

SUDBURY SELECT BOARD  
POLICES & PROCEDURES REVIEW  
SUBCOMMITTEE

WEDNESDAY JUNE 23, 2021  
5:30 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
	5:30 PM		CALL TO ORDER
1.			Reports from Subcommittee Members
2.			Citizen comments for items not on the agenda
3.			Incorporate edits to draft Financial Policies based on Select Board feedback. Discuss other requests.
4.			Review and approve Meeting Minutes
5.			Citizen comments
6.			Upcoming agenda items/next meeting planning/next steps

*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.*



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**1: Reports from subcommittee members**

REQUESTOR SECTION

Date of request:

Requested by: Patty Golden

Formal Title: Reports from subcommittee members

Recommendations/Suggested Motion/Vote:

Background Information:

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**2: Citizens comments for items not on agenda**

REQUESTOR SECTION

Date of request:

Requested by: Patty Golden

Formal Title: Citizen comments for items not on the agenda

Recommendations/Suggested Motion/Vote:

Background Information:

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**3: Incorporate edits to draft Financial Policies**

REQUESTOR SECTION

Date of request:

Requestor: Jen Roberts

Formal Title: Incorporate edits to draft Financial Polices based on Select Board feedback. Discuss other requests

Recommendations/Suggested Motion/Vote: Incorporate edits to draft Financial Polices based on Select Board feedback. Discuss other requests

Background Information:  
attached 4 documents

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM

## SELECT BOARD POLICIES & PROCEDURES REVIEW SUBCOMMITTEE OVERVIEW

### SUBCOMMITTEE GOALS (2/2/21)

Subcommittee has accomplished to date (5/4/21 or 5/11/21):

- Work on bringing to full Select Board revised set of **Financial Policies**:
  - Subcommittee do mechanics of documents and zero in on key **'policy'** decisions.
  - Solicit input of Finance Director.
  - Bring back to full Select Board for full review and discussion.
- Review Capital Planning/ Funding program:
  - Review recommendations of Strategic Financial Planning Committee for Capital Funding (SFPCC).
  - Analyze DLS Recommendations.
  - Subcommittee to recommend to Select Board if/where DLS recommendations and SFPCC be incorporated into Select Board or other Town policies.
  - Subcommittee recommend to Select Board if/where DLS and SFPCC recommendations be **actioned** upon e.g. Town Meeting articles (to modify town fund accounts etc.)
    - Action Plan, Roadmap to achieve goals...
    - Charlie "Bridge Letter..."
- Maintain transparent communication to the public and solicit public feedback at our public meetings:
  - In how we conduct the subcommittee.
  - As a theme in how we write policies for ease of understanding town finances.
  - Transparent capital plan / needs / forecast.

### PROGRESS TO DATE:

The subcommittee has produced a revised 19-page financial policies manual, a spreadsheet of 42 key policy considerations for the Select Board, and a draft Q&A Finance Director document.

#### *Subcommittee meetings on:*

2/2: Kick-off, define goals and deliverables, approach, and timeline. Start review of draft financial policy document identifying key questions/comments.

2/17: Continue review of draft policy document identifying key questions/comments.

3/11: Continue review of draft financial policy document/and started review of DLS recommendations to incorporate into draft policy document.

3/18: Review DLS report to incorporate recommendations into draft policy document.

3/25: Finalize policy questions/comments for Dennis Keohane (Town Finance Director) meeting.

4/01: Finalize policy questions/comments for Dennis Keohane (Town Finance Director) meeting.

4/08: Meeting with Dennis Keohane to discuss questions/comments.

4/12: Meeting with Dennis Keohane to discuss questions/comments.

4/15: Final edits to financial policy draft.

4/22: Final edits to financial policy draft.

4/23: Financial draft review with Dennis Keohane.

4/28: Financial draft review with Dennis Keohane.

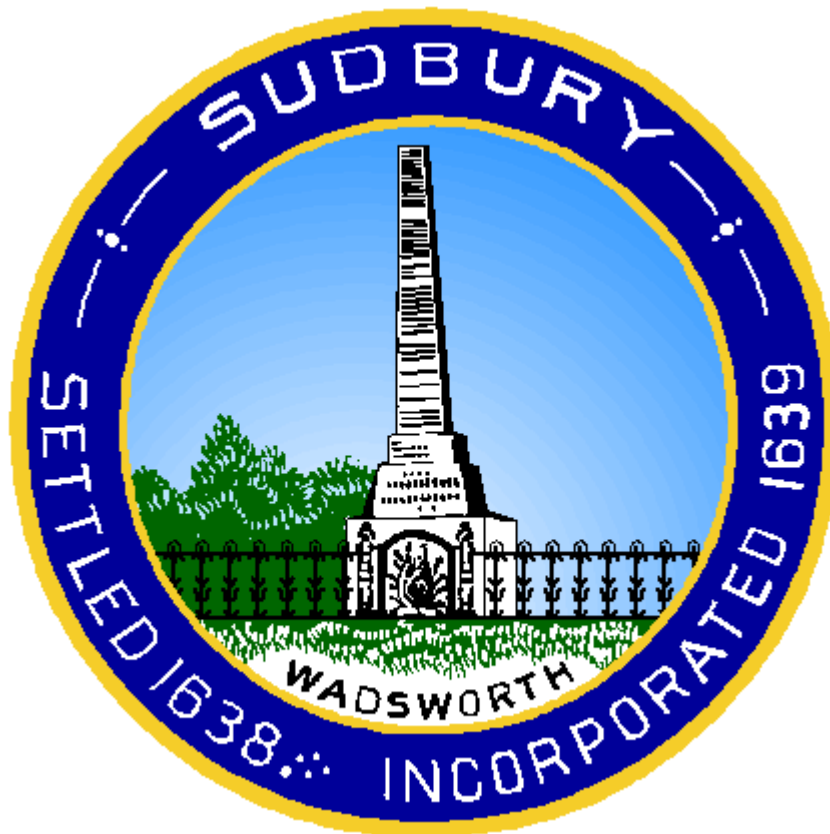
4/29: Financial policy documents final editing.

