

SUDBURY SELECT BOARD
POLICES & PROCEDURES REVIEW
SUBCOMMITTEE

THURSDAY MARCH 18, 2021
7:00 PM OPEN SESSION

Please click the link below to join the virtual Select Board Meeting:

<https://us02web.zoom.us/j/360217080>

For audio only, call the number below and enter the meeting ID on your telephone keypad.

Call In number: **978-639-3366** or **470 250 9358**

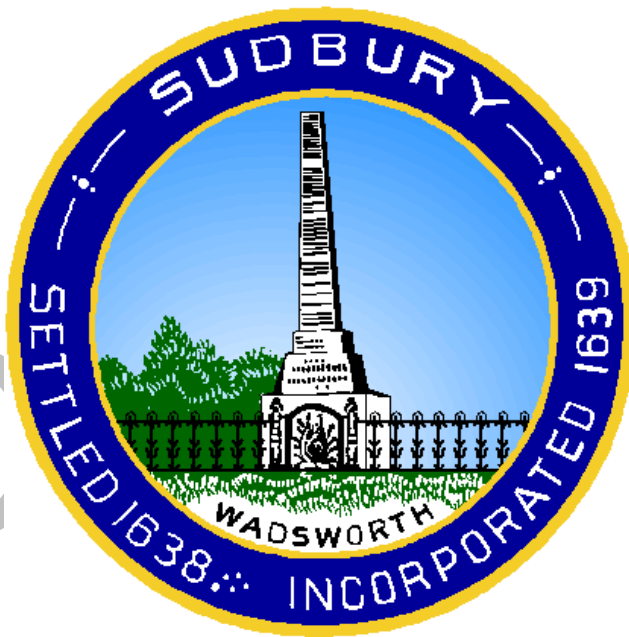
Meeting ID: **360 217 080**

Item #	Time	Action	Item
	7:00 PM		CALL TO ORDER
1.			Reports from Subcommittee Members
2.			Citizen Comments for Items Not on the Agenda
3.			Review, discuss, and/or edit draft policy documents
4.			Further review of DLS report for incorporation into draft policies
5.			Identify key questions and policy decisions
6.			Review and approve Meeting Minutes
7.			Citizen Comments
8.			Upcoming agenda items/next meeting planning

These agenda items are those reasonably anticipated by the subcommittee which may be discussed at the meeting. Not all items listed may in fact be discussed and other items not listed may also be brought up for discussion to the extent permitted by law.

Town of Sudbury, Massachusetts

Financial Policies Manual



Commented [BS1]: Need to compare content with 2019 Draft (Dennis K and Melissa R) https://1drv.ms/w/s!AmRy3D3ZZHrDg17TsUGR4r_UNzj?e=COB7t8 which had the following sections:

1. Operating Budget Policy 2
2. Revenue Policy 2
3. Expenditure Policy 3
4. Risk Management Policy 4
5. Capital Budgeting and Planning Policy 4
6. Debt Management Policy 5
7. Protection of Credit Rating Policy 6
8. Free Cash Policy 6
9. Stabilization Fund

Commented [BS2R1]: from Dennis: to this doc vs. 2019 added Overlay section and OPEB section

Introduction

The Town of Sudbury is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. To that end, this manual of financial policies provides guidance for local planning and decision making. The policies as a whole are intended to outline objectives, provide formal direction, and define authority to help ensure sound fiscal stewardship and management practices. Each is a living document that should be reviewed periodically and updated as necessary.

With these policies, the Town of Sudbury, through its Board of Selectmen, Town Manager, and employees, commits to the following objectives:

- Sustaining a consistent level of service and value for residents
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Ensuring the quality and maintenance of capital assets
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure

Commented [BS3]: Charlie suggests the one-pager, Bridge letter, shows here are the targets, here's our progress on it, here's the plan.

Dan asks the How, how are we going to replenish funds when we dip into it.

Commented [BS4R3]: Jennifer: more specific to not Policies overall but to CIP program recommendations (actions...)

Commented [BS5R3]: Bill: Policy vs. Procedure/ActionPlan

Commented [BS6]: Todo: incorporate definition of Capital within this document. See drafts by Jennifer which were discussed by the Board.

Commented [BS7R6]: done stuck in Appendix A for now

[DOCUMENT ORIGIN: JAN 5 2021 DRAFT BY DENNIS KEOHANE \(Finance Dir.\) BASED ON 2020 DLS. POLICIES SUBCOMMITTEE IN REVIEW MODE \(COMMENTS, REVISIONS\)](#)

Town of Sudbury, Massachusetts
Financial Policies Manual

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FINANCIAL RESERVES

PURPOSE

To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, Sudbury can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

APPLICABILITY

This policy pertains to short- and long-range budget decision making and applies to the Board of Selectmen, School Committee, and Town Manager in those duties. It also applies to the related job duties of the Finance Director, the Town Accountant, the Board of Assessors, and the Finance Committee.

POLICY

The Town of Sudbury commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall reserves in the level of 8-10 percent of the annual operating budget. [These reserves are comprised of Stabilization funds + Free Cash target + Overlay funds.](#) Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

A. Free Cash

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it in the new year.

By August 15th each year, the Town Accountant shall submit to DLS a year-end balance sheet, free cash checklist, and year-end reporting checklist. Once DLS certifies free cash, the Town Accountant will provide copies of the certified balance to the Board of Selectmen, Town Manager, and Finance Director.

Each spring, the Town Manager shall include the Town's free cash balance in the proposed budget submitted to the Board of Selectmen and Finance Committee for the ensuing fiscal year, along with details on the proposed uses of and/or retention level of free cash. Any proposed use of free cash for capital equipment or improvements shall be consistent with needs identified in the Town's capital improvement program.

The Town shall set a year-to-year goal of maintaining its free cash in the range of 3-5 percent of the annual budget. To achieve this, the Finance Director shall assist the Town Manager in proposing budgets with conservative revenue projections, and department heads shall carefully

Commented [BS8]: 8-10 where did target come from and how close are we now
Stabilization funds (5%) + Free Cash (3%) + Overlay Surplus

Commented [BS9R8]: question: confirm DENOMINATOR 'operating budget'.

Commented [BS10]: Who decided and how close have we been?
From DoR recommendation
Dennis states "it doesn't mean overtaxing by \$3M/yr"

manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers will avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) and will appropriate any excess above 5 percent of the annual budget to reserves or to offset unfunded liabilities.

B. Free Cash Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Prior to the adoption of this policy, the Town established and appropriated to a general stabilization fund and a special purpose stabilization fund for capital projects.

General Stabilization: The Town will endeavor to maintain a minimum balance of 5 percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the 5 percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Replenishment of the funds should be made annually at the Fall Town Meeting, or the earliest available meeting after Free Cash has been certified.

Special Purpose Stabilization

The Town should endeavor to achieve and maintain a combined target balance for all capital-related special purpose stabilization funds equal to 2% of prior year General Fund revenues. Such capital-related special purpose stabilization funds include:

Capital Stabilization: -The Town will appropriate annually to the capital stabilization fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. Doing so enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs. **** hot button topic. Capital funding.... any written policy about e.g. get to 2% then like the Gen Stabilization 5% policy... might we consider policy that each year top off the Capital Stab fund to get back to 2% ??*****

Field Stabilization Trust is/remains separate from plain old Capital Stabilization Fund. See DLS recommendation A-2

Commented [BS11]: Unfunded liabilities (including debt service) ?

Commented [BS12]: dare we get more specific/prescriptive about how to allocate free cash to various buckets as in the 2019 draft DennisMelissa policy 'circle of free cash'

Commented [BS13]: 5 percent is what we've always done

Commented [BS14]: Where did this guideline come from? One-third at a time? E.g. one-third of balance, then another one-third of remaining balance if needed again?

Commented [BS15R14]: Is more policy language needed to explain that regardless of how severe emergency need in any one fiscal year, max use 1/3 of stabilization fund. Is/should there be a policy about who to ask if need more? e.g the Fincom, special town meeting??

Commented [BS16]: DLS recommendation is to get rid of separate Melone Stabilization and Turf Stabilization... If so, might consider DLS recommendation of 2% of prior year annual budget... e.g. \$2M on a budget of \$100M. If one year you take \$800K, then next year replenish to get back to 2%

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Commented [BS17]: What is this target and how calculated?

Commented [BS18R17]: and how to replenish...

Commented [BS19]: Define "moderate-range". Dollar threshold e.g. <\$1M. Percentage (to future-proof this policy...) Type of expense e.g. maintenance and anticipated replacement. Maintenance (not huge unanticipated maintenance...) is recommended by DLS to go in Dept OPERATING budgets. Replacement of trucks (<100K?), ambulances/firetrucks <\$1M.

Commented [BS20]: Similar to General Stabilization Fund

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C. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenues resulting from property tax abatements and exemptions. Sudbury officials will prudently manage the overlay in accordance with the Town's Overlay policy to avoid the need to raise overlay deficits in the tax levy. At the conclusion of each fiscal year, the Board of Assessors shall submit to the Town Manager and Finance Director an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Town Manager may request that the Board vote to declare those balances surplus available for use in the Town's capital improvement plan or for any other one-time expense.

Commented [BS21]: ensure consistency with language in Overlay policy section. Currently Overlay policy section is silent on timing when Board of Assessors determines balances, and surplus... 'at the conclusion of fiscal year' is ~ June 30, right

Commented [BS22]: here, are we saying that the Board of Assessors votes to declare the balances as 'Overlay Surplus' (end of sentence)? Or does the Board of Assessors vote prescribe / restrict how the balance declared as Overlay Surplus can be used? (Perhaps if we keep it simple and BoA declares as 'Overlay Surplus' another policy section can define what that can be used for.

DRAFT

FORECASTING

PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for evaluating revenue sources and the requirement to determine an expenditure strategy as part of the annual budget process and longer-range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

APPLICABILITY

This policy applies to the Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, Board of Selectmen, School Committee, and Finance Committee.

POLICY

A. Revenue Guidelines

The Town will continually seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will generally avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, bond premiums, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- General Stabilization Fund (maintenance of 5% of operating budget)
- Annual Capital Budget (target of 3% of operating budget)
- Capital Stabilization Fund (target of 3% of operating budget)
- OPEB Trust Fund
- Debt Service

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Town Manager, in consultation with the Finance Director, can recommend its use for operational appropriations. Such use will trigger the Town Manager to develop a plan to avoid continued reliance on one-time revenues.

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

Commented [BS23]: is this the Circle of Free Cash

Commented [BS24]: todo: clarify with Dennis Annual Capital Budget as a destination for free-cash ('one time revs'). The others Gen Stab, Capt Stab, OPEB are reserve funds.. Do we mean by bullet 2 in a great year spend less of Levy and instead use free cash towards that years capital needs within the budget?

Commented [BS25]: \$500K in it right now...

Commented [BS26R25]: see the history of the relative young Capital 'stabilization fund.... payments in, any withdrawals out....

Commented [BS27]: need total consistency about the DENOMINATOR

Commented [BS28]: Discuss each target to ensure not arbitrary

Commented [BS29]: Establish and state target (ending condition)

Commented [BS30R29]: there is a whole section on it now...

Commented [BS31]: Discuss whether there could be a scenario easing tax burden

Commented [BS32R31]: Question: has there ever been precedent scenario in Sudbury of paying off more than the required debt payment in a given year (i.e. prepaying)

- Sale of real estate: M.G.L. c. 44, §63 and M.G.L. c. 44, §63A
- Gifts and grants: M.G.L. c. 44, §53A and M.G.L. c. 53A½
- Bond proceeds: M.G.L. c. 44, §20

This policy further entails the following expectations regarding revenues:

- The Assessing Department will maintain property assessments for the purpose of taxation at full and fair market value as prescribed by state law.
- Town departments that charge fees (Enterprise Funds and recreation programs, for example) shall annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs and Endeavor to retain funds for asset replacement. *** Target retained earnings should be x% (????) of prior year, blah blah.. (see DLS recommendation A-2 "Set a retained earnings target for any enterprise fund not subsidized by the general fund.")
- The Building Department will notify the Finance Director of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to be informed of all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.

B. Expenditure Guidelines

Annually, the Town will determine a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the Finance Director will annually create and provide the Town Manager with a detailed budget forecast. The Finance Director shall also annually prepare a three-year financial projection of revenues and expenditures for all operating funds.

These forecasts shall be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid shall be conservative based on historical trend analyses and shall use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g.,

Commented [BS33]: •Some language from earlier 2019 draft with some of Bill's edits: Recreational user charges and fees will be set with the intent to recover approximately at a minimum 100% of total direct costs generated by revolving fund recreation programs, plus all indirect costs (including OPEB contributions) for Town employees, and reasonable offsetting revenue for investments in recreational facilities and fields.
 •Enterprise fund (Transfer Station, Atkinson Pool and Recreation Field Maintenance) user charges and fees will be set to recover all direct costs and associated with the activities of these funds as well as the indirect costs of employees of these enterprises for health insurance and OPEB contributions.

Commented [BS34]: Can fees be set so there is a contribution to capital expenses associated with the Enterprise
 Dennis: hope to generate retained earnings so you have a little extra.

Dennis notes 2 of the 3 enterprise funds haven't been self sustaining. Transfer station has been sustaining, with some retained earnings.

Endeavor to retain funds for asset replacement

Definition of enterprise fund? Subsidized by levy or self sustaining. Currently enterprise funds covers cost of employees and benefits.

Commented [BS35R34]: Jennifer: should we have a section on Enterprise funds and Revolving funds?

Commented [BS36R34]: a policy section.... not just a definition;

inspection fees, investment income, license fees) should generally not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.

Additionally, the forecast model should assume that:

- The Town will maintain its current level of services.
- Property taxes (absent overrides) will grow ~~at~~ within the limits of Proposition 2½.
- New growth will be projected conservatively, considering the Town's three-year average by property class.
- The Town will annually meet or exceed the state's net school spending requirements.
- Local receipts and state aid will reflect economic cycles.
- The Town will pay the service on existing debt and adhere to its Debt Management policy.
- The Town will make its annual pension contributions and continue appropriating to its other postemployment benefits trust fund.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.

Commented [BS37]: 'at' the limits? Suggest 'within' the limits

Commented [BS38]: Suggest 'within' the limits (instead of 'at' the limits

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OVERLAY

PURPOSE

To set guidelines for determining the annual overlay amount in the Town's budget and for deciding whether any overlay balance can be certified as surplus.

The allowance for abatements and exemptions, commonly referred to as the overlay, is an account whose purpose is to offset anticipated abatements and exemptions of committed real and personal property taxes. Effective December 7, 2016, the Municipal Modernization Act ([Chapter 218 of the Acts of 2016](#)) provides for a single overlay account. Previously, a community had to maintain separate overlay reserves for each fiscal year and could not use the surplus from one year to cover another year's deficit without a multistep process involving the assessors, accounting officer, and local legislative body. However, the Act allows all existing overlay balances to be transferred to a single account. Although this policy treats overlay as a single account, to continue historical information and facilitate reconciliations, the Town may elect to maintain subsidiary ledgers by levy year for overlay balances.

