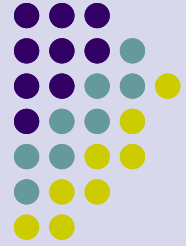


Show Me the Money: Financial Skills for Selectboards



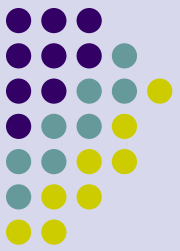
Presented by:

Rick Kingsley

Division of Local Services

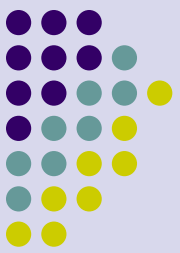
February 19, 2014

Franklin Regional Council of Governments



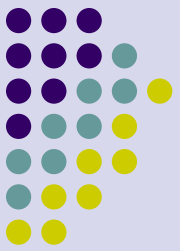
Budget Process

- Financial team prepares projections of revenues and fixed costs in late fall
- Policy-makers use these projections to establish budget parameters
- Update projections in late January to reflect local aid in Governor's budget (late February if new Governor)
- Departmental requests submitted, compiled into balanced budget, reviewed/amended by selectboard, then to finance committee for review/recommendations to town meeting



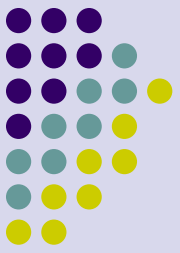
Budget Tips/Tax Rate Issues

- Town meeting may approve an unbalanced budget, but tax rate cannot be approved until budget is balanced
- Late fall special town meeting with financial articles can delay setting of tax rate
- Late revaluation may delay state certification of values and prevent tax rate setting
- Don't appropriate annual operating expenses in special articles
- Monitor budget through use of monthly expenditure and revenue reports



Maintaining Town Assets

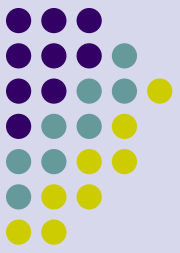
- Until recently, most MA communities did not record capital assets on their financial statements.
- Governmental Accounting Standards Board (GASB) sets standards for financial reporting to insure uniformity and comparability across communities.
- GASB 34 requires inventory and depreciation of both infrastructure assets and capital assets.
- Value of “net assets” on financial statements will decline if capital and infrastructure assets are not maintained.
- Selectboards have responsibility to protect and preserve town’s assets



Capital Planning

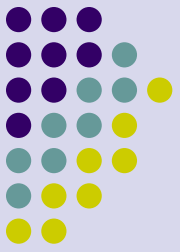
- Establish capital planning committee (MGL c.41:106B) or use finance committee
- Maintain accurate inventory with up-to-date condition of asset
- Establish objective criteria for rating capital projects/acquisitions
- Determine financing method: cash outlay/reserves, borrowing, grants or special purpose stabilization fund
- See Division's Capital Planning Guide:

<http://www.mass.gov/dor/docs/dls/publ/misc/cip.pdf>



Prioritizing Capital Needs

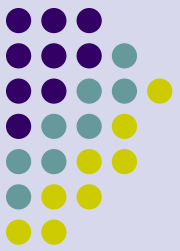
- Often the hardest part of capital planning
- Is the project mandatory or legally required?
- Will it extend useful life of asset or prevent future expensive repairs?
- Does the project create departmental operating efficiencies?
- What is the useful life of project, will it impact ongoing operating and maintenance costs?
- Any grants available or other impacts on town revenue?



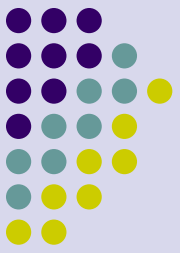
Financing Options

- Devote a percentage of general fund revenue to finance capital
- Use free cash for capital rather than ongoing operating expenses
- Stabilization fund and special purpose stabilization funds
- User fees, retained earnings and special revenue funds
- Debt issuance and excluded debt
- State house note and serial issue program -- low issuance costs, great for smaller towns

Is Your Fiscal House in Order?

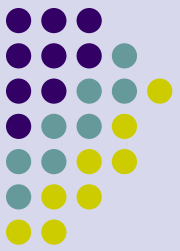


- Do you have good finance officers?
- Who, if anyone, oversees the performance and coordinates the activities of these officers?
- Are there barriers to attracting good finance officers: poor pay, not enough hours/benefits, elected vs. appointed, or residency requirement?
- Do these officers conduct prompt monthly reconciliations of cash and receivables? Are valuations completed timely? Are financial reports timely, accurate and useful?



