include a provision for \$400,000 within the tax levy for the Town's routine capital, as approved through a taxpayer override.
 - b. Annual operating budget presentation should include a provision for \$490,500 within the tax levy for the Family Support Program costs, as approved through a taxpayer override.
 - c. New Short-term rental revenues (eff. 2019) should be used to increase reserves, support capital plan expenditures, or for programs as directed by the Select Board. These revenues should not be used or dedicated to current municipal operations, or new programs, without prior direction from the Select Board.
 - d. New revenues derived from increase in the Short-term rental tax from 4% to 6% (eff. 1/1/2022) are earmarked for community support efforts and should not be used or dedicated to current municipal operations, or new programs, without prior direction from the Select Board.

4. REVENUE POLICY

INTRODUCTION & SUMMARY

Revenues determine the capacity of the Town to provide services. Policies that require identification of both the cost and the portion of the cost that will be recovered through fees and charges allow the Town and its citizens to develop a better understanding of the cost of services and to consider the appropriateness of established fees and charges. In addition, all revenue sources have particular characteristics in terms of stability, growth, sensitivity to inflation or business-cycle, and impact on tax and rate payers. A diversity of revenue sources can improve the Town's ability to handle fluctuations in revenues and potentially better distribute the cost of providing services. Likewise, a change in the diversity of revenue sources can affect the relative tax burden on different tax and rate payers.

While the Town is oftentimes statutorily or otherwise limited as to the types of revenues it may raise, it should consider options to enhance flexibility within the constraints of available revenue sources. To ensure revenues for the Town are balanced and capable of supporting desired levels of services, the Select Board adopts the following revenue policies:

REVENUE POLICIES

1. The Town will strive to maintain a diversified and stable revenue system, as permitted by law, to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of economic downturns.
2. The year-to-year increase of actual revenue from the levy of property taxes shall generally not exceed 2.5% as calculated and permitted under Proposition 2 ½
3. State and local estimated receipts used for budgeting purposes shall be conservative, and in any event should not exceed 100% of the prior year's actual collections without additional analysis and supporting conclusions.
 - a. General local receipts target should be 80 – 85% of prior year actual receipts (excluding any earmarks) in normal budgetary cycles in order to preserve flexibility and liquidity during tighter economic cycles.
 - b. Local receipt utilization of between 86 – 90% of prior year actual receipts (excluding any earmarks) is permitted but should be supported with rationale for the increased use of local receipts.
 - c. Local receipt utilization of over 90% of prior year actual receipts (excluding any earmarks) is permitted but would indicate a tightening budget or economic contraction that should be highlighted to and discussed with the Finance Committee and Select Board during the budgetary process.
4. State and local estimated receipts shall be estimated using an objective, analytical process using established best practices.
5. Departmental fees and user charges shall be established at a level not to exceed the cost of providing the service, including direct and indirect costs of the activity.
6. Enterprise and business-type activities user charges and fees will be set to recover all direct and indirect costs associated with these activities.
7. Departmental fees and user charges shall be evaluated periodically and adjusted (by the appropriate Town board or official) as deemed necessary to respond to changes in costs of providing the service, while considering affordability.

8. When appropriate, existing fees and charges will be re-examined and potential new sources of revenues will be explored to ensure the Town is maximizing its revenue potential.
9. Non-recurring revenues will be separately identified and not used to fund recurring expenditures.
10. Revenues shall only be used as prescribed by law, contract, or otherwise provided or restricted.

5. FINANCIAL PLANNING POLICY

INTRODUCTION & SUMMARY

Financial planning provides a useful avenue for communication of the Town's financial status for all participants in Town government. It engenders a long-range perspective for decision makers; promotes strategic thinking; and can be used as a tool to identify and plan strategies to achieve long-term sustainability of the Town's service objectives. To help ensure the Town is identifying and planning for its financial challenges in advance and to promote long-term, strategic decision making on financial matters, the Select Board adopts the following financial planning policies:

FINANCIAL PLANNING POLICIES

1. The Town Administrator should provide for a rolling 5 year operating budget projection. The projection shall report the summarized actual results of the most recently completed fiscal year and forecast operating revenues and expenditures for the subsequent 5 years. The projection is not intended to be a detailed spending plan, but rather a tool to provide early identification of major challenges. In preparing this forecast consideration shall be given to maintaining compliance with other financial policies, particularly the Town's Revenue, Budget and Reserve policies.
2. As provided through Town Charter provisions and the Select Board's Budget Policy: *The Town will follow the provisions of the Town Charter with regard to a Capital Improvements Plan. These provisions provide for the preparation and content of a 5- year capital improvement plan as well as timelines and process for inclusion in the annual operating budget.*
3. Each year, in advance of undertaking the budget process required by Town Charter, a projection of changes to the Town's tax levy limit should be undertaken.
4. Monitoring of actual revenue and expenditure results and compared to historical trends should be completed on a periodic basis throughout the fiscal year.
5. The Town Administrator shall provide for the completion of year-end financial reports as required by the Commonwealth of Massachusetts and for a year-end financial audit.
6. Analysis and reporting of key results should be used to identify the Town's status with regard to the Select Board's adopted financial policies, as well as provide additional context and support for the Town's 5-year projections.

6. DEBT MANAGEMENT POLICY

INTRODUCTION & SUMMARY

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries of a capital investment to share in the cost of that improvement. Unlike most personal or private debt, towns generally have access to capital at very competitive tax-exempt rates.

Properly managed debt helps to preserve the Town's credit rating, provides flexibility in current and future operating budgets, and provides the Town with long-term assets that maintain or improve our quality of life.

However, credit rating agencies, consider debt service exceeding 20% of net operating revenues as a potential problem. Dramatic increases in debt service also indicate potential problems unless revenue sources increase to keep pace with these additions to fixed costs. Policies to limit our debt service to appropriate levels should allow for new projects as old capital projects near the end of their useful life and for the growth of revenues to finance new capital needs.

DEBT MANAGEMENT POLICIES

1. The requirements for debt financing shall be an expenditure of at least \$100,000 and a useful life in excess of five (5) years for only those projects not able to be financed from current revenues.
2. Long-term debt will only be issued for objects or purposes authorized by state law.
3. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed. Long-term debt should not be incurred without a clear identification of its financing sources. State law strictly regulates both the purposes for which towns can borrow and the time periods for which these borrowings can occur.
4. General Fund debt service, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed 10% of General Fund revenues.
 - a. General Fund debt service funded from General Fund revenues and debt exclusions from property taxes above the Proposition 2 ½ Levy Limit will not exceed 25% of the General Fund budget, provided our financial projections indicate a comparable, if not favorable, property tax burden compared to other Massachusetts communities.
5. The Town will generally maintain a long-term debt schedule in the General Fund so that at least 50% of outstanding principal will be paid within 10 years, excluding utility and enterprise infrastructure as noted below.
6. Debt limits established by law and policy will be monitored and calculated at least once each year and whenever otherwise appropriate.
7. Select Board specific General Fund debt management goals subject to change as new circumstances arise:
 - a. To balance new capital borrowing and debt service costs against projected "drop-off" of existing debt and debt service costs.

8. Enterprise Funds: Some municipal services, such as utilities (i.e. water/sewers) are activities supported by rate payers and accounted for separately as enterprise funds. These activities typically operate with infrastructure assets which have a very long useful life. Some components of this infrastructure may have life expectancy of at least 50 years. For these activities the following policies apply:
 - a. Analysis of the predictability and reliability of rate revenues will be completed to determine feasibility of supporting repayment of contemplated debt. Enterprise operations should expect to support its own debt service, unless subsidized from the general fund approved as part of the financing mechanism.
 - b. Given the long-term nature of utility infrastructure investments, long-term debt maturities exceeding those expected for other facilities are permitted. Factors to be considered in this determination should include: cost of borrowing; interest rates; stability and reliability of rate revenue; expected life of the improvement; and taxpayer equity issues.

7. RESERVES & LIQUIDITY POLICY

INTRODUCTION & SUMMARY

Towns maintain reserves in order to provide budgetary flexibility for unexpected events, to withstand financial emergencies, and to protect the Town from the usual unevenness in revenue and expenditure patterns that occur with changes in economic conditions. It is important that the Town maintain financial flexibility to ensure it is in a position to react and respond to these challenges without incurring significant financial stress.

Reserves are typically established in three categories:

- **Contingency Reserve:** A reserve for unforeseen events.
- **Restricted Reserve:** A reserve dedicated for specific use at some future time.
- **Unrestricted Reserve:** A reserve that can be used for any purpose.