APPLICABILITY

This policy applies to the job duties of the Board of Assessors, Director of Assessing, Town Manager, and Finance Director.

POLICY

A. Annual Overlay

Each year, the Board of Assessors shall vote in an open meeting to authorize a contribution to the overlay account as part of the budget process and to raise it without appropriation on the Town's Tax Recap Sheet. The Principal Assessor will propose this annual overlay amount to the Board of Assessors based on the following:

- Current balance in the overlay account
- Five-year average of granted abatements and exemptions
- Potential abatement liability in cases pending before, or on appeal from, the Appellate Tax Board (ATB)
- Timing of the next certification review by the Division of Local Services (scheduled every five years under the Municipal Modernization Act) The Board of Assessors shall notify the Finance Director of the amount of overlay voted

B. Excess Overlay

Annually, the Finance Director and Director of Assessing will conduct an analysis to see if there is any excess in the overlay account by factoring the following:

- Current balance in the overlay account after reconciling with the Town Accountant's records

Commented [BS39]: exactly when do Board of Assessors meet during 'budget process' to make this determination? Please clarify e.g. between months of August-October???

Commented [BS40]: again, when during the year does the Excess Overlay determination happen? (our goal is to have an overall timeline of budget process..)

- Balance of the property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
- Estimated amount of potential abatements, including any cases subject to ATB hearings or other litigation

Upon determining any excess in the overlay account, the Principal Assessor shall present the analysis to the Board of Assessors for its review.

C. Overlay Surplus

If there is an excess balance in the overlay account, the Board of Assessors shall formally vote in an open meeting to certify the amount to transfer to overlay surplus and shall notify the Town Manager and Finance Director in writing of its vote. If the Town Manager makes a written request for a determination of overlay surplus, the Board of Assessors shall vote on the matter within the next 10 days and notify the Town Manager and Finance Director of the result in writing. In any case, the Select Board shall request an annual update from the Board of Assessors on the balance of the overlay account.

After being certified, Town Meeting may appropriate overlay surplus for any lawful purpose until the end of the fiscal year. However, the appropriation should be as prescribed in the Town's Forecasting policy (re: treatment of one-time revenues) and its Financial Reserves policy (re: overlay surplus). Overlay surplus not appropriated by year-end closes to the general fund's undesignated fund balance.

Commented [BS41]: when exactly does vote to certify Overlay SURPLUS occur in process? this statement 'shall' implies it is required to happen, and required to notify Town Mgr and Fin Dir.

Commented [BS42R41]: Note the Financial Reserves policy section has language about timing 'at conclusion of fiscal year'; ensure this is consistent / not duplicative

Commented [BS43]: We interpret this sentence about 10 days demand by Town Manager as mechanism to not wait for Assessors to get around to voting on their schedule. But to get an answer immediately (10 days). Correct? is 10 days arbitrary or is this pulled from some other standard or policy?

Commented [BS44]: 4 or 5 prioritized bullets in the Forecasting policy (re: treatment of one-time revenues) state: "Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- General Stabilization Fund (maintenance of 5% of operating budget)
- Annual Capital Budget (target of 3% of operating budget)
- Capital Stabilization Fund (target of 3% of operating budget)
- OPEB Trust Fund
- Debt Service "

Commented [BS45]: "for use in the Town's capital improvement plan or for any other one-time expense" is what the Financial Reserves policy (re: overlay surplus") states...

Commented [BS46]: does 'general fund's undesignated fund balance' mean "Free Cash"? If so, let's consider standardizing on terms.

DEBT MANAGEMENT

PURPOSE

To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, and maintain capital investment capacity. This policy is also intended to maintain and enhance the town's bond rating so as to achieve long-term interest savings.

APPLICABILITY

This policy applies to the Town Manager, ~~Board of Selectmen~~Select Board, School Committee, and Finance Committee in their budget decision making and in the Finance Director's debt reporting. It also applies to the Finance Director's budget analysis duties. Additionally, in the role as Treasurer/Collector, the statutory responsibilities associated with debt management.

POLICY

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt. The Town will issue and manage debt obligations in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, shall only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

A. Debt Financing

In financing with debt, the Town will:

1. Issue long-term debt only for objects or purposes authorized by state law and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least ten years or whose lifespans will be prolonged by at least ten years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.

B. Debt Limits and Targets

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues, with a target balance of 5-7 percent.

Commented [BS47]: does "Debt" (types of debt?) beg for a fuller definition?

Commented [BS48R47]: explain somewhere debt within the levy versus debt outside the levy (Debt Exclusion, right?)

Commented [BS49R47]: TALK TO DENNIS re: DLS recommendation regarding 'Debt within the Levy' (debt that is not excluded from the limits of Prop 2 1/2)

Commented [BS50]: should we reference a specific MGL ?

Commented [BS51]: confirm - if debt obligations shall only be issued to construct, reconstruct, purchase capital assets... QUESTION: what about the debt (low interest loan from state) used to fund CWMP which is a STUDY?

Commented [BS52R51]: is "Issue" debt obligations and operative word? i.e. the town can Issue debt obligation by soliciting bids to sell bonds... different from borrowing from the state...

Commented [BS53]: DLS recommendation was: "objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained."

Commented [BS54]: to be clear, 'total debt service' is how much we pay each year. Per DLS 'annual payout'. (we're NOT talking about the total Outstanding debt... here)

Commented [BS55]: did we make up the number 10 percent or did this come from some reference?

Commented [BS56]: 'general fund revenues' --- is that the same as what we call the total annual budget=total revenue? e.g. percentage of FY21 \$106.635M

Commented [BS57]: what is our actual percentage in past few years?

Commented [BS58]: did we make up the 5-7 percent target? or is it from some outside recommendation or reference?

DLS page 8 says "objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained. As will be discussed further in Section D, we suggest the target be 3% of the prior y_e_a_r'_s_g_e_n_e_r_a_l_f_u_n_d_r_e_v_e_n_u_e_s, but local analysts may want to adjust this higher or lower, depending on a review of the capital asset inventory and assessment of needs.

2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

—Per DLS Recommendation, the Town shall endeavor to gradually and consistently pursue future debt issuances financed by within-levy dollars with a target of 3% of prior year's General Fund.

3.

C. Structure and Term of Debt

The following shall be the Town's guidelines on debt terms and structure:

1. The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within ten years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than 10 years, except for major buildings, water and water facility projects, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
5. The Town will work closely with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.

D. Bond Refunding

To achieve potential debt service savings on long-term debt through bond refunding, the Town will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

E. Protection of Bond Rating

To protect its bond rating, the Town will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.

Commented [BS59]: the state statute is "under MGL ch 44 section 10" (as mentioned in municipal glossary from DLS 2020)

Commented [BS60]: total outstanding debt must be less than the debt limit. Debt limit = .05 * EQV.

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Commented [BS61]: confirm: does "long term debt schedule" refer to each a) individual project? each debt obligation? b)(individual loan or bond)? or to the c) cumulative total outstanding principal across all debt obligations projected out over next 10 years? We guess you mean (a)

Commented [BS62]: where did this come from? 50 percent of outstanding principal paid within 10 years" a DLS recommendation? did Sudbury make it up? other towns have this?

Commented [BS63]: expected useful life according to who? industry standard? reference doc?

Commented [BS64R63]: next bullet says "useful life borrowing limit guidelines published by the Division of Local Services (DLS)"

Commented [BS65]: is 30 years the max allowed by law" refer to a specific law?

Commented [BS66]: doc is referenceable (Jennifer looked it up)

Commented [BS67]: please explain. Bill and Jennifer not clear what this means

Commented [BS68]: does the town necessarily have an official 'financial advisor' other than the Finance Department?

Commented [BS69]: is this boilerplate language from somewhere? please explain for us in laypersons terms.

Commented [BS70]: please explain 'net premium and accrued interest' in this context? Is this just saying reduce the amount we refund (refinance) by the amount we've already paid off thus far on the original debt?

3. The Town will not rely on reserves to sustain operating deficits. Use of such reserves will be limited to helping the Town deal with short-term or emerging financial stress, but then the Town will either reduce spending to within the limits of recurring revenues, or seek approval for additional revenues from the voters of the Town.
4. The Town will not defer current costs to a future date. This includes costs such as pension costs or benefits costs. From time to time, the State offers municipalities the option of deferring payments to their pension system, or other costs, as a short-term way of balancing a fiscal year's budget. However, it is the intention of the Town of Sudbury not to rely on these options.
5. The Town will follow the policies as outlined in this policy statement.

F. Reporting

1. The Town's Annual Town Report, Town Manager's Budget Request and Annual Town Mmeeting Warrant will give comprehensive summaries of the debt obligations of the Town.
2. The Finance Director will include an indebtedness summary as part of a report on receipts and expenditures in Sudbury's Annual Town Report.
3. The Finance Director, with the Town's financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

Commented [BS71]: file it with whom?

DRAFT

INVESTMENTS

PURPOSE

To ensure the Town's public funds achieve the highest possible, reasonably available rates of return while following prudent standards associated with safety, liquidity, and yield, this policy establishes investment guidelines and responsibilities. It is further designed to comply with the Governmental Accounting Standards Board's recommendation that each community disclose its key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and not subject to extraordinary risk.

APPLICABILITY

This policy pertains to short-term operating funds, including general funds, special revenue funds, bond proceeds, capital project funds, and to all accounts designated as long-term (e.g., trusts, stabilization fund, other postemployment benefits trust fund (OPEB), and others the Town may set aside for long-term use, including scholarship and perpetual care funds) It does not pertain to the [Town's retirement fund](#), which is managed by the Middlesex County Retirement Board. This policy applies to the Finance Director, in the role as Treasurer, his or her designee(s), and any advisors or other professionals in their responsibilities for investing and managing Town funds.

POLICY

The Finance Director shall invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to generally accepted diversification, collateralization, and the prudent investment principles regarding safety, liquidity, and yield.

See additional details in the [Town of Sudbury Investment Policy](#) document as well as the [Town of Sudbury CPA Investment Policy](#) document.

Commented [BS72]: clarify: what is the Town's retirement fund as opposed to OPEB? OPEB includes health ins etc, but the pension is separate in Town's retirement fund. Is that right?

Commented [BS73]: Q: OPEB is acknowledged as underfunded. Is 'the Town's retirement fund' fully funded?

Commented [BS74]: hyperlink to the document on town website

Commented [BS75]: hyperlink to the document on town website

CAPITAL ASSETS

PURPOSE

To ensure Sudbury's capital assets can cost-effectively sustain the town's desired service levels into the future.

APPLICABILITY

This policy applies to the Town Manager as the Town's chief budget decision maker. It also applies to the job responsibilities of the Finance Director, School Superintendent, School Business Manager, ~~Board of Selectmen~~Select Board, School Committee, and Finance Committee.

POLICY

A. Capital Improvement Plan

The Town Manager will update and adopt annually a five-year capital improvement plan ("CIP"), including the upcoming annual capital improvement budget ("CIB") and a four-year projection of capital needs and expenditures, which details the estimated cost, description and anticipated funding sources for capital projects. Per DLS "CIP should govern projects undertaken either to build, buy, expand or replace a long-life asset or to an asset's condition beyond its original state of quality, efficiency, or useful life expectation."

1. The Town Manager shall establish criteria to determine capital asset prioritization. [See DLS list of example criteria page 9 DLS report... DLS suggests Select Board est criteria including but not limited to:
 - - mitigation of safety hazards
 - - legal compliance
 - - operating cost reduction
 - - service or efficiency improvement
 - - availability of outside funding sources
 - - conformance to asset replacement schedule
 - 1. - - enhancement of quality of life

2. The Town Manager shall consult with Department Heads annually regarding the composition and prioritization of the capital plan and create an ordered list. [DLS: notwithstanding 1-5 'urgency' score that Dept Heads assigned, there wasn't a clear prioritization...]
 - DLS: expand the information captured on Capital Project Submission Sheets
 - Bill: require a Capital Project Submission Sheet for every item listed on CIB (this year) and CIP (5 years plan).

3. The CIP shall not include items that cost less than \$20,000 or have a useful life of less than 5 years. Items that do not meet this threshold should be included within the Town's operating budget. Rather, such smaller, shorter life maintenance items should be included in Departmental budget capital line item. [DECISION: adopt this DLS section B-

Commented [BS76]: Per DLS rpt section B-1: "CIP should govern projects undertaken either to build, buy, expand or replace a long-life asset or to an asset's condition beyond its original state of quality, efficiency, or useful life expectation."

Commented [BS77R76]:

Commented [BS78]: CIB is the things in this upcoming years budget that are capital

Commented [BS79]: Add a section on Funding Sources for Capital... to acknowledge Community Preservation Act (CPA) funds

Commented [BS80]: please explain what is the currently used criteria for determining capital asset prioritization.

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Commented [BS81]: Department Budgets per DLS recommendation, should have capital line items for these smaller, shorter life maintenance items... QUESTION: do we currently have such a line item per department budget?

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1 recommendation of putting in Dept budget???: clearly define what items included in capital plan]

4. Alongside the CIP prioritization, potential Funding Sources shall be identified. Funding sources for capital may include:

- Community Preservation Act (CPA) funds (if eligible: Open Space, Recreation, Historic...)
- Town Manager's Capital Budget (items <\$100K)
- Capital Stabilization Fund
- Free Cash
- Capital Exclusion
- Debt Exclusion
- ~~2.-~~ Special-purpose stabilization funds???: (e.g. from Revenue generating assets like former Gravel Pit or Sewataro revenue share)

Commented [BS82]: Would acquiring Open Space ever be in the Capital Improvement Plan??

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5. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.

6. DLS: put maintenance in Department budgets... <--- this would be a significant policy change

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~~3.-~~

B. Risk Management

1. The Town will maintain an effective risk management program that provides adequate coverage, minimizes losses, and reduces costs.
2. The Town will annually work with the Town's insurance carrier to update all listings of Town owned assets and the value and condition of such covered assets.

Commented [BS83]: what is the Risk Management Program (besides holding insurance policies...) who is the Risk Manager... (Town Manager?)

Commented [BS84R83]: does Risk Management flow down to various accountable departments

Commented [BS85]: and condition of assets

C. Reporting

1. The 5 year capital improvement plan shall be posted on town website for public review at all times. Updates to the plan shall be tracked (change history). Capital Improvement Budget Request Form (or Capital Project Submission Sheet) for each project on the 5 year CIP shall be posted and linked to from the CIP on the website.

4-2. The Town Manager will submit a capital program to the Capital Improvement Advisory Committee. The proposed program will detail each capital project, the estimated cost, description and funding.

Commented [BS86]: submit annually? the one year CIB capital plan?

Commented [BS87]: worthy of SelectBoard discussion - to affirm need/value of CIAC committee? (DLS said reconsider the bylaw that states CIAC's composition... is it an extra level we don't need)

2-3. The Town Manager shall submit Town Meeting articles for the CIB by January 31st.

