



Town of Chatham

Budget and Financial Management Policies

Introduction

The financial management policies of the Town of Chatham are derived from the Town's adopted By-laws and Charter. The implementation of these policies is driven by our commitment to attain the following goals on a continual basis:

- Provide a full range of municipal services to the community in order to preserve our citizens' high quality of life.
- Maintain a stable tax levy commensurate with economic growth.
- Recruit top tier personnel.
- Promote a seamless flow of communication among staff, committees and boards.
- Retain our AAA credit rating.

The financial management policies are intended to be used, and therefore, must be flexible enough to accommodate changing social and economic conditions. It is appropriate for the Board of Selectmen to review these policies every three years and make adjustments as required.

Policies Relating to Financial Management

Financial Planning and Forecasting

- Revenue and expense estimates should be realistic, yet conservative, to minimize the potential shortfalls in the subsequent year's operating budgets and corresponding impacts on free cash.
- The Town Manager shall provide a three-year financial plan that includes revenue and expenditure forecasts as updated annually. The forecasts prepared for the annual budget process begin with a preliminary forecast which is used to make tentative decisions on the budget instructions, borrowing expectations, and capital expenditures. Periodic and final forecasts will be updated and presented to the Board of Selectmen and Finance Committee.

Operating Budget Policy

- The annual operating budget shall be appropriated on a balanced basis where recurring revenues are used to fund recurring expenses:
 - Recurring revenues include property taxes, vehicle excise, fees for services, licenses and permits, fine and forfeits, interest earnings, state aid, and available funds.
 - Recurring expenses include salaries and wages, employee benefits, materials, supplies, contractual costs, and debt service for capital projects.

- The operating budget shall be voted upon by function at the annual town meeting.

Revenue Policy

- Fees for all municipal services shall be set to recover approximately 100% of the cost of the service.
- Fees for all municipal services shall be reviewed on an annual basis.
- Estimated receipts shall be monitored on a monthly basis.
- One-time revenues shall be used to fund one-time expenses or be included as part of free cash (if there are no one time expenses).
- Balances in prior Town Meeting funding articles shall be reviewed annually and excess balances shall be closed out to free cash.
- In order to maintain as low a tax rate as possible, debt drop-off, the increased debt capacity created as previously incurred debt is paid down, shall be utilized to fund the Capital Facility Plan.

Expense Policy

- The Town shall maintain a Three-Year Staffing Plan in order to respond to the needs of the organization and to plan for offsetting revenue sources and/or reorganization efforts.
- Cost of Living Adjustments for municipal employees shall be voted on annually at Town Meeting
- Department Heads must receive approval for exceeding budgeted expenses from either the Town Manager or Finance Director before costs are incurred.
- All efforts shall be made to identify and implement cost containment/reduction initiatives and operational efficiencies on an annual basis.
- New spending initiatives, departmental reorganizations, By-Law amendments, property acquisitions, gifts, and grants – as well as State mandates -can have significant long-term impact on revenues and operating costs that may not be immediately apparent. Reasonable efforts will be made to identify such long-term costs for incorporation into future capital improvement plans and operating budgets.
- Purchase orders shall be submitted for operating expenses incurred over \$2,000. If the amount is subjected to procurement all bid documents must be submitted with the Purchase order.
- The Town Manager shall serve as the chief procurement officer and be responsible for the purchase of all supplies, materials and equipment and approve the award of all contracts for all Town departments..

Reserve Policy

The establishment and maintenance of adequate financial reserves provide the Town of Chatham with financial flexibility and security. This policy is recognized as an important factor for consideration by bond rating agencies, the underwriting community and financial advisors.

Stabilization Fund:

- The Town of Chatham shall maintain a Stabilization Fund.
- The Overlay Surplus, a fund balance remaining after the payment of property tax abatements, shall be the dedicated funding source of the Stabilization Fund.
- Standard Stabilization Fund uses include, but are not exclusively limited to, settlement of litigation and emergency expenditures.
- The Town may, with town meeting approval, use the Stabilization Fund as an “internal bank” to borrow from itself for capital projects.
- The Town shall have a goal to maintain a minimum balance of 5% of the Operating Budget. If the fund is used for any reason, the goal is to replenish it as soon as possible and no later than within five years.

Finance Committee Reserve Fund:

Its purpose is to respond to extraordinary and unforeseen events/obligations. The Town has established an annual budget reserve in accordance with the provisions of Massachusetts General Law, Ch.40 §6.

- The Reserve Fund shall be budgeted annually to provide for extraordinary and unforeseen expenditures that could not have been anticipated before Town Meeting, and/or to allow immediate expenditures of funds in the event of an emergency and cannot be deferred until the next scheduled Town Meeting.
- A request for a Reserve Fund transfer will not be considered if it is contrary to the vote of Town Meeting, or as a ‘backdoor’ means to increase a budget.
- Any unexpended balance at the end of the fiscal year will go toward the calculation of free cash.

Capital Budget

Capital Improvement Plan/Budget Policy

- Items in the Capital Improvement budget shall fall into the categories of maintenance projects, equipment and new projects and within the range of \$5,000-\$250,000.
- The Capital Improvement budget for any fiscal year, excluding expenditures financed by debt, should budget an expenditure amount equal to between (3% and 7%) of the Town's Operating Budget for that fiscal year except in extraordinary circumstances.
- The Capital Improvement Budget shall be primarily funded by Free Cash, the tax levy, and/or other onetime available funds.
- The Capital Improvement budget shall be voted at town meeting by function.
- This goal should be revisited regularly to ensure that the Town is investing adequately in its capital needs.

Debt Management Policy

Debt is an effective way to finance large capital projects or improvements. Properly managed debt preserves our credit rating, enhances flexibility in current and future operating budgets and provides the Town with long-term assets that maintain or improve our quality of life.

- The Town will propose all new debt issues as debt exclusions.
- The Town will maintain good communications with banks, financial advisors, bond counsel and bond rating agencies.
- Bonds will be paid back within a period not to exceed the expected useful life of the capital project or the period defined by state law, whichever is shorter.
- The Town will structure debt payments in order to maximize cash flow.
- The Town will frequently analyze existing debt in order to take advantage of refunding options.
- The Town's annual Town Report, Town Manager's Budget Message and annual town meeting warrant will give summaries of the debt obligations of the Town.

Unfunded Liabilities Policy

- Pensions – Barnstable County Retirement Assessment is paid as an annual assessment.

- Other Post-Employment Benefits (OPEB's) – costs to provide health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued statements in 2004 - GASB 43, 44, 45. While there is no legal requirement to fund OPEB's, the Town should strive to move toward fully funding the Annual Required Contribution (ARC), ultimately developing a funding schedule that fully funds OPEB's. The Town shall continue its practice of having an independent actuary prepare biennial valuation, which is in compliance with GASB's requirement.

Date Adopted: December 18, 2012 Board of Selectmen 5-0-0