Fiscal House in Order (Cont.)

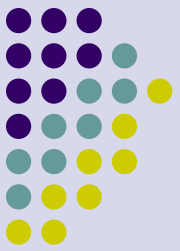
- Does the town contract with an outside auditor for an annual audit?
- Does the town rely on the same auditor year after year?
- Is the audit responsive to the town's needs?
- How does the town respond to shortcomings in internal controls identified in the audit?
- What are significant and material weaknesses?
- How does selectboard make sure that audit findings are addressed?



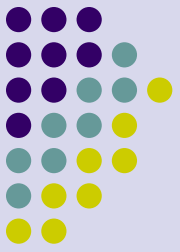
Setting the Tax Rate

- Tax rate includes all town meeting appropriations since last tax rate
- Total amount raised equals sum of appropriations plus other amounts to be raised
 - Overlay (reserve for abatements and exemptions)
 - State and County Charges (from Cherry Sheet)
 - Tax title expenses, court judgments, debt service not appropriated, and various other deficits
- Estimated revenues from tax levy, state aid, local receipts and available funds must cover total amount raised

Selectboard Role in Tax Rate



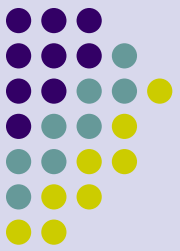
- Determine single or split tax rate at classification hearing
- Sign off on unused levy capacity
- Generally ensure that property values are finalized early, classification hearing held shortly thereafter and various tax rate forms submitted to DLS as soon as possible



Proposition 2 1/2

- Prop 2 ½ limits both total tax levy limit and the amount the levy can increase from year to year
- Total levy limit cannot exceed 2.5 percent of total assessed value --- referred to as “levy ceiling”
- Annual levy limit increases limited to 2.5 percent, plus an allowance for new construction and overrides
- Please refer to the Division’s primer on levy limits and Prop 2 ½:

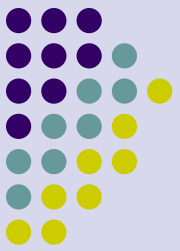
<http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf>



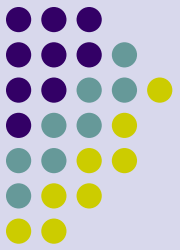
Prop 2 1/2 Overrides

- Overrides require a majority vote of the selectboard to place on the ballot
- Ballot must specify the dollar amount and purpose of the vote
- Overrides require majority vote of approval by the electorate
- Overrides permanently increase the tax levy limit, but can't increase it beyond levy ceiling

Prop 2 ½ Debt or Capital Exclusions

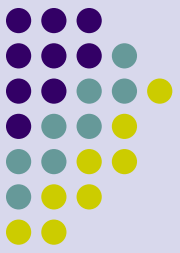


- Debt or Capital Exclusions require two-thirds vote of selectboard to place before voters
- A majority vote of approval required by electorate
- Unlike overrides, exclusions not part of base upon which levy limit is calculated in future years
- Debt exclusions include the borrowing purpose, but not a dollar amount
- Capital exclusions include a dollar amount and spending purpose and last only one year



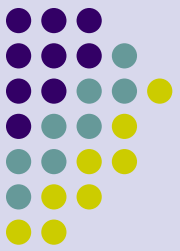
State Aid

- DLS updates local aid estimates on our website at each phase of state budget process
- Subscribe to DLS e-mail notifications:
<https://wfb.dor.state.ma.us/DORCommon/Listserv/DLSMailList.aspx>
- Cherry sheet aid now paid monthly rather than quarterly...improving town cash flow
- Final cherry sheet numbers must be used on tax rate recap sheet
- See Cherry Sheet Manual for program details:
<http://www.mass.gov/dor/docs/dls/cherry/cherrysheetmanual.pdf>