3-4. The ~~Selectmen~~ Select Board shall report all requests for capital appropriations to the Finance Committee on or before February 5. (Bylaws Article IV Section 5).

Commented [BS88]: in 2021 did we satisfy this Feb 5 bylaw deadline (i.e. did TM Henry on behalf of Select Board communicate all requests for capital appropriations)

4-5. The Town Manager will present the CIB for approval at the Annual Town Meeting (generally the 1st Monday in May).

DRAFT

OTHER POSTEMPLOYMENT BENEFITS LIABILITY (OPEB)

PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other postemployment benefits (OPEBs) to eligible current and future retirees. This policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEBs, thereby avoiding transferring costs into the future.

Commented [BS89]: This means don't underfund today and kick the can down the road for tomorrow. How is the required amount determined to not be 'underfunding'? Can we see an appropriate trend chart of fund balance, contributions per year, withdrawals per year.. and forecast future liabilities(withdrawals) in future years

APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment.

BACKGROUND

In addition to salaries, the Town of Sudbury compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health, dental, and life. These are collectively referred to as other postemployment benefits or OPEBs.

OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of a long-range plan to fund this obligation, the Town established an OPEB Trust Fund, which allows for long-term asset investment at higher rates of return than those realized by general operating funds.

Commented [BS90]: How is the liability measured? What metric should be tracked to inform whether we are contributing enough?

POLICY

The Town of Sudbury is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

A. Accounting and Reporting

The Finance Director will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

Commented [BS91]: two years (standard?)

The Town Auditor shall ensure that the Town's independent audit firm reviews compliance with the provisions of this policy as part of its annual audits.

B. Mitigation

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Finance Director shall monitor proposed laws

affecting OPEBs and Medicare and analyze their impacts. The Human Resources Director shall regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

Commented [BS92]: Q: roughly how to determine if (current balance and annual contribution) will be sufficient as a function of when, how many retirees roll on and off

C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town shall derive funding to invest in the OPEB trust from taxation, free cash, and any other legal form.

Commented [BS93]: Like what? How much to contribute each year? E.g. are we aiming for 70% of future need? How far off are we? Is there a metric/rule of thumb for 'usual' contribution level, distinct from 'catch up' contributions?

Commented [BS94]: For example in FY22, what sources of funds are we using to contribute toward OPEB fund? Only taxation? No free cash?

Appendices

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Appendix A: Definition of Capital

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[Proposal for Sudbury Capital Asset "Definition"](#)

[Capital Assets are the community-owned collection of significant, long-lasting, and expensive real and personal property used in the operation of government, including land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. In order to be included in Sudbury's Capital Improvement Program, Capital Assets must cost \\$20,000 or more and have a useful life of 5 or more years. Items or improvements that do not meet this threshold should be included within the Town's operating budget.](#)

Commented [BS95]: proposed definition from 1/5/2021 SelectBoard discussion brought by Jennifer

[To consider: Capital maintenance costs should be budgeted within department-level capital line items instead of being included in the Capital Improvement Program.](#)

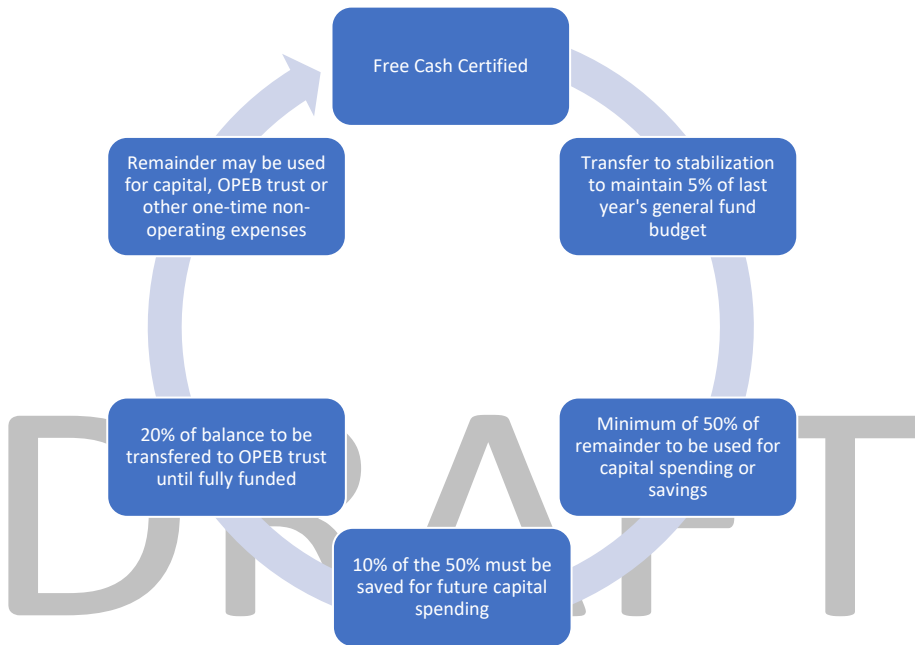
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Appendix B: Enterprise Fund Definition

[Definition of enterprise fund? Subsidized by levy or self sustaining. Currently enterprise funds covers cost of employees and benefits.](#)

BACKUP MATERIAL

Free Cash Flow Chart (from 'BOS Financial Policies 2019 mmranddkfinpolicies')



Commented [BS96]: Is it desired/valuable to codify a "Wheel of Free Cash" policy like this? The draft section earlier lists in some prioritized order what to consider using free cash for. Do we want rules like this to enforce discipline and reduce arbitrariness?

Observations of FY22 proposed Free Cash use:
 Free Cash Certified 4.2M
 Transfer to Gen Stabilization 281K
 50% of remainder: would be ~ 2M...
 Capital Spending ~3.137M (2.887M spend + 250K save)
 Of which 250K for future (to Capital Stabilization Fund)
 2M Capital Articles (1.987M)
 900K TM Capital Budget

\$0 towards OPEB (i.e. no free cash catchup contributions)

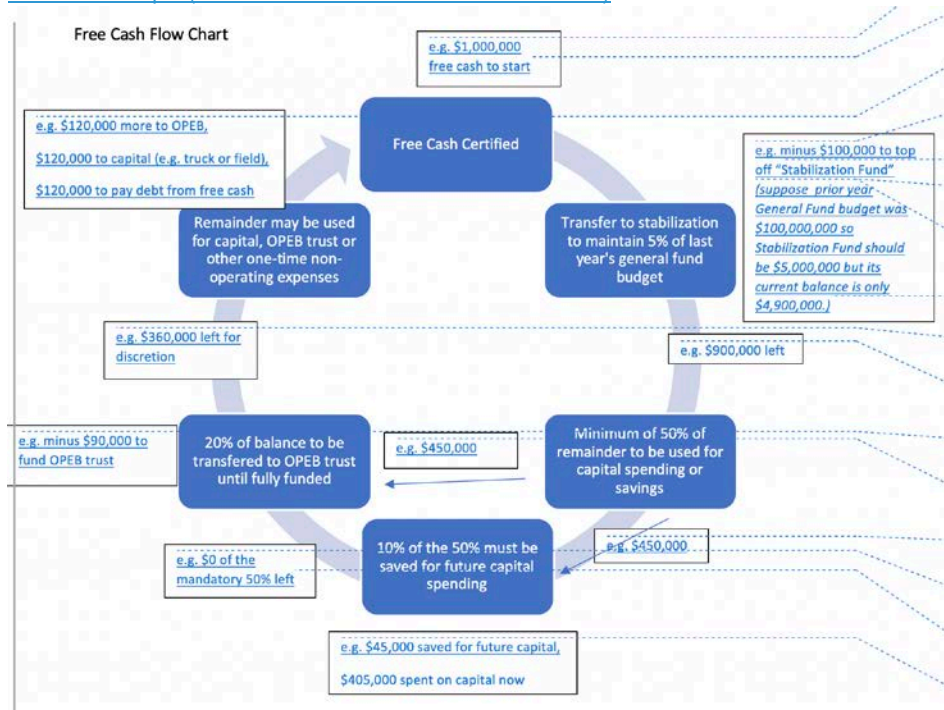
\$150K other one-time non operating (Eversource)

\$681K leftover

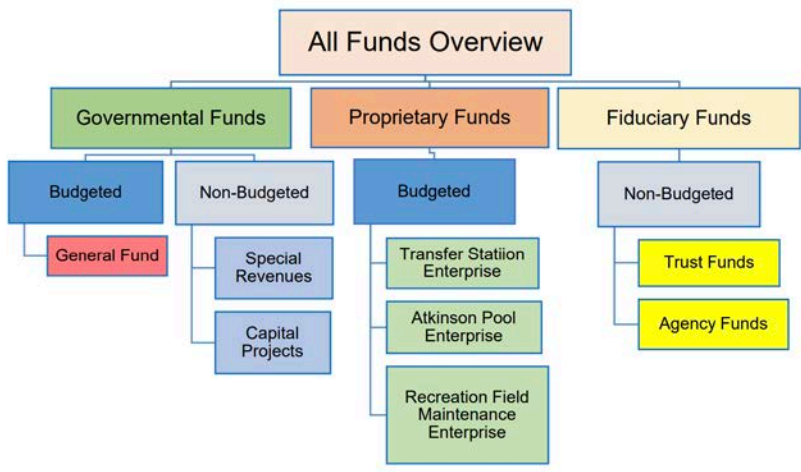
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Notional Example (Schineller annotations in November 2019)

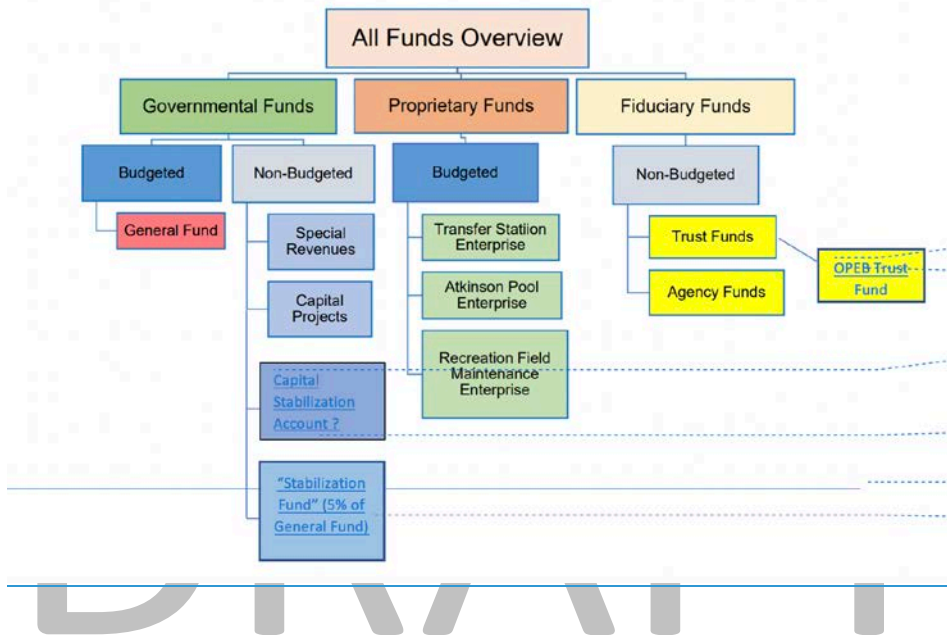


[All Funds Overview](#)
[Diagram from the Town Manager's FY2020 Budget](#)



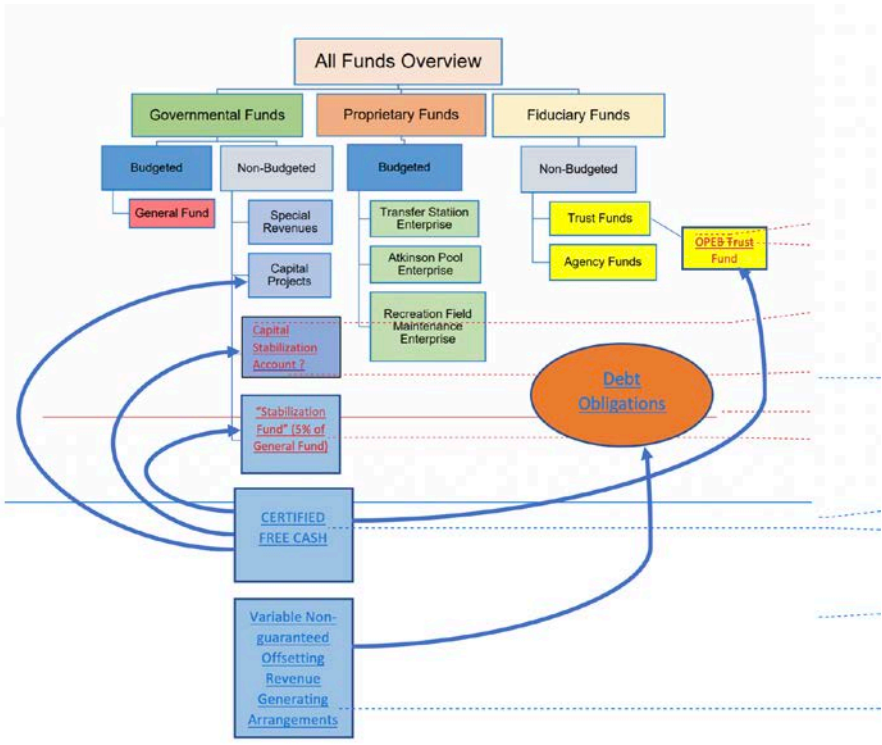
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All Funds Overview (marked up by Schineller in Nov 2019 to try to show other funds: Capital Stabilization Account, Stabilization Fund, and OPEB Trust Fund)



All Funds Overview (notionally marked up by Schineller in Nov 2019 to try to flow of Free Cash and Offsetting Revenue (e.g. Sewataro?) flow into other funds, and Debt Obligations)

Commented [BS97]: Would we like to codify what to do with income from Revenue Generating Assets like Sewataro? Put into a special 'Stabilization Fund' dedicated to some purpose (analogy=Melone Stabilization Fund from gravel sales). Put towards offsetting debt?



