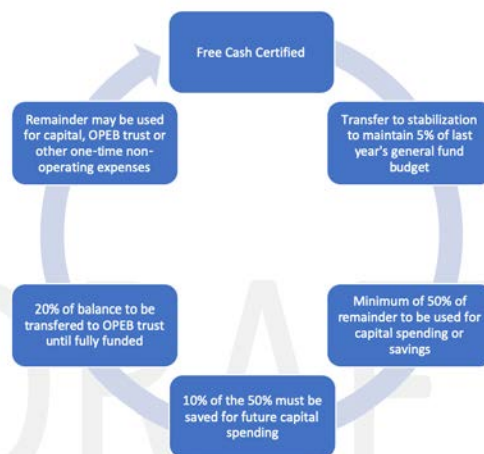


## Questions for Dennis Keohane, Finance Director

1. Opinion on policy for replenishing Capital Stabilization Fund after we withdraw from it.
2. 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.
  - a. Please comment on where 8-10 percent target came from
    - i. Has this always been our policy
    - ii. Is it consistent with DLS recommendation (pg 6): “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.”
  - b. Please confirm ‘overall reserves’ = Stabilization funds + Free Cash target + Overlay funds. Anything else?
3. year-to-year goal of maintaining its free cash in the range of 3-5 percent of the annual budget
  - a. where did 3-5% target come from
4. “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”
  - a. Please confirm interpretation: is this saying 5 percent is the MAX free cash to leave around, therefore automatically put anything above 5 percent towards...
  - b. i.e. by “offset unfunded liabilities” (OPEB etc?)
  - c. might we also put towards paying down Debt?
5. Do you recommend prescriptive “Wheel of Free Cash” be included in Financial Policies?

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



- a.
6. 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.

- a. Please elaborate on this
  - b. Where did this guideline come from?
  - c. One-third at a time? E.g. one-third of balance, then another one-third of remaining balance if needed again?
  - d. 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??
7. Please reconcile DLS statement (page 7) “all capital-related special purpose stabilization funds equal to 2% of prior year General Fund revenues” against your draft statement in Forecasting section A bullet 3 “Capital Stabilization Fund (target of 3% of operating budget)”
- a. which one do you recommend
  - b. how to reconcile language
8. Capital Stabilization acceptable expenditures
- a. “Moderate range capital expenditures” – how to define?
  - b. Would you recommend a more concrete policy such as
    - i. (e.g \$1M or less drawn)
    - ii. Given that the target balance of CSF is 2% of Gen Fund, could alternatively phrase as “capital expenditures of less than half of the CSF may be used
9. Capital Stabilization – achieving and maintaining/replenish target balance
- a. Please opine on how to go about initially achieving target balance
    - i. Should such approach be documented inside Fin Policies
      1. (or keep out, into separate Howto doc...)
  - b. Replenishment policy
    - i. Please suggest written policy (as with general Stabilization Fund?) for Replenishing Capital Stabilization Fund
      1. Once achieved
      2. As we progress towards the target balance and perhaps cheat and take from it along the way
10. Special Purpose Stabilization Funds
- a. Would you recommend keeping Turf Stabilization Fund separate from Capital Stabilization Fund (how many Special Purpose Stabilization Funds are ok?)
11. Overlay Surplus (financial reserves)
- a. Please recommend clear consistent language concerning timing of Overlay Surplus (compare
    - i. conclusion of each fiscal year (in section C. Overlay Surplus)
    - ii. Overlay Surplus section (silent on timing)

- b. Who if anybody (the Board (of Assessors?) own vote?) restricts what the Overlay surplus can be used for? “Town’s capital improvement plan or for any other one-time expense.”
12. Re: “Annual Capital Budget (target of 3% of operating budget)”
- a. Please reconcile this term and target versus how DLS breaks down on pg 22 of DLS report

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	
<b>Capital Funding Sources</b>				<b>Targets</b>
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 +	1,962,000	1,426,500	570,000	
Tax Levy	413,190	422,000	745,000	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%

- i.
  - b. Please opine/confirm your intention about allocating one-time revenues to 4 or 5 bullets.
    - i. Are these in priority order?
    - ii. Three of these are RESERVE funds. (Gen Stab, Cap Stab, OPEB)
    - iii. “Annual Capital Budget” represents this year EXPENDITURES
    - iv. Correct?
13. OPEB Trust Fund
- a. How to determine policy of how much to contribute annually to OPEB Trust Fund?
  - b. Consider phrase until it is fully funded as actuarially determined” (from 2019 draft)
14. Allocating “one time revenues” to prepay Debt
- a. Would we ever do this, have we ever done this? paying off more than the required debt payment in a given year (i.e. prepaying)
  - b. i.e. Sewataro variable revenue share, using to offset its Debt payments
15. Allocating New Growth revenues towards capital
- a. DLS recommendation on page 23
  - b. PROPOSED policy in Forecasting/Revenue guidelines section:New growth (residential or commercial) permanently adds to the tax base. The Town should

attempt to dedicate 50 to 75% of all (commercial?) new growth levy amounts to capital expenditures or reserves.

- c. QUESTION: if we formalized such policy for New Growth, how would this impact our current budgeting approach? (any unintended negative consequence?)
16. Vehicle surplus -> Moveable property MGL to divert to Capital Stabilization..
- a. Do you recommend doing this? (we propose in section Forecasting, Revenue Guidelines)
  - b. Pg 21 of DLS discussion...
  - c. 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.
17. "Town departments that charge fees (Enterprise Funds and recreation programs, for example..."
- a. Discuss reasonable goal on cost recovery
  - b. Recall this conversation at Jan 23, 2021 Select Board mtg:
    - i. Can fees be set so there is a contribution to capital expenses associated with the Enterprise
    - ii. Dennis: hope to generate retained earnings so you have a little extra.
    - iii. Dennis notes 2 of the 3 enterprise funds haven't been self sustaining. Transfer station has been sustaining, with some retained earnings.
    - iv. Endeavor to retain funds for asset replacement
    - v. Definition of enterprise fund? Subsidized by levy or self sustaining. Currently enterprise funds covers cost of employees and benefits.