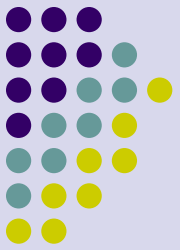
Local Estimated Receipts

- User fees limited by Emerson College SJC decision:
 - Fees charged for particular service which benefits party paying fee in manner not shared by others
 - Fee paid by choice, can opt out of particular service
 - Fee not to raise revenue, but is limited to costs of operation
- Relationship between estimated local receipts and free cash certification
- Certain local receipts used in the Municipal Revenue Growth Factor (MRGF) calculation to increase local contribution to education



Local Receipts and the MRGF

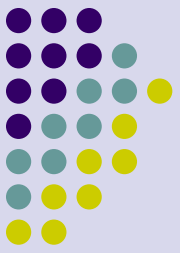
- Growth factor calculation compares current year budgeted receipts to prior year budgeted receipts
- Includes motor vehicle excise and other excises such as meals, rooms, and boat excises
- Penalties and interest on taxes and excises
- Payments in lieu of taxes
- Fines and forfeits and investment income
- Medicaid reimbursement and miscellaneous recurring receipts



Enterprise Funds

- Used for business type activities: utilities, health care, recreational or transportation facilities (MGL 44:53F1/2)
- Separate accounting/reporting for services for which fee is charged for goods or services
- Includes all direct and indirect costs of providing service
- Demonstrates extent that fees cover full cost of service
- Any operating surplus retained and certified as “retained earnings,” available only for enterprise purposes
- See Enterprise Fund Manual:

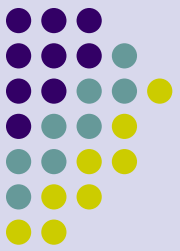
<http://www.mass.gov/dor/docs/dls/publ/misc/enterprisefundmanual.pdf>



Revolving Funds

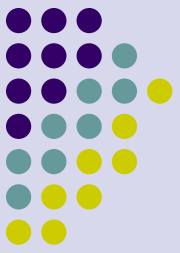
- Revolving funds set aside fees and charges to provide specific services or programs (MGL 44:53E1/2)
- Fund created by annual town meeting, requires annual designation of receipts, limits on amount spent, and program for which funds may be spent
- Fund spent without further appropriation by designated department, board or official
- Limit of 1% of tax levy for any one revolving fund
- Combined expenditures from all revolving funds not to exceed 10% of tax levy

Special Purpose Stabilization Funds

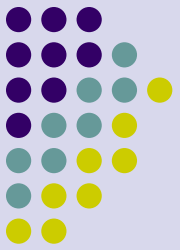


- In 2003, changes to MGL 40:5B allowed towns to set aside funds for specific purposes and use a new funding option
- Special purpose stabilization funds can be effective financing tools for vehicle replacement, road or facility maintenance, or mid-sized acquisitions
- 2/3rds vote of town meeting to create special purpose stabilization, determine purpose and appropriate funds into or out of the account

Funding a Special Purpose Stabilization

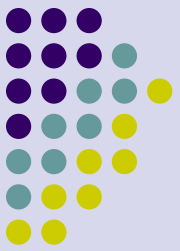


- Funded through regular appropriation or voter approval of Prop 2 ½ override
- Override requires 2/3^{rds} vote of selectboard to place before voters, majority vote for passage
- Override vote earmarks funding to particular special purpose fund, but selectmen make annual decision to employ or “appropriate” this funding in subsequent years
- Demonstrates long-term view, opportunity to save/manage debt and build resident confidence in government



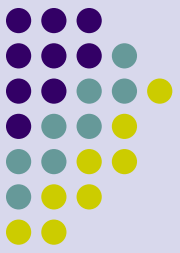
Free Cash

- Free cash levels depend on budgeting strategies and actual operating results
- Aggressively pushing estimated receipts generally decreases free cash
- Tight budgets decrease free cash and may result in appropriation deficits
- Free cash generated when:
 - actual revenues exceed estimates;
 - actual expenditures less than appropriations



What Decreases Free Cash?

- Illegal appropriation deficits, not snow/ice deficits
- Increase in uncollected property taxes or overlay reserve
- Cash or receivable reconciliation variance between accountant and treasurer/collector
- Deficits in other funds, capital project funds



Resources Available from DLS

- Comparative financial and socioeconomic data reports available on DLS website:
<http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/>
- Technical assistance services: DLS team to review organizational structure, assess financial condition, evaluate finance offices or information technology function or analyze a particular problem
- Sound financial management practices by topic plus other helpful information