Section	Sub-Section	Recommendation	Adopt Yes/No	Bylaw/Town Meeting/Policy	Delivery date	Owner/Manager	Resources
A. Financial Policies	A-1	Adopt a full-scope Annual Budget policy		Policy			
A. Financial Policies	A-2	Adopt a consolidated Reserves policy and set prudent target levels		Policy			
A. Financial Policies	A-3	Set a year-to-year debt funding target within the general fund budget		Policy			
A. Financial Policies	A-4	Clearly define what projects are included in the capital plan		Policy			
A. Financial Policies	A-5	Establish an ordered list for prioritizing capital projects		Policy			
B. Capital Planning Procedures	B-1	Budget for maintenance costs within department-level capital line items					
B. Capital Planning Procedures	B-2	Remove LSRHS from the town's capital plan					
B. Capital Planning Procedures	B-3	Expand the information captured on capital project submission sheets					
B. Capital Planning Procedures	B-4	Reconsider the Capital Planning bylaw		Bylaw			
C. Funding Strategies	C-1	Align the capital plan with funding schemes that do not rely on exclusions					
C. Funding Strategies	C-2	Continue to build reserves in capital-related special purpose stabilization funds					
C. Funding Strategies	C-3	Close the Melone fund and transfer its balance to the capital stabilization fund		Town Meeting			
C. Funding Strategies	C-4	Close the surplus vehicles revolving fund		Town Meeting			
D. Capital Forecast	Capital Funding Targets	Utilize a Capital Targets Tool and link to financial forecast					
D. Capital Forecast	New Growth	Dedicate 50-75% of all new growth levy amounts to capital expenditures or reserves					
D. Capital Forecast	Stabilization Fund Override	Stabilization fund override to build balance in the capital stabilization fund		Town Meeting			

Sources:

[Link to DLS Report April 2020: https://s3-us-west-2.amazonaws.com/cdn.sudbury.ma.us/wp-content/uploads/sites/260/2020/08/Sudbury_Capital_Report_DLS.pdf?version=77abcfeb91caf53f28a00d8a3f2095](https://s3-us-west-2.amazonaws.com/cdn.sudbury.ma.us/wp-content/uploads/sites/260/2020/08/Sudbury_Capital_Report_DLS.pdf?version=77abcfeb91caf53f28a00d8a3f2095)

[Link to DLS Capital Targets Workbook: https://sudbury.sharefile.com/share/view/sdef47ec7fcb48a38](https://sudbury.sharefile.com/share/view/sdef47ec7fcb48a38)

[Link to Community Compact Cabinet Reports: https://www.mass.gov/service-details/community-compact-cabinet-reports](https://www.mass.gov/service-details/community-compact-cabinet-reports)

[Link to S&P Report June 2020: https://www.mass.gov/service-details/community-compact-cabinet-report](https://www.mass.gov/service-details/community-compact-cabinet-report)

[Link to SFPCCP Jan 2019: https://sudbury.ma.us/sfpccf/sfpccf_01222019_bos_presentation/](https://sudbury.ma.us/sfpccf/sfpccf_01222019_bos_presentation/)

Sub-Section	Recommendation	Goal	12/8/2020	1/5/2021 (where in Draft Fin Policies?)
A-1	Adopt a full-scope Annual Budget policy		Enterprise funds policies	Intent is to generate retained earnings, goal is not to breakeven every year. section FORECASTING, A. Revenue Guidelines
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Establish a goal of endeavoring to realize annual free cash certifications equivalent to 3-5% of prior year general fund revenues.		Is 3-5% of the annual budget a good number? section FINANCIAL RESERVES, A.
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Achieve and maintain a combined target balance for all capital-related special purpose stabilization funds equal to 2% of prior year general fund revenues.	Long range target - 3%	Melone (\$1.1), capital stabilization (\$500k) and field/turf stabilization section FINANCIAL RESERVES, B. Stabilization Funds, Special Purpose Stabilization Funds (2% of prior year general fund revenues)
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Spell out the specific appropriate usages for each type of reserve.		Yes. Section FINANCIAL RESERVES, needs review
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Set a retained earnings target for any enterprise fund not subsidized by the general fund.		Consolidate special reserve funds to capital stabilization fund? Section FORECASTING, A. Revenue Guidelines. Language about Enterprise funds, setting fees...
A-2	Adopt a consolidated Reserves policy and set prudent target levels	Include a statement tht the select board will request an annual update from the Board of Assessors on the balance of the overlay account.	Yes	Section OVERLAY C. Overlay Surplus
		Ensure that the new policy has provisions that state the objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained.		
A-3	Set a year-to-year debt funding target within the general fund budget		Template sets limits but doesn't address how.	section DEBT MANAGEMENT B. 3. (Target within levy...)
A-4	Clearly define what projects are included in the capital plan		Define capital	section CAPITAL ASSETS, A. Capital Improvement Plan
A-5	Establish an ordered list for prioritizing capital projects			section CAPITAL ASSETS, A. 2

Sub-Section	Recommendation	Goal	added to Financial Policies?
B-1	Budget for maintenance costs within department-level capital line items	Not all depts have budget built in. Town Manager's capital budget as a source.	section Capital Assets, A. Capital Improvement Plan, numbered list
B-2	Remove LSRHS from the town's capital plan	Contracts, maintenance, 3rd party user fees, understand capital plan/asset sheet	
B-3	Expand the information captured on capital project submission sheets	Yes	
B-4	Reconsider the Capital Planning bylaw	CIAC	

Sub-Section	Recommendation	Goal	12/8/2020
C-1	Align the capital plan with funding schemes that do not rely on exclusions		Yes
C-2	Continue to build reserves in capital-related special purpose stabilization funds		Yes
C-3	Close the Melone fund and transfer its balance to the capital stabilization fund		Town meeting vote
C-4	Close the surplus vehicles revolving fund		Yes - TM 2021, % of sale to capital stabilization fund (p. 21)
	*CPA		Not controlled/predictable by Town

Sub-Section	Recommendation	Goal
Capital Funding Targets	Utilize a Capital Targets Tool and link to financial forecast	Future?
New Growth	Dedicate 50-75% of all new growth levy amounts to capital expenditures or reserves	Informal
Stabilization Fund Override	Stabilization fund override to build balance in the capital stabilization fund	

TOWN OF SUDBURY

REVIEW OF CAPITAL IMPROVEMENT PROGRAM

APRIL 2020



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

100 Cambridge Street, Boston, MA 02114-9569

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Tara Lynch, Senior Project Manager

Marcia Bohinc, Senior Project Manager

Jared Curtis, Project Manager



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

April 3, 2020

Select Board
Flynn Building
278 Old Sudbury Road
Sudbury, MA 01776

Dear Board Members,

I am pleased to present the enclosed review of the Town of Sudbury's capital improvement program. It is my hope that our guidance provides direction and serves as a resource for local officials as we build better government for our citizens.

Please contact me if you have any questions regarding the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Cronin".

Sean R. Cronin
Senior Deputy Commissioner

617-626-2381
croninse@dor.state.ma.us

Supporting a Commonwealth of Communities

mass.gov/DLS | P.O. Box 9569 Boston, MA 02114-9569 | (617) 626-2300

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INTRODUCTION

At the select board's request, the Division of Local Services (DLS) Technical Assistance Bureau (TAB) reviewed the Town of Sudbury's capital improvement program (CIP). This review was one of a series of steps the board has taken to fulfill its responsibility for ensuring Sudbury's capital assets can cost-effectively sustain the town's desired service levels into the future. It follows on the completed work of the strategic financial planning committee for capital funding (SFPCCF), which had existed from October 2013 to April 2019. It also corresponds with a FY2020 goal of the board to update the town's financial policy manual, which was last revised in 2015. In requesting this review, the select board sought to obtain an objective, external evaluation of Sudbury's CIP.

Over the years, successions of select boards, employees, and volunteers have conducted various efforts to evaluate and enhance the town's capital planning objectives and strategies. Despite some progress made, our review found that there is still much room for improving Sudbury's CIP. The town needs stronger, more informative policies, and its procedures could be enhanced to be more consistent and effective. In addition, a lack of local consensus about priorities and funding levels has stymied the investment trend in many types of capital assets. Most importantly, the town has failed to pursue a financing strategy that strikes a sound, predictable, and sustainable balance between debt and cash (i.e., "pay-as-you-go") funding options without resorting to repetitive temporary additions to the tax levy. This report offers guidance and tools to address these issues and move the town toward a stronger overall CIP framework.

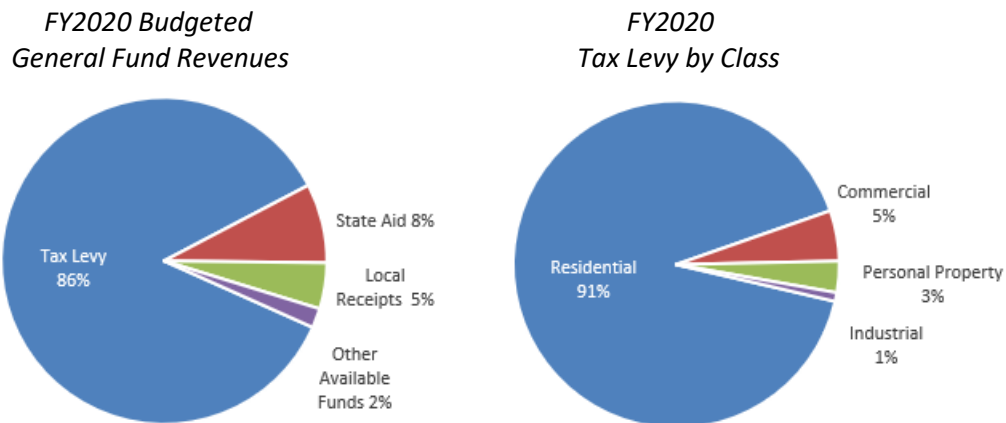
The goal of this review was to compare the components of Sudbury's existing CIP with advisable norms, often referred to as best practices. To do this, we spoke with pertinent officials and examined recent program history, including related policies, procedures, forms, funding practices, charter and bylaw provisions, budget documents, town meeting warrants, Proposition 2½ referendums, select board meeting minutes, and the two previous capital study reports done by ad hoc town committees, one in 2013 and the SFPCCF's PowerPoint report in 2019.

COMMUNITY PROFILE

The Town of Sudbury is a suburban community of 18,874 residents situated 20 miles west of Boston and encompassing 24 square miles. With its combination of historic, semirural atmosphere and proximity to the city, the town has comparatively high property values and wealth indicators. Sudbury's per capita income of \$113,416 is the 17th highest in the state, while its per capita equalized property valuation (EQV) ranks within the top 20% statewide, in 66th place. Annually, the town's budget supports a wide array of services, including full-time police and fire departments, consolidated department of public works (DPW), ambulance service, health services, library, council on aging, and recreational programs. The town operates its own Sudbury Public School (SPS) district for kindergarten through eighth grade students and pays annual assessments for its membership in

the Lincoln-Sudbury Regional High School (LSRHS). Segregated within the town's total FY2020 operating budget of just under \$108 million are budgets for the local Community Preservation Act (CPA) program (\$2.1 million) and for three enterprise fund operations (the pool, transfer station, and field maintenance), which total about \$1 million combined.

Whereas the average Massachusetts town draws 71% of its general fund budget from the tax levy, in Sudbury that portion is considerably larger, at 86%. This is because the town lacks significant offsets from either locally generated receipts (e.g., motor vehicle excises, municipal charges, interest, fees) or from state aid (due to Sudbury's high wealth factors and the regional high school receiving educational aid directly from the state). Furthermore, only 7% of the total property valuation in Sudbury arises from commercial, industrial, and personal properties, and therefore residential taxpayers shoulder the preponderance of the levy burden.



Pursuant to a 1994 town charter, subsequent amending special acts, and town bylaws, Sudbury's executive governing branch consists of an elected, five-member select board, while an open town meeting functions as the legislature. A finance committee, consisting of nine volunteers appointed by the moderator, advises town meeting voters on all finance-related warrant articles.

The select board appoints a town manager, who is charged to oversee the town's day-to-day functions, as well as planning and coordinating its long-range goals. The charter empowers this position with the appointing authority for most of the town's department heads and enumerates many duties related to the officeholder's capital planning role, namely:

- oversee the town's financial management functions and coordinate the activities of all departments, officers, boards, and commissions
- keep the select board and finance committee fully informed as to the town's financial condition and needs
- prepare an annual forecast of town revenues, expenditures, and general financial condition
- develop and maintain a complete inventory of all town-owned real and personal property
- ensure the efficient use, maintenance, and repair of all town facilities, except the schools

- prepare annual operating and capital budgets for all town departments

Assisting the town manager in these and other duties are an assistant town manager/human resources director and a finance director-treasurer/collector. These three officers compose the town's budget team, who work together to orchestrate the operating and capital budget processes and then propose a combined annual budget to the select board and finance committee.

The executive leadership in Sudbury is going through a period of transition as the select board has recently hired a new town manager. This appointment will provide the town with the opportunity to take a fresh look at all administrative and financial practices, including the CIP. To aid in this objective, we considered all the various components that comprise the pillars of a comprehensive CIP and assessed how they are manifested in Sudbury. In the report that follows, we detail our observations and make recommendations to help guide local officials toward a CIP grounded in generally accepted best practices.

CIP FRAMEWORK

By the simplest definition, a capital asset is an item of property with a useful life longer than one year. In the context of municipal financial management, however, it is more useful to think of capital assets as the community-owned collection of significant, longlasting, and expensive real and personal property, such as land, buildings, equipment, infrastructure, and rolling stock. A CIP is a risk management framework for ensuring these assets can continuously, efficiently, and effectively provide desired services according to a well-thought-out, economical plan. A strong CIP guards against the risk of the failure of any of these assets in supporting the major objectives of town government, among them the promotion of commerce, protection of public health and safety, provision of educational programs, and enhancement of local quality of life. The oversight of a solid CIP is therefore one of a select board's most vital duties.

To conduct this review, we examined all aspects of Sudbury's capital program. In the next part of the report, we provide our observations, analyses, and recommendations in sections divided into the four component areas of a comprehensive CIP:

- A. Financial Policies
- B. Capital Planning Procedures
- C. Funding Strategies
- D. Capital Forecast

When doing this type of review, communities sometimes find it useful to know how they compare to others that can be considered their peers based on similar fiscal, geographic, and socioeconomic characteristics. Among the factors we used to determine an appropriate peer group for Sudbury were population size, budget amount, per capita income and EQV, budget composition, and the balance of properties classes within the total valuation. The resulting nine peer towns are listed in the table below. We will refer to this peer group again in various parts of the report.

Sudbury's Peer Communities

Town	2015 Pop	Pop Density	2015 Income PC	2016 EQV PC	% of Value		FY2020 Total Operating Budget	% of Budget				Bond Rating*
					Res	CIP		Levy	Aid	Lccal Receipts	Other	
Acton	23,549	1,185	61,285	182,870	88.90	11.10	105,717,247	84.72	2.50	10.98	1.80	S&P: AAA
Bedford	14,171	1,037	63,336	247,247	78.78	21.22	103,598,404	64.92	8.37	14.86	11.85	S&P: AAA
Concord	19,830	809	119,088	314,585	91.88	8.12	119,033,611	79.84	4.59	11.06	4.50	M: Aaa
Duxbury	15,483	652	84,188	249,015	96.24	3.76	88,543,488	72.48	7.40	15.44	4.69	S&P: AAA
Hingham	23,120	1,041	112,921	288,446	88.61	11.39	128,255,994	67.09	8.83	22.72	1.36	S&P: AAA
Hopkinton	16,674	635	84,115	213,004	83.67	16.33	99,288,874	72.39	10.08	13.92	3.61	S&P: AAA
Scituate	18,478	1,048	61,387	239,940	95.70	4.30	103,425,131	63.63	7.95	25.44	2.97	S&P: AA+
Wayland	13,684	909	147,695	267,930	95.16	4.84	93,872,007	75.58	6.83	13.77	3.83	M: Aaa
Westwood	16,055	1,476	114,844	270,466	84.08	15.92	102,504,134	78.26	7.61	9.74	4.39	S&P: AAA
Sudbury	18,874	778	115,416	240,299	92.99	7.01	107,835,900	83.21	7.63	7.28	1.87	S&P: AAA
Averages	17,992	957	96,428	251,380	89.60	10.40	105,207,479	74.21	7.18	14.52	4.09	

*Indicating either Moody's or Standard & Poor's.