For example, reserves are created and maintained for several reasons, these include:

- **Operational needs** – these are contingency reserves (i.e. Finance Committee Reserve Fund) which are typically appropriated as part of the annual budget. The purpose is to meet unexpected increases in departmental operational costs, such as legal fees, major equipment repairs and unanticipated increases in service costs.
- **Catastrophic or emergency expenditures** – these are contingency reserves which provide emergency funds for use in a major or significant event, such as natural disaster, an uninsured loss or damage to a capital asset.
- **Maintenance of assets** – these are restricted reserves used to replenish the continuing depreciation, renovation, or replacement of facilities and equipment.
- **Liquidity or cash flow** – These are unrestricted reserves used to reduce the need for short-term borrowing, generate investment income and to maintain a strong credit rating.
- **Unfunded liabilities** – These are restricted reserves used to fund an unfunded liability that has been incurred during the current or prior years, but which does not have to be paid until a future year, and for which adequate reserves have not been set aside. Unfunded liabilities commonly include pension and other post-employment benefit (OPEB) obligations.

GENERAL FUND RESERVE AND LIQUIDITY POLICIES

1. Current operating expenditures will be paid for with current operating revenues.
2. Adopt an operating budget reserve fund of between .25 – 1% of general fund expenditures. As measured by the operating budget article request presented to Town Meeting.
3. Target an unreserved fund balance in the General Operating Fund of between 5 – 10% of the general fund operating expenditure budget. As measured by the operating budget article request presented to Town Meeting.
4. Target a minimum unrestricted stabilization fund balance of 5% - 20% general fund operating budget to provide for catastrophic and emergency expenditures, as well as an operating reserve in the event of deteriorating economic conditions and for use in providing liquidity and cash flow.
5. Consider annually, as part of the budget process, specific restricted stabilization funds, where possible, to provide resources for the maintenance or acquisition of facilities or equipment in order to reduce borrowing and related costs.
6. Consider annually, as part of the budget process, providing additional resources for identified unfunded liabilities.

8. CONTINGENT (UNFUNDED) LIABILITIES POLICY

INTRODUCTION & SUMMARY

Defined as “the actuarial calculation of the value of future benefits payable less the net assets available at a given date,” unfunded liabilities represent a significant obligation of governments across the country. For the Town of Eastham, there are currently two primary unfunded liabilities: 1. Pension benefits and 2. Other Post-Employment Benefits (OPEB).

Pension: the Town participates in the Barnstable County Retirement Association (BCRA) in order to administer public employee pensions as required by law. BCRA operates the system in accordance with Massachusetts General Laws and regulations promulgated by the Public Employee Retirement Administration Commission (PERAC). The Association provides for a biennial actuarial valuation to determine the Town’s share of its unfunded pension liability. Under current law, the BCRA has adopted a funding schedule, which is paid by annual assessments to its members, to achieve full funding by the year 2038.

OPEB: consists of the Town’s obligation to provide post-employment health insurance to retired employees, currently and in the future. The Town contributes 50% funding to retiree health insurance costs (the minimum allowed by law), currently on a pay-as-you go basis. The Town provides for a biennial actuarial valuation to estimate the value of its OPEB liability and has established an OPEB Trust Fund to accumulate assets to pay for these obligations, similar to the pension fund. Although there is no current requirement to fully fund this liability the Town has set aside some funds from one-time sources and continues to provide for annual funding from within the levy and through departmental fee cost recovery, as appropriate.

UNFUNDED LIABILITIES POLICIES

1. The Town will continue to follow the Commonwealth funding policy of providing for a pension funding schedule through the County retirement association to achieve full funding by the year 2038. This funding will be provided in each annual budget authorization within the fiscal years levy limitations.
2. The Town’s 5-year operating budget projection and annual budget authorizations will attempt to provide for increasing OPEB funding, within the levy, to narrow the gap between the Town’s annual pay-as-you go amount and its Annual Required Contribution.
3. As additional one-time financial resources are available after consideration of the Town’s Reserve & Liquidity Policy and other financial needs of the Town, supplemental funding will be provided to contribute to the OPEB Trust Fund.
4. The Board anticipates utilizing levy capacity that becomes available from achieving full funding status of either of the unfunded liabilities, to increase the levy funding of the remaining unfunded liability.
5. As per the Town Revenue Policy, departmental fees will identify and include OPEB and Pension costs as either direct or indirect cost components to be recovered in the establishment of departmental fees, as appropriate.