A. FINANCIAL POLICIES

Without a strong set of clear, well-reasoned, and comprehensive financial policies, it is very difficult for a community to implement an effective CIP. Policies create the signposts for the procedural roadmap to be followed by relevant officials. They also spell out local leaders' commitment to long-range, consensus-driven goals. The policy topics of capital planning, budget, reserves, and debt management should all have interconnected provisions related to the capital program.

As a communication tool, a policy sets expectations for particular individuals and groups, such as budget decision makers, employees, and residents. A well-written policy promotes accountability, consistency, and transparency and provides instructive guidance for the accomplishment of specific goals. Beyond doing all of this, a strong financial policy provides its greatest value as a foundational element of the town's system of internal controls for risk management. Unfortunately, we found the town's draft policy manual, which covers nine topics in only five pages with very sparse provisions, to be inadequate to fulfill these objectives.

We strongly advise the select board to initiate a complete policy makeover. Manuals that TAB has created for other communities could provide samples for particular topics and can be found on the DLS website at: <https://www.mass.gov/service-details/community-compact-cabinet-reports>. Detailed below are provisions we recommend the town incorporate in the new policies.

A-1. Adopt a full-scope Annual Budget policy

In place of the existing Operating Budget policy, an Annual Budget policy would define an integrated framework for developing the total operating budget, including the general fund, enterprise fund, and capital budgets but excluding the CPA, which is the sole purview of the Community Preservation Committee. In doing this, the new policy could incorporate the two, currently separate policies on Revenues and Expenditures. The town could also consider stating whether each enterprise fund will be self-supporting or will receive a general fund subsidy. When an enterprise is self-supporting, user fees are calculated to ensure they cover all of the given operation's costs, including personnel, expenses, and capital investment, as well as the indirect costs associated with other town departments that provide support to the enterprise.

We further recommend the policy include provisions that define the appropriate circumstances for considering a Proposition 2½ referendum. For example, it could stipulate that every debt exclusion proposal must meet all three of these criteria: (1) useful life of 20 years or more; (2) estimated cost of the principal payment in the first year of the debt issuance must be greater than 1% of the prior year's general fund revenue; and (3) the expenditure is either for town-owned land, buildings, or infrastructure or for a LSRHS capital assessment. The policy should also state that the town will avoid proposing any capital exclusions except in unanticipated, extraordinary circumstances.

A-2. Adopt a consolidated Reserves policy and set prudent target levels

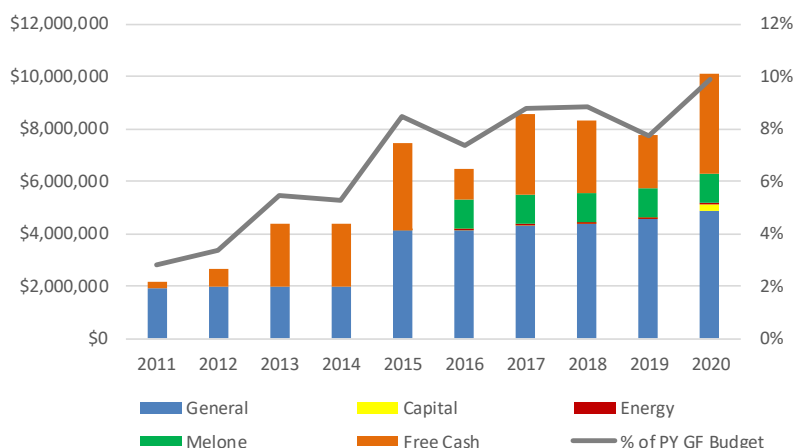
Instead of separate policies for the general stabilization fund and free cash, we recommend the select board adopt a single policy that addresses both of these reserves, as well as all special purpose stabilization funds, enterprise fund retained earnings, and overlay surplus. We also advise the board to reevaluate and expand the policy stipulations for funding targets.

Sudbury’s 2015 policy manual set a target for the stabilization fund at 5% of the prior year’s general fund budget and specified that it should be used only for unexpected events. The new draft retains the funding target but removes any usage language. Conversely, the town has never set a target level for free cash, but both policy versions specify a usage priority order for this reserve, which is the remaining, unrestricted funds from operations of the previous fiscal year. Free cash requires certification by DLS before the town may appropriate it.

Sudbury’s reserve-related policies have not provided adequate instructions and targets for reserves. As a solitary goal, the general stabilization fund target is too low, and the overall approach to reserves should be more strategic. Reserves not only provide a community with “rainy day” monies for emergencies; they should also be viewed as a means to set aside funds for capital purchases that can be made with cash at a lesser cost, and as a counterbalance to, projects that must be financed by borrowing with its attendant add-on expenses and complications.

A 5% minimum target for the general stabilization fund is reasonable only if there are also targets for other reserves, such that the total combined reserves target equates to 10 to 12% of the prior year’s general fund budget (i.e., the total operating budget minus CPA and enterprise funds). Here, “total combined reserves” refers to the total of free cash and the town’s general and special purpose stabilizations funds all together. As illustrated below, the town has made progress in the last few years toward achieving the low end of our advised target.

Combined Reserves as % of Prior Year General Fund Budgets, FY2011- FY2020



Note: Besides the special purpose stabilization funds for capital, energy, and the Melone property, there is also a turf field fund. It has only ever had a balance of \$100 though, so it cannot be graphically represented in this chart.

Among Sudbury's peers with formal policies on reserves, the average combined target is 8-12% of the general fund budget. In almost all cases though, their overall policy targets refer only to combined free cash and general stabilization (i.e., no special purpose stabilization funds included).

While preserving Sudbury's existing 5% target for the general stabilization fund, we advise the select board to consider expanding the Reserves policy to include the other targets listed below along with other recommended provisions:

- Establish a goal of endeavoring to realize annual free cash certifications equivalent to 3-5% of prior year general fund revenues. Free cash is considered a nonrecurring revenue source because the amount certifiable by DLS is subject to potentially unanticipated variables in any given year. Despite this, the town manager can pursue a consistent free cash level by employing conservative budgeting practices that intentionally estimate revenues at no more than 95% of prior year actuals, avoiding full depletions of prior year certified amounts, and holding department heads accountable for the careful management of turnbacks.
- Achieve and maintain a combined target balance for all capital-related special purpose stabilization funds equal to 2% of prior year general fund revenues.
- Spell out the specific appropriate usages for each type of reserve.
- Set a retained earnings target for any enterprise fund not subsidized by the general fund. Similar to free cash, retained earnings refers to an enterprise fund's surplus balance that requires DLS certification before it may be appropriated. Due to changes in the accounting for indirect costs in FY2020, none of the town's three enterprise operations are currently self-supporting. If the town makes a shift in policy (and fee schedule) to ensure that any of these operations becomes self-supporting, the Reserves policy should state a retained earnings target in anticipation of related projects in the capital plan.
- Include a statement that the select board will request an annual update from the board of assessors on the balance in the overlay account as compared to anticipated abatement and exemption liabilities. Any excess may then be declared as surplus and available for capital or other one-time purposes.

A-3. Set a year-to-year debt funding target within the general fund budget

Section C of this report contains a review of Sudbury's history of capital financing through debt exclusion, which is also known as "exempt debt" since its funding derives from levy amounts exempt from Proposition 2½ limitations. The town's pursuit of exempt debt as a primary capital funding mechanism is a risky strategy that works counter to desired objectives of levy stability and planning predictability. On the other hand, a formal policy that dictates the maintenance of a certain level of within-levy debt financing year after year would help provide a strong control for ensuring consistent capital investment.

Long-term debt is an appropriate, and within certain guidelines, the preferred source of financing for

long-life assets and projects with cost thresholds that would otherwise be unaffordable to pursue in the near term. Further, the amortization of debt service over 10 to 30 years provides some equity among local taxpayers because project costs are borne among those who may move into or out of the town over time. When a town has access to the bond market at favorable borrowing rates, as in Sudbury, a low debt service budget can indicate deficient investment in capital assets. However, every community should establish a debt service ceiling to assure those expenses do not become detrimental to long-term fiscal conditions, squeeze out necessary operating expenses, or strain the affordability of taxpayers. Moreover, debt issuances should be planned for as a steady part of the community's within-levy budget. These are among the many reasons why a good Debt Management policy is so important.

To help make the town's capital funding more predictable and sustainable, the select board should ensure the new policy has provisions that state the objective to gradually and consistently pursue future debt issuances financed by within-levy dollars and set a debt service target range to be achieved and maintained. As will be discussed further in Section D, we suggest the target be 3% of the prior year's general fund revenues, but local analysts may want to adjust this higher or lower, depending on a review of the capital asset inventory and assessment of needs.

Sudbury's within-levy debt service for FY2020 represents only 0.15% of the prior year's general fund budget, so reaching the recommended goal will take quite a bit of time. Nevertheless, the importance of shifting the financial basis for future borrowings from exempt to within-levy debt cannot be overemphasized, and making this a formal policy objective is the first step. The policy should further dictate that the town will recapture for capital purposes the roll off of any maturing debt, either within a new debt issuance or else by appropriating the equivalent amounts to capital-specific stabilization fund(s), which can thereby provide a source for funding future debt service obligations.

A-4. Clearly define what projects are included in the capital plan

Capital projects in Sudbury are not well defined. The 2020 draft policy has text describing what a capital asset looks like ("land, ...buildings, ...equipment, ...infrastructure") but provides no information for determining which capital-related expenditures will be included in the town's multiyear capital plan. Deleted from the 2020 policy draft was a stipulation from the 2015 version that had defined a capital project as an expenditure for an item costing \$10,000 or greater and having five or more years of useful life.

In addition to reestablishing cost and useful life capital thresholds in policy, we suggest the select board consider raising the minimum dollar amount to \$15,000 or \$20,000, given inflation's impact over the years. This impact is reflected in the town's current capital plan, in which no fiscal year has more than one project costing under \$20,000. As would be expected over time, capital criteria dollar thresholds have been rising in other communities. Six of Sudbury's nine peer towns have policy-

defined dollar thresholds for their capital projects, as follows: three set the cost at \$10,000, two at \$20,000, and one at \$25,000. Whatever amount is finalized, the policy should state that any expenditure that does not meet both thresholds should be budgeted within departmental line items, which are discussed further in report Section B.

Standardized criteria will help budget framers to consider all capital projects using town-wide perspectives while also providing a baseline for the assembly of a complete capital inventory, which should also be called for in the policy. Such an inventory is central to the CIP's effectiveness, since it is needed to create comprehensive schedules for replacing or upgrading assets.

A-5. Establish an ordered list for prioritizing capital projects

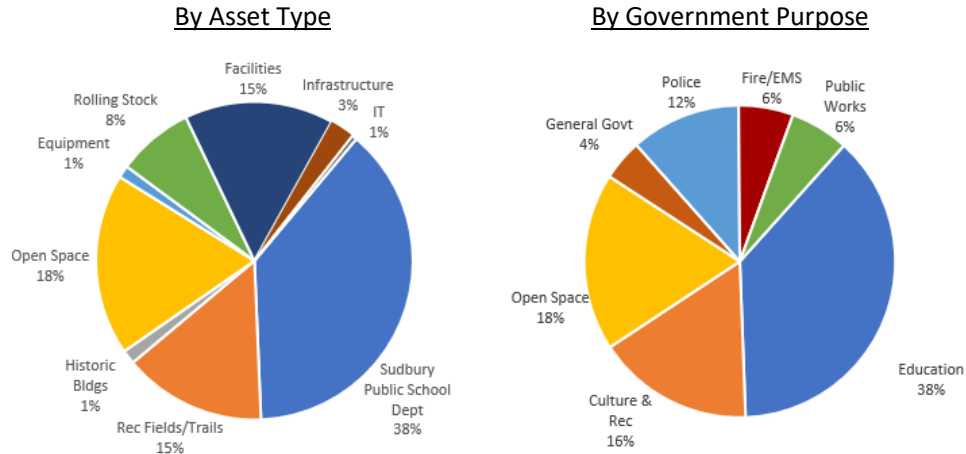
In reviewing Sudbury's CIP-related documents, we were unable to ascertain any defined order for prioritizing capital projects, notwithstanding the simple 1 to 5 urgency score department heads assign to each. Within the capital plan, the budget team also designates each project as either urgent maintenance, risk mitigation maintenance, enhancement, or new/substantially remodeled facility, but only the first of these implies any precedence in priority; the others are merely descriptive.

It is rare that a town can afford to pay for all capital proposals, and therefore the participants charged with developing capital budgets need a frame of reference for comparing projects to the community's prioritized objectives and for evaluating them against each other. Lacking this, the course of capital investment can become haphazard to the point that the town risks inadvertently deferring projects whose postponement ends up costing more in the long run or otherwise failing to align approved projects with long-range, town-wide goals.

Every community has its own unique set of priorities, and the select board, as the executive policymaking body, must determine what these are for Sudbury. Factors to consider and put in priority order include, but are not limited to, mitigation of safety hazards, legal compliance, operating cost reduction, service or efficiency improvement, availability of outside funding sources, conformance to asset replacement schedule, and enhancement of quality of life.

We did a five-year review of Sudbury's capital spending to see what it might reveal about the town's priorities. For the years FY2016-FY2020, we totaled up all the capital project appropriations from all revenue sources. Excluded from the analysis were any expenditures for assets not owned by the town, such as CPA funds dedicated to private affordable housing and any capital assessments paid to the LSRHS. Thus, the Education slice in the Government Purpose pie chart on the next page exclusively refers to expenditures for the SPS, which represents the largest portion (38%), as one might expect. Almost as much (34% total) was spent on quality-of-life purposes (culture, recreation, and open space combined), which as a group outweighed the funds applied to infrastructure needs, public safety programs, and the general running of government (28%) all together.

Capital Spending, FY2016-FY2020



Note: Rolling Stock does not include any police cruisers, which are budgeted within the department's line-item budget.

Worth noting is that the pie charts above include \$13 million in debt service for school projects, \$8 million of which came from distributions by the Massachusetts School Building Authority (MSBA). The MSBA funding was included here because this analysis was intended to encompass the full range of capital funding sources used, including grants. Also important to note is that these illustrations represent debt service dollars actually spent from FY2016-FY2019 and budgeted for FY2020. In FY2021, the debt service will begin for five new projects authorized by recent town meetings: Camp Sewataro, Broadacres, Stearns Mill / Dutton Road Bridge, DPW Fuel Island, and Sewer. The funding for the first four of these will be raised through debt exclusions. About 80% of the total new debt service will be spent on the Camp Sewataro and Broadacres projects, further expanding the proportion of overall capital funding applied to quality-of-life assets.

B. CAPITAL PLANNING PROCEDURES

Article XXV of Sudbury's bylaws establishes a Capital Improvement Advisory Committee (CIAC) comprised of seven members: six appointed by the select board and one by the finance committee. This bylaw charges the CIAC to review and make recommendations on all capital proposals that cost \$100,000 or more. Apart from the CIAC's advisory review, Sudbury's capital planning process otherwise runs in sync and enmeshed with its annual budget process.

Each November, the town manager distributes budget guidelines to department heads along with forms for them to fill in with their operating and capital budget requests. Although the various documents we reviewed showed inconsistencies, for the most part, it appears that department heads have been required to use capital request forms for items costing \$10,000 or more. The town manager is authorized to make decisions on all of these up to a cost of \$100,000. For requests above that amount, the town manager must take into consideration the CIAC's recommendations presented in its annual report to the select board and finance committee.

The budget team reviews the returned requests and meets with department heads to discuss their needs. As project requests are vetted, the team adds them to a five-year capital plan in Excel. This document also includes 10 more years of projections that reflect the debt service on active projects and present-day replacement costs for existing equipment whose useful lifespans will expire during those years. This extended 10-year listing is inherently underestimated given that replacement costs will increase and new projects be added as time goes by. With that in mind, however, the full plan lists almost \$62 million in prospective projects from FY2021 to FY2034.

Each winter, the budget team must prioritize the capital submissions, determine which ones to include in the forthcoming year's capital budget, and brainstorm potential funding plans for them. By January 31, the town manager presents a combined operating and capital budget to the finance committee and select board, which then hold hearings and vote on the budget. By March 31, the finance committee provides the select board with a report of its budget recommendations for inclusion in the town meeting warrant. On the first Monday in May, the town manager presents the operating and capital budget to annual town meeting.

It appears the budget team has developed a well-coordinated annual budget process, including efficient assembling of the capital budget and updating of the multiyear capital plan. To help the team enhance overall capital planning effectiveness, we offer the following procedural recommendations.

B-1. Budget for maintenance costs within department-level capital line items

We recommend the select board support the implementation of a fundamental shift in the compilation and presentation of the annual budget. Given Sudbury's overall budget size, range of services, and scale of capital assets, most, if not all the major departments should have an annual capital line item for their necessary maintenance budgets. This line item would not apply to projects the town manages under the CIP. Instead, it will account for department-managed expenditures to curb asset deterioration or replace assets with shorter useful lifespans. These expenses should be considered part of the annual operating, not capital, budget. In contrast, the CIP should govern projects undertaken either to build, buy, expand or replace a long-life asset or to enhance an asset's condition beyond its original state of quality, efficiency, or useful life expectation.

As already mentioned, once the town establishes cost and useful life thresholds for capital projects, any expenditure for an asset that fails to meet both criteria should be budgeted in a departmental capital line item. Sudbury's historical lack of a clear capital project definition is evident in its capital plan. For example, it includes a utility trailer costing only \$4,000 (in FY2023), as well as an annually repeating \$50,000 item for the parks division described as preventative maintenance.

Although this change will preclude the need for departments heads to submit capital request forms for their maintenance costs, it will remain important for the town manager to have realistic discussions with them about their maintenance needs every budget year. Going forward, every department head responsible for a capital asset would submit with his or her annual operating budget request an estimated amount for maintenance needs based on actual, related expenditures over the past one to two years. Furthermore, departments heads would be expected to manage this line item with the same care as those for personnel and expenses, including turning back unexpended maintenance funds at year-end, which could then add to the free cash balance.

Including preventative maintenance expenses as standard parts of departmental operating budgets is a cost-effective and widely recommended¹ approach to ensuring the dependability of capital assets. Shifting to a budget template in which each department has line items for personnel, expenses, and capital is another way to ensure town-wide consistency and mitigate the risk of overlooking necessary maintenance. It also increases the transparency and understanding of maintenance needs for budget decision makers and residents. Sudbury does this already for some departments to a very limited extent. For instance, the police department has a standing annual capital line item that corresponds to its budget for cruiser vehicles, which have useful lifespans under five years. Small capital line items also exist in most years for the DPW's highway division and for the turf field enterprise fund.

B-2. Remove LSRHS projects from the town's capital plan

Sudbury's five-year capital plan lists 25 projects for the LSRHS, totaling \$1.8 million, but the related assets are wholly owned by the LSRHS, which has full responsibility for maintaining, monitoring, and purchasing them. It is therefore inappropriate for the regional school district's assets to be included in the plan. Although the budget team's good working relationship with the district's business office will help them stay apprised of long-range operational and capital projections, the LSRHS School Committee alone makes the decisions on the annual assessments that will be submitted for the approval of Lincoln's and Sudbury's town meetings. For budget and forecasting purposes, the team should regard the district's assessment projections similar to how they would the "fixed cost" items in the overall town budget to which Sudbury has contractual obligations, such as retirement and health insurance benefits.

B-3. Expand the information captured on capital project submission sheets

In Sudbury, department heads fill out a Capital Improvement Budget Request form, which captures a range of details about each project, including description, cost, replacement cycle, and estimated future savings. In the interest of helping to collect more information in a standardized way, we offer

¹For more guidance, see the Government Financial Officers Association's best practice, Capital Asset Management, <https://www.gfoa.org/capital-asset-management> (recommendation 5).

in the Appendix a fillable form for potential adoption by the town. It includes pulldown lists for comparable criteria, sections to input positive or negative cost impacts for the next three to five fiscal years, and boxes for narrative descriptions of available grants or other types of potential cost offsets.

B-4. Reconsider the Capital Planning bylaw

We recommend the town consider revoking bylaw XXV: Capital Planning, whose main purpose is to state the CIAC’s membership composition and mission. Given the wide extent of the town manager’s capital-related duties spelled out in the charter, the CIAC represents a select-board-appointed volunteer body serving a superfluous function to the work already being done by its own full-time, professionally qualified, chief executive officer. The town also has available the full-time expertise of a finance director, whose responsibilities include monitoring the town’s financial condition throughout the year, as well the status of its active capital projects. Our advice here correlates with TAB’s longstanding biases toward lean and efficient centralized processes and toward reliance on empowered, accountable, administrative officers.

C. FUNDING STRATEGIES

Once a community has established definitions for its capital projects and set up solid, consistent procedures for managing its CIP, budget decision makers must then consider a range of capital financing strategies. All funding sources should be included when evaluating the level of investment, from taxes, to borrowings, to local fees and charges, to state grants and programs.

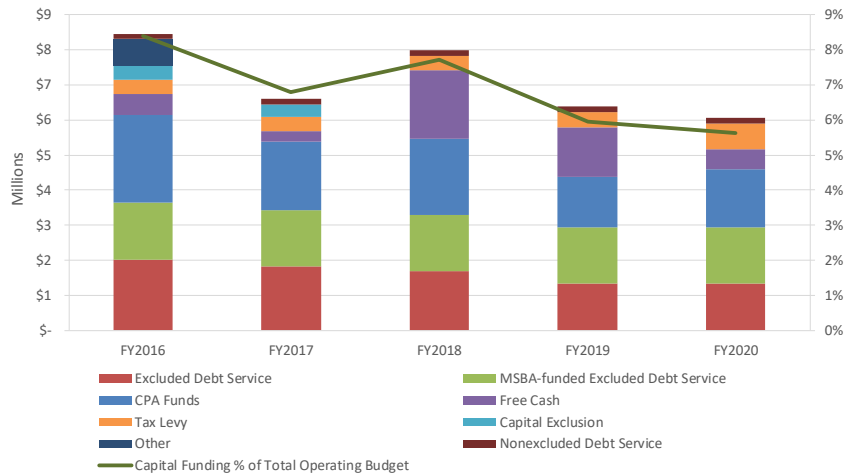
In the last five years, voter-authorized debt exclusions provided the greatest proportion of Sudbury’s capital funding. Three of the seven debt-excluded projects active during this period were for the Curtis, Haynes, and Loring schools, and MSBA distributions in these years substantially offset the amounts that otherwise would have been raised on tax bills for them. In the table and chart below, this grant funding source has been broken out separately to highlight it.

Capital Spending by Revenue Source, FY2016-FY2020

Capital Funding Sources	FY2016	FY2017	FY2018	FY2019	FY2020	5-yr total	5-yr % of Total
CPA Funds	2,501,729	1,956,198	2,161,511	1,428,335	1,658,210	9,705,983	27.34%
Excluded Debt Service	2,027,145	1,817,323	1,691,876	1,339,189	1,329,943	8,205,476	23.12%
MSBA-funded Excluded Debt Service	1,606,861	1,606,052	1,605,984	1,605,926	1,605,872	8,030,695	22.63%
Free Cash	613,793	305,000	1,962,000	1,426,500	570,000	4,877,293	13.74%
Tax Levy	392,750	404,000	413,190	422,000	745,000	2,376,940	6.70%
Capital Exclusion	420,000	365,000	0	0	0	785,000	2.21%
Other*	752,507	0	0	0	0	752,507	2.12%
Nonexcluded Debt Service	140,299	155,050	155,190	155,510	154,610	760,659	2.14%
Stabilization Funds	0	0	0	0	0	0	0.00%
Capital Funding Totals	8,455,084	6,608,623	7,989,751	6,377,460	6,063,635	35,494,553	100%

*Other funding in FY2016 included a donation, bond premiums, and repurposed town meeting articles.

Capital Spending by Revenue Source, FY2016-FY2020



When reviewing the last five years of capital spending there are three trends that stand out. One is the prominence of the CPA program, which actually represents the largest mainly-taxpayer-derived source of financing, given that the MSBA paid a major portion of the debt-excluded projects. The second is the low level of funding from the tax levy and complete absence of stabilization funds as a resource. The third but most significant trend is the longtime strategy that has put capital needs into a type of optional category over-and-above the base levy budget by choosing to pursue project funding through temporary additions to the tax levy. Below we analyze the town’s use of various capital funding sources.

Debt and Capital Exclusions

On an annual basis, the town’s budget framers decide the tax levy amount to be raised within the Proposition 2½ levy limit, which automatically increases by 2.5% every year, plus a new growth allowance. In any given year, the community can elect to raise levy funds beyond the levy limit through town meeting and ballot votes. In addition to the provision for a general override, which increases the levy limit permanently, the Proposition 2½ statute permits three types of nonpermanent increases. A capital exclusion increases the levy for one year to pay off a one-time purchase, while a debt exclusion increase lasts for the span of years necessary to pay the debt service on a capital project. Finally, a stabilization fund override increases the levy for an indefinite time to build up funds for a specified purpose. This last option, which Sudbury has never attempted, is discussed further in Section D.

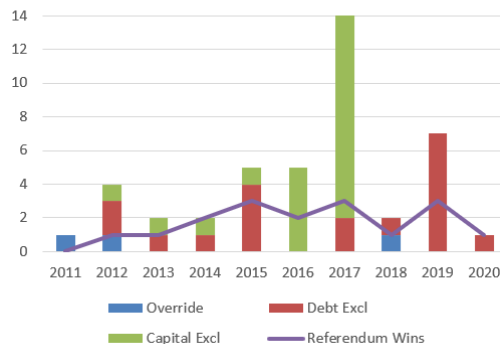
The most striking aspect of Sudbury’s CIP history has been the propensity to make the prospect of capital investment contingent on voter approval of debt and capital exclusions. From FY2016-FY2020, voters approved five capital exclusions and four debt exclusions. Yet these were just the exclusion proposals that passed both town meeting votes and referendums; there were also some contingent warrant articles that failed one or the other. Moreover, the pattern of proposing repetitive adjustments to the levy limit during this time was a continuation of longstanding practices.

The 10 years since FY2011 have seen a total of 40 warrant articles that made the funding of capital projects contingent on the passage of debt or capital exclusions. Beyond this, there were also three general override proposals during this period, which we include in the table and chart below to show the full picture of all levy questions put to voters. Taken together, the 10-year success rate for these proposals was only 44%, and in the last five years, only 34%.

*Rate of Approval of Town Meeting Appropriations
Contingent on Proposition 2½ Referendums*

Applicable Fiscal Year	Contingent Town Meeting Articles			Total Articles	Approved Articles	Referendum Wins	% Approved
	Override	Debt Exclusion	Capital Exclusion				
2011	1	0	0	1	1	0	0%
2012	1	2	1	4	4	1	25%
2013	0	1	1	2	1	1	50%
2014	0	1	1	2	2	2	100%
2015	0	4	1	5	5	5	100%
2016	0	0	5	5	5	2	40%
2017	0	2	12	14	14	3	21%
2018	1	1	0	2	2	1	50%
2019	0	7	0	7	5	3	43%
2020	0	1	0	1	1	1	100%
Totals	3	19	21	43	40	19	44%
FY2016-2020 Averages:				5.8	5.4	2	34%

Contingent Override and Exclusion Articles vs. Referendum Wins



Note: The years FY2013-FY2015 include 5 referendums for 2 multistage projects, the Nixon School and Police Headquarters.

This high rate of Proposition 2½ proposals very much makes Sudbury an outlier within the state. Based on information that communities report to DLS, in any given year, about 30% of the state’s cities and towns hold votes on any such referendum, with about two-thirds of these being held for debt exclusions. Rarely does any community have these types of votes year after year though. From FY2016-FY2020, Sudbury averaged 5.4 referendums annually. During this same time, only 39 municipalities in the state (11%) averaged one or more annually, and 18 (5%) three or more annually. Just four other communities along with Sudbury (1% of the state) have had an average of five or more each year. With one exception, these types of referendums are also rare among Sudbury’s peer towns, as shown below.

Referendums Reported to DLS, FY2011-FY2020

Town	Override	Debt Exclusion	Capital Exclusion	10-yr Totals
Acton	0	0	0	0
Bedford	0	0	0	0
Concord	0	6	0	6
Duxbury	0	5	0	5
Hingham	0	2	0	2
Hopkinton	0	19	1	20
Scituate	1	5	0	6
Sudbury	3	17	20	40
Wayland	0	6	0	6
Westwood	0	1	0	1

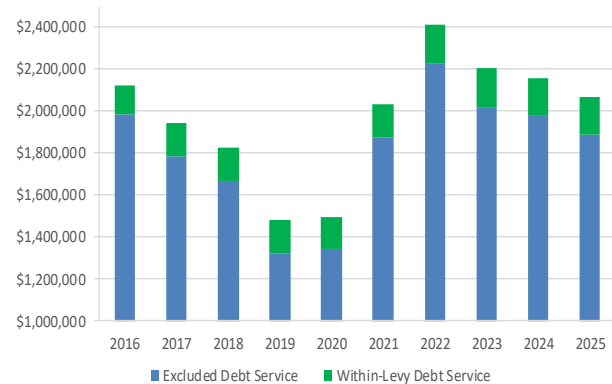
This analysis indicates that the town has been primarily addressing capital needs as wish list add-ons to the base levy, rather than taking a sound risk management approach that accounts for these

expenditures as necessary parts of the budget connected to financing plans under a long-range financial forecast.

Even as the budget team may strive to move away from exclusion proposals in favor of carving out more funding from the levy, it only takes one or two highly expensive projects winning exclusion authorization to stall those efforts. As the chart to the right shows, when the debt service for the four new debt-excluded projects begins in FY2021, these obligations will completely reverse the roll-offs of excluded debt that took place in the last four years. The chart represents the town’s actual net debt service expenditures from FY2016 to FY2019, budgeted amounts for FY2020, and projected estimates for FY2021 to FY2025. (This analysis

provides the best comparison of the town’s true year-to-year debt load since it nets out the MSBA offsets.)

Actual and Projected General Fund Debt Service Obligations, FY2016 – FY2025



It is hard to imagine this trend of regularly revolving exclusions can continue much into the future in light of the increasing pressure on tax bills, particularly in the last five years.

Change in Sudbury’s Average Single-family Tax Bill, FY2011-FY2020

Fiscal Year	Tax Levy	% Change in Levy	Average Single-family Tax Bill	Annual Tax Bill Increase	% Change in Tax Bill	Average Tax Bill as a % of Value
2011	67,418,506	2.80%	10,695	235	2.25%	1.70%
2012	69,007,533	2.30%	10,937	242	2.26%	1.76%
2013	71,026,410	2.84%	11,205	268	2.45%	1.80%
2014	72,951,707	2.64%	11,544	339	3.03%	1.80%
2015	73,549,581	0.81%	11,598	54	0.47%	1.76%
2016	76,997,531	4.48%	12,082	484	4.17%	1.78%
2017	79,892,487	3.62%	12,520	439	3.63%	1.77%
2018	83,323,444	4.12%	13,033	513	4.10%	1.79%
2019	86,384,635	3.54%	13,355	321	2.46%	1.79%
2020	89,733,893	3.73%	13,769	414	3.10%	1.85%
<i>10-yr Avg. Annual Increase</i>				\$ 331	2.79%	
<i>5-yr Avg. Annual Increase</i>				\$ 434	3.49%	

Peers Avg. SF Tax Bills, FY2020

Town	Amount
Scituate	8,123
Bedford	9,769
Hingham	9,988
Hopkinton	10,640
Duxbury	10,943
Westwood	11,789
Acton	11,790
Sudbury	13,769
Wayland	14,214
Concord	15,735

Note: The bill amounts for Concord and Hopkinton and for Sudbury from FY2014-FY2020 are approximations because, during those years, small numbers of single-family property owners were eligible for tax exemptions connected to the senior means test.

Within-levy Debt Service

The 2015 financial policy included a statement that the town “traditionally votes to issue all debt exempt from the limits of Proposition of 2½” without providing any rationale for this. Due to this longtime avoidance of nonexempt debt, the ratio of debt service funded by within-levy dollars to prior year general fund revenue averaged less than 0.20% annually in the last five years. A new

issuance for the sewer project will be paid with nonexempt debt beginning next year, and although the amount is only projected to be \$30,000 annually, it is still some progress in the right direction.

*Within-levy Debt Service as % of Prior Year
General Fund Revenues, FY2016-FY2020*

	FY2016	FY2017	FY2018	FY2019	FY2020
Prior Year General Fund Budgets	88,459,671	97,507,455	94,025,172	100,052,644	102,000,958
GF Debt Service Amounts	140,299	155,050	155,190	155,510	154,610
GF DS % of Net GF Budget	0.16%	0.16%	0.17%	0.16%	0.15%

Community Preservation Act

In the last five years, the CPA fund accounted for a sizeable 27.54% of the town’s capital expenditures, \$9.7 million in total. Close to two-thirds of this (\$6.2 million) applied to debt service on projects authorized in years that predated 2015, while the remainder paid directly (i.e., without debt) for projects approved in special articles during the review period. A lack of substantial capital funding sourced from the levy partially explains the CPA’s large proportionate contribution, along with an apparent multiyear slant toward pursuing the types of projects eligible for CPA funds.

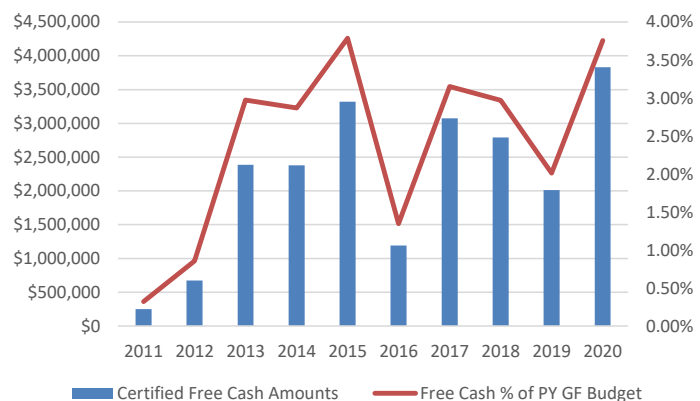
Derived from a 3% surcharge on property tax bills and a nonequal match from the state, Sudbury’s CPA budget provides a steady funding mechanism for capital investment, though one that is restricted to historic, open space, recreational, and affordable housing assets, any of which may or may not necessarily be owned by the town. The CPA budget decision making is entirely the purview of the local Community Preservation Committee, with ultimate authorization by town meeting.

Free Cash

The table and chart below show the last 10 years of Sudbury’s free cash certifications, which have been subject to a fair amount of fluctuation, perhaps to some degree related to the absence of a policy-dictated effort to pursue consistent levels year to year.

Free Cash Certifications, FY2011-FY2020

Fiscal Year	Prior Year General Fund Budget	Certified Free Cash Amounts	Free Cash % of PY GF Budget
2011	77,798,984	249,418	0.32%
2012	78,740,738	674,860	0.86%
2013	80,343,448	2,388,556	2.97%
2014	82,904,719	2,380,250	2.87%
2015	87,694,994	3,322,365	3.79%
2016	88,459,671	1,190,989	1.35%
2017	97,507,455	3,074,985	3.15%
2018	94,025,172	2,793,163	2.97%
2019	100,052,644	2,012,070	2.01%
2020	102,000,958	3,833,030	3.76%



To their credit, the budget team have refrained from applying any free cash to ongoing operating expenditures and instead have mainly used it for capital projects. In fact, free cash has been Sudbury’s primary source of pay-as-you-go capital funding, even outweighing expenditures from the annual tax levy. Yet this entails some risk; the focus should be on ensuring primary reliance on the levy, since free cash cannot be assured as a recurring revenue source.

Tax Levy

A primary reason for this review was the select board’s recognition of the need to source more capital funding from the tax levy. The SFPCCF’s report suggested a target goal of 2.5% of the levy dedicated to capital, while the budget team’s goal has been to achieve cash capital funding equal to 3% of the general fund budget. As will be discussed further in Section D, we agree that 3% is a sound, minimum target for cash capital funding.

Each year’s annual town meeting warrant has an article for the town manager’s capital budget. For this article, the budget team selects projects from the five-year capital plan that they see as affordable with a combination of tax levy dollars and free cash. The sum total of this article is the measure used to analyze capital spending against the 3% benchmark. Each year, the team also presents other capital plan projects in individual special articles. Most often, free cash is the proposed funding for these, but until a short time ago, capital exclusions were presented as options for moderate-cost projects as well. This is in addition to the debt exclusions for the most expensive projects that continued to be proposed through FY2020.

When examining pay-as-you-go project funding, most communities view it in terms of “cash capital,” which typically encompasses the use of the levy, free cash, and stabilization funds. As previously mentioned, free cash can reasonably count towards this goal when there are strong policies connected to it and careful management of budgets to try to secure consistent certification amounts. However, the primary cash capital source should come from the levy raised each year, and the table below shows the deficiency that has existed in this budget ratio.

Capital Investment from Cash Sources, FY2016-FY2020

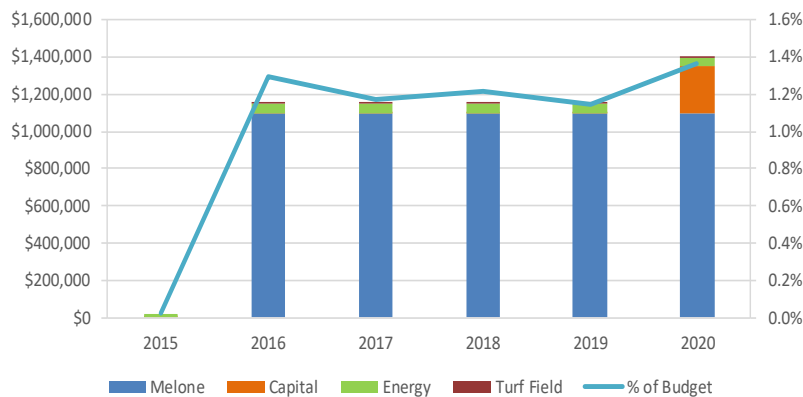
Fiscal Year for Targets:	FY2016	FY2017	FY2018	FY2019	FY2020
Prior Year General Fund Budgets	88,459,671	97,507,455	94,025,172	100,052,644	102,000,958
Capital Funding Sources					
Tax Levy	392,750	404,000	413,190	422,000	745,000
Tax Levy Funding as % of PY GF Budget	0.44%	0.41%	0.44%	0.42%	0.73%
Free Cash	613,793	305,000	1,962,000	1,426,500	570,000
Transfers from Stabilization Funds	0	0	0	0	0
Total Cash Capital Funding	1,006,543	709,000	2,375,190	1,848,500	1,315,000
Cash Capital % of PY GF Budgets	1.14%	0.73%	2.53%	1.85%	1.29%

Stabilization Funds

As shown above, stabilization funds have not financed any of the town’s capital investment in the last five years. Until recently, the town’s budgeters had not placed any formal emphasis on building up reserves dedicated to helping the town make purchases outright with cash as a counterweight to debt-supported expenditures. Only as of 2015 did the town begin to seek the planning advantages offered by special purpose stabilization funds as allowed under [M.G.L. c. 40, § 5B](#). Whereas the typical function of a general stabilization fund is to provide a reserve for emergencies or any future legal purpose, a special purpose stabilization fund sets aside monies for a specified intent.

The first of two funds authorized at the FY2015 annual town meeting was dedicated to supporting energy efficiency initiatives (starting with a \$20,000 appropriation) and the other to replace rolling stock (with an initial \$100). At the May 2019 annual town meeting, the latter fund was repurposed to be a broader-scope capital stabilization fund and received its first sizeable infusion of \$250,000. The preliminary budget for the upcoming annual town meeting for FY2021 proposes to match this appropriation. In FY2016, town meeting voted to close a revolving fund for the DPW’s Melone property and transferred its balance of \$1.1 million into a new stabilization fund of the same name. Also established in FY2016 was a fund for the turf field at Curtis Park, though its balance is only \$100.

*Special Purpose Stabilization Funds as % of
Prior Year General Fund Budgets, FY2015-FY2020*



As the chart above shows, the move toward using special purpose stabilization funds as savings accounts for future capital investment is a new trend in Sudbury. As these funds get built up to useful levels, however, they will become the more sustainable and transparently committed method for financing the capital plan as opposed to the current default option of free cash.

Improving upon the budget practices of the past will take some time and effort, but there has been a positive shift in planning practices in the past couple of years, particularly the greater focus on the tax levy and stabilizations funds. Below we offer guidance to continue this forward progress.

C-1. Align the capital plan with funding schemes that do not rely on exclusions

In the first section of this report, we recommended the select board adopt a policy that defines restrictive circumstances for debt and capital exclusions. Given the data-driven trends outlined here, it should be apparent that the path the town has been on is unsustainable. Furthermore, the logistical requirement to submit an exclusion proposal to the electorate two times (at town meeting and in a referendum on another date) brings greater uncertainty to the likelihood that the associated item in the capital plan will get funded on schedule or at all. As project deferrals happen, pressure is added to future budgets and the risk of asset failures increases.

More effective budgetary and capital planning controls can be achieved by avoiding future exclusions and focusing on cash capital and within-levy debt funding options. Once the select board establishes capital funding targets in policy, it should hold the budget team accountable for implementing plans that make incremental progress toward those objectives. Beyond working toward the cash and debt targets, the town manager should also diligently pursue supplemental sources of investment, such as CPA and grants, and actively direct new revenue growth to capital needs. We discuss this more in Section D.

C-2. Continue to build reserves in capital-related special purpose stabilization funds

With the long view in mind, we encourage the town to continue to build up the reserves that have been dedicated to capital purposes as a transparent, committed means to expand cash capacity and thereby offset future debt issuances. As stated in Section A, we suggest a minimum target level of 2% of the prior year's general fund revenues for all capital-related stabilization funds as a group, but it could be higher as capital needs are evaluated by local officials over time.

Although a two-thirds town meeting vote is needed to appropriate from a special purpose stabilization fund, this poses less of a hindrance to the capital plan than an exclusion with its requirement for separate votes at town meeting and at the ballot box. There is also a small expense involved with holding any town-wide election. Experience around the state has shown that voters are as much or more likely to approve a capital stabilization appropriation, particularly when local leaders are consistent in formally presenting to town meeting a rolling, five-year capital plan showing the community's long-range needs and associated financing strategies.

By accumulating cash over time in a special purpose stabilization fund, the town can begin to pay outright for projects of moderate cost and preserve debt capacity for the most expensive projects. The town also saves on the interest costs associated with debt. This strategy helps build confidence in government by directly addressing resident concerns and providing assurance that money appropriated for a particular purpose will be used for that purpose and not diverted elsewhere.

Particularly in a community like Sudbury that has yet to build up significantly high reserve levels, it makes sense to limit the number of stabilization funds to a small few that have clear but broadly defined purposes. For example, it is better to pool resources into a capital stabilization fund that supports the CIP's encompassing multiyear plan, rather than dividing monies up into multiple, more restrictive funds.

C-3. Close the Melone fund and transfer its balance to the capital stabilization fund

As approved by town meeting in May 2015, the purpose of the fund for the Melone property was to make improvements to this former gravel yard for future municipal use or sale, but none of the \$1.1 million in the fund was ever expended. At a special town meeting in December 2018, voters approved an article to sell the property but also rejected a subsequent article to convert the fund's purpose to developing Broadacres and other town center parcels for "future municipal, recreational, open space and conservation uses." With the Melone sale, the town has now a considerable amount of dormant "available funds," which are in fact not available for appropriation due to having no valid authorized purpose. We therefore recommend the select board sponsor a new warrant article proposing to transfer the Melone fund balance to the capital stabilization fund. If the already pending article to appropriate another \$250,000 to the capital stabilization fund passes this spring, it would then have a total balance of \$1.6 million, or 1.5% of the current general fund budget.

C-4. Close the surplus vehicles revolving fund

In May 2019, town meeting voters approved an article to create a new revolving fund under [M.G.L. c. 44, § 53E½](#) for surplus vehicles and equipment used by the police, fire, and public works departments. Since the approved fund required a new bylaw for implementation, the town clerk submitted the certified vote for the review of the state attorney general's office as required by [M.G.L. c. 40, § 32](#). Citing DLS legal opinion, the attorney general's office sent a letter to the town clerk dated August 14, 2019, which disallowed the new bylaw.

At issue is the nature of the money received from the sale of movable property. [M.G.L. c. 44, § 53](#) requires all revenues to be deposited in the general fund unless a separate law provides for an alternative accounting. A revolving fund cannot provide an alternative treatment for the revenue in this instance, however, since the 53E½ statute pertains only to fees charged for services, which in no sense correlates to vehicle and equipment sales.

To retain these revenues for future purchases of the same types of assets, the select board could sponsor a warrant article to accept the fourth paragraph of [M.G.L. c. 40 § 5B](#) and specify a percentage of each sale that will be dedicated, without further appropriation, to the capital stabilization fund. This dedication requires a two-thirds approval by town meeting prior to the first fiscal year it will apply, must remain in effect for at least three fiscal years, and can be terminated in the same manner as approval.

D. CAPITAL FORECAST

The fourth component of a comprehensive CIP is a capital forecast, which is an extension of the multiyear financial forecast that every town should annually maintain and update. The budget team would use the capital forecast to inform and try out various “what-if” financing scenarios for the projects listed in the capital plan. However, because the scope of this review did not encompass the town’s overall financial forecast, this section of the report will not provide an in-depth capital forecast analysis. Instead, it will present some additional guidance regarding options available for steering future budgets toward expanded capital financing capacity.

Capital Funding Targets

To have a successful CIP requires a community to develop its annual budgets with the intent of ensuring the due allocation of funds toward capital investment. Given the wide scope of services Sudbury provides and its access to low borrowing rates, we advise that the minimum level of capital funding the town should seek to achieve and then maintain year to year should be equivalent to 6% of the prior year’s general fund revenue, drawn equally from within-levy debt and cash capital sources. Beyond this minimum target, the town should seek to further enhance its capital investment by supplementing it with other revenue streams, such as the CPA program, state and federal grants, donations as they are offered, and so on. The table below shows the gaps between the town’s recent capital investment totals and the recommended targets.

*General Fund Capital Investment
vs. Target Funding Levels, FY2018-FY2020*

	FY2018	FY2019	FY2020	
Prior Year General Fund Revenues:	94,025,172	100,052,644	102,000,958	
Capital Funding Sources				Targets
Excluded Debt	3,297,860	2,945,115	2,935,815	Excluded Debt
% of prior year revenues	3.51%	2.94%	2.88%	no target
Nonexcluded Debt	155,190	155,510	154,610	Nonexcluded Debt
% of prior year revenues	0.17%	0.16%	0.15%	3%
Free Cash + Tax Levy	1,962,000 <u>413,190</u>	1,426,500 <u>422,000</u>	570,000 <u>745,000</u>	Cash Capital
Cash Capital Total	2,375,190	1,848,500	1,315,000	3%
% of prior year revenues	2.53%	1.85%	1.29%	
Capital Total	5,828,240	4,949,125	4,405,425	Capital Total
% of prior year revenues	6.20%	4.95%	4.32%	6%

By avoiding future exclusions and working toward these budget targets, the town can institutionalize a sustainable, long-term strategy to pay for its buildings, equipment, infrastructure, and other capital needs within the general fund budget. Without a doubt, achieving this will be a long-term endeavor, but it is critical that the select board have the town manager direct this effort. It will require the budget team to dutifully carve out an incrementally increasing capital-dedicated budget margin by ensuring the maximum amount of revenue growth is applied in that direction and holding a hard line

on operating budgets as well. Furthermore, by establishing these goals in policy, the board can help ensure a lasting commitment in future years even as board members may change.

To assist the town, we are transmitting with this report a Capital Targets Tool in an Excel file. The budget team can use this to input desired cash capital and debt service funding targets for future budget years and view the resulting dollar impacts. It is also set up so that as debt service matures, the related dollars can be directed to reserves. For initial demonstration purposes, we preloaded the workbook with Sudbury’s actual and budgeted revenue, debt service, and capital expenditure data for FY2017-FY2021. As a starting point, the revenue projections for FY2021-FY2030 have been based on 2.5% annual levy increases and smaller increases in other revenue sources, and the debt service amounts were taken from estimates contained in the finance director’s debt schedule. If the town implements the tool, the finance director should link it to his financial forecast to enable the updating of revenue projections as new information becomes available.

New Growth

The Proposition 2½ new growth provision allows communities to increase the annual levy limit beyond the automatic 2.5% based on new construction, properties with physical improvements, and other additions to the tax base, including new personal property. The chart below shows the new growth value by property class that has been added in recent years to Sudbury’s tax base.



One way for the town to steer budget money to capital needs is by attempting to dedicate 50 to 75% of all new growth levy amounts to capital expenditures or reserves. A policy target for this might remain somewhat informal year to year because, depending on the nature of the new growth in a given year, the associated impact on expenses (e.g., costs related to education, public safety, infrastructure, etc.) can vary. The intention should be to make capital needs a top priority for new growth revenue and maximize it as much as possible, even if the budgetary effect might be very slight given Sudbury’s low likelihood for ample amounts of new growth year after year.

A new growth rate that represents 2% annual increases over prior year levies is one gauge for determining if a town's growth can keep up with expenses. Unfortunately for Sudbury, consistent, substantial increases in new growth are usually related to sustained patterns of development in commercial or residential real estate, which tends not to be locally encouraged, given a prevalent desire to retain the town's existing character. The tables below show Sudbury's new growth trend in the last five years and how its five-year average compares to the peer group.

*New Growth Levy Dollars
as % of Prior Year Levies, FY2016-FY2020*

Fiscal Year	New Growth	Prior Year Levy	NG as % of PY Levy
2016	601,228	71,784,968	0.84%
2017	1,248,532	74,180,820	1.68%
2018	983,400	77,283,873	1.27%
2019	1,401,700	81,276,640	1.72%
2020	963,941	84,710,256	1.14%
Averages:	1,039,760		1.34%

*As Compared to the Peers'
5-Year Averages for the Same Ratio*

Town	5-yr Avg. Ratio
Wayland	1.04%
Acton	1.24%
Hingham	1.26%
Scituate	1.28%
Sudbury	1.34%
Duxbury	1.37%
Concord	1.57%
Bedford	2.52%
Westwood	2.95%
Hopkinton	3.81%

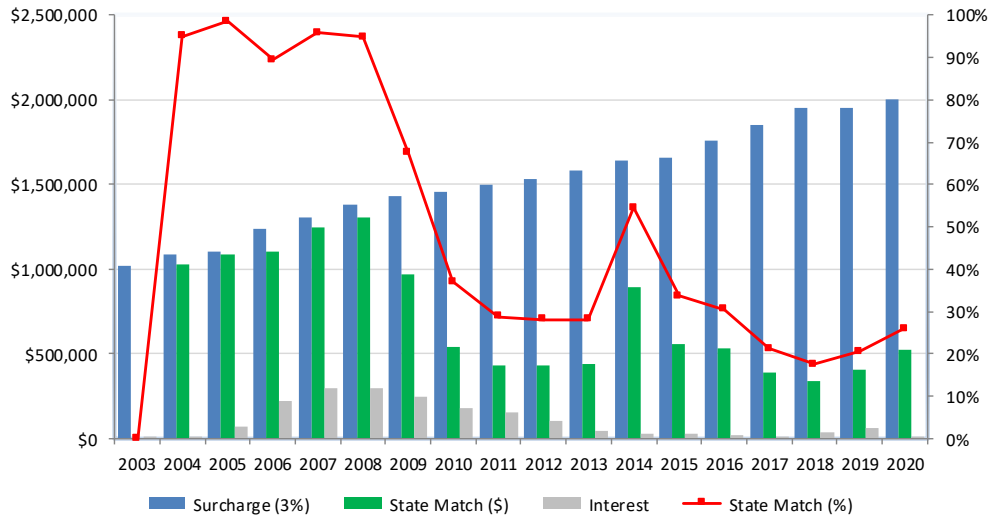
CPA Trend

Given the major role the CPA program has played in the town's CIP, a review of its history from global and local perspectives has merit. The Massachusetts legislature enacted the Community Preservation Act, [M.G.L. Chapter 44B](#), a little more than 20 years ago to encourage and assist cities and towns in preserving aspects of their local character. To do this, the Act allows each adopting community to implement a tax levy surcharge to raise funds dedicated to investment in assets that otherwise would often have trouble competing for dollars within municipal capital plans, such as historic and open space properties.

Part of the encouragement to adopt the CPA surcharge was the promise of funding matches from the state. The state's CPA Trust Fund, which provides this distribution, draws its revenue mostly from fees charged on certain real estate transactions at the Registry of Deeds. Over time, as more communities adopted the Act (now about 50% of the state), the proportional matches became smaller, apart from a few years in which the legislature supplemented the fund.

Sudbury's voters approved the highest possible CPA surcharge of 3% at the time the town adopted the Act in 2003, whereas the average surcharge in the state and among Sudbury's peer towns is 1.5%. The town is also one of only 17 CPA municipalities (10% of the total) that elected to give surcharge exemptions to certain classes of commercial and industrial properties. Sudbury's entire CPA revenue history is illustrated in the chart on the next page.

Local CPA Revenues and State Matches, FY2003-FY2020



The chart shows the overall low level of state matches the town has been receiving in the past decade. A recent, permanent increase to the relevant Registry fees means that communities will start to see higher matches beginning in FY2021. At the same time though, Sudbury’s community wealth works against it in the proportional formula used to calculate the amounts distributed to each municipality. Regardless, as a helpful planning resource the Community Preservation Coalition has posted its projections of the new state matches for each community on its website at <https://www.communitypreservation.org/home/news/cpa-trust-fund-increase-what-happens-now>

Stabilization Fund Override

One of the discussion points in the SFPCCF’s January 2019 report to the select board was the prospect of a stabilization fund override providing a means to raise funds dedicated to capital improvements. This type of override allows a community to raise an additional levy amount beyond the annual Proposition 2½ limit for the purpose of funding a specific stabilization fund that has been established by town meeting.

For Sudbury’s goals, if the town chose to pursue this, it would make sense to designate the override to build the balance in the capital stabilization fund. In each year after the approval of this type of override, the select board must vote by two-thirds to either continue the additional tax earmarked for the fund, lower it, or defer it. The additional tax that can be appropriated for any given year is limited to 102.5% of the amount last appropriated by the select board. The following provides an example of the way this works:

- In a town-wide referendum, voters approve a levy limit override to raise \$100,000 for the capital stabilization fund for FY2021.
- Town meeting appropriates \$100,000 from the FY2021 tax levy to the stabilization fund.

- In FY2022, \$102,500 is available for "appropriation" by the select board, which appropriates the entire amount.
- In FY2023, \$105,062 is now available (1.025 x the FY2022 appropriation of \$102,500), but the select board decides to appropriate only \$80,000.
- The amount available in FY2024 now becomes \$82,000 (1.025 x FY2023 appropriation of \$80,000), but no FY2024 appropriation is made.
- The amount available in FY2025 is \$82,000 (1.025 x last appropriation made, i.e., FY2023's \$80,000 appropriation).

A stabilization fund override is like a general override in that the additional tax revenue can be raised yearly without holding further referendums, but it differs in that this increase to the levy limit need not be permanent. Only 12 communities have approved this type of override, some for multiple funds, as shown below.

Communities that have approved Stabilization Fund Overrides

Municipality	Purpose of Stabilizaiton Fund	Vote Date	Original Amount Voted	Applicable Fiscal Years	Total Years	Total Raised
Aquinnah	Major improvements to town properties	5/14/2008	15,000	2011-2018	9	131,040
Berkley	Fund sending tuition costs	5/06/2006	800,000	2007-2020	14	12,310,037
Berkley	Support regional high school	6/26/2010	500,000	2011-2020	10	8,268,563
Grafton	Roads	6/14/2014	1,500,000	2015-2020	6	9,000,000
Medfield	Funding municipal buildings	6/11/2018	1,000,000	2019-2020	2	2,025,000
Oakham	Assessors' revaluation costs	6/23/2017	5,000	2018-2019	2	10,125
Orleans	Drainage infrastructure system	5/17/2011	150,000	2012-2020	9	1,493,076
Orleans	Pavement management program	5/17/2011	300,000	2012-2020	9	2,986,296
Paxton	Road improvements	5/09/2016	100,000	2017-2020	4	415,251
Pelham	Equipment	6/19/2008	200,000	2009-2020	12	2,547,224
Rowe	Capital stabilization fund	5/19/2007	150,000	2008-2020	13	2,109,529
Sunderland	Capital stabilization fund	5/03/2014	100,000	2015-2020	6	638,774
Sutton	Capital stabilization fund	5/22/2007	475,000	2008-2020	13	7,191,708
Tisbury	Ambulance service capital	5/13/2014	35,000	2015-2020	6	210,000
Tisbury	Fire department capital	5/13/2014	100,000	2015-2020	6	500,000
Tisbury	DPW capital	5/13/2014	50,000	2015-2020	6	300,000

For further guidance on stabilization fund overrides, refer to the Information Guideline Release [17-20](#) published by DLS.

APPENDIX: Capital Project Request Form

Department/Committee:	Department or Committee Name		
Requested By:	Requester		
Request Date:	Request date		
Project Request:	Item/Project Name		
Asset Category:	Choose an asset category		
Priority:	Choose the priority		
Capital project description: Enter a description of your request. Attach quotes, pictures, or additional details			
Purpose:	Choose one		
Date needed by:	Need by date		
Benefit Describe the benefit of this request to your department or the community			
Estimated Project Cost:	\$Enter total project cost.		
Funding Request by Year:	FY2021 \$Cost in year 1	FY2024 \$Cost in year 4	
	FY2022 \$Cost in year 2	FY2025 \$Cost in year 5	
	FY2023 \$Cost in year 3		
Describe any discounts or cost reductions (trade-ins, etc.) Provide any reductions to the total requested cost			
Are there available revenue sources or grants other than Town funds? Identify available revenue sources (excluding tax levy, free cash, and stabilization funds)			
Consequence on your department of delaying purchase/project Describe any operational impact if your request is delayed or denied			
Describe the effect of this purchase or project on your operating budget by fiscal year for the next 3 fiscal years			
<u>Personnel Budget</u>		<u>Expense Budget</u>	
Increase/(Decrease)	Fiscal Year	Increase/(Decrease)	Fiscal Year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year
\$Enter amount	Enter fiscal year	\$Enter amount	Enter fiscal year