5/4, 5/11, or 5/18: Share Financial Policy document draft and policy decisions with Select Board.

DOCUMENT ORIGIN: JAN 5, 2021 DRAFT BY DENNIS KEOHANE (Finance Dir.) INCORPORATING 2020 DLS RECOMMENDATIONS. EDITED BY SELECT BOARD POLICIES AND PROCEDURES SUBCOMMITTEE AS OF APRIL 29, 2021

# Town of Sudbury, Massachusetts Financial Policies Manual

**DRAFT**



Attachment3.b: Select Board Financial Policies WORKING DRAFT 2021 04.29.21 (4663 : Incorporate edits to draft Financial Policies)

## 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 [Select Board](#), 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 [\(see Appendix A for definition of capital assets\)](#)
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure



DOCUMENT ORIGIN: JAN 5, 2021 DRAFT BY DENNIS KEOHANE (Finance Dir.) INCORPORATING 2020 DLS RECOMMENDATIONS. EDITED BY SELECT BOARD POLICIES AND PROCEDURES SUBCOMMITTEE AS OF APRIL 29, 2021

# Town of Sudbury, Massachusetts

## Financial Policies Manual

---

### Table of Contents

Financial Reserves.....4

Forecasting.....7

Overlay.....10

Debt Management.....12

Investments.....15

Capital Assets.....16

Other Postemployment Benefits Liability (OPEB).....18

DRAFT

Attachment3.b: Select Board Financial Policies WORKING DRAFT 2021 04.29.21 (4663 : Incorporate edits to draft Financial Policies)

## **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 Select Board, Sudbury Public 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 10-12% of the prior year General Fund budget.** These reserves are comprised of the general stabilization fund, special purpose stabilization funds and free cash target. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. Other types of reserves include 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 Select Board, 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 Select Board 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% of the prior year's General Fund budget.** To achieve this, the Finance Director shall assist the Town Manager in proposing budgets with conservative revenue projections, and department heads

shall carefully 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 free cash excess above 5% of the General Fund budget to reserves, to offset unfunded liabilities, or to set aside for existing debt.

#### B. 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 special purpose stabilization funds for capital projects.

**General Stabilization:** The Town will endeavor to maintain a minimum balance of 5% of the prior year's General Fund 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% 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 at a time, endeavoring to never fully deplete it. 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 Funds

**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 (under \$1M) 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. 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 budget.

Withdrawals from the Capital Stabilization Fund should be avoided until the target balance has been achieved. Once achieved, funds should be replenished annually at the Fall Town Meeting, or the earliest available meeting after free cash has been certified (subject to free cash availability).

**Turf Stabilization:** The Town maintains a special purpose fund to offset the cost of periodic replacement of designated town-owned turf fields. As originally created, this fund applies to the Cutting Field but could be expanded to other fields in the future.

### 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 of Assessors vote to declare those balances surplus, available for one-time expenditures (as with free cash).

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, Sudbury Public Schools Superintendent, Sudbury Public Schools Business Manager, Select Board, Sudbury Public Schools 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 prior year's General Fund budget)
- Annual Capital Spending (non-debt; target of 3% of prior year's General Fund budget)
- Capital Stabilization Fund (target of 2% of prior year's General Fund budget)
- OPEB Trust Fund
- Existing debt

New growth (residential or commercial) permanently adds to the tax base. The Town should endeavor to contribute any new growth in excess of 1% of prior year's General Fund budget to capital expenditures or reserves.

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:

- 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](#)
- [Sale of moveable property: M.G.L. c. 44, § 53](#)

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 generate retained earnings of 3-5% of prior year's enterprise fund budgets for asset replacement.](#)
- 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., inspection fees, investment income, license fees) should generally not exceed 90% 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 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.

## **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



- 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. At the annual Tax Classification Hearing, the Select Board shall request an 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.

## **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, Select Board, Sudbury Public 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

Debt may be financed either within the levy, or beyond the levy (a debt exclusion which requires a Proposition 2 ½ voter referendum).

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 **(QUESTION)** 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. Restrict debt exclusion borrowing to proposals which 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
  - (3) the expenditure is either for town-owned land, buildings, or infrastructure or for a LSRHS capital assessment.

5. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.
6. The policy of the Select Board shall be to include sufficient debt capacity within the levy, such that capital items can be more predictably funded.
7. As debt within the levy decreases annually, this amount shall be used for capital, future debt, or set aside for future capital.

#### B. Debt Limits and Targets

The Town will adhere to these debt parameters:

1. Total annual debt service, including debt exclusions and any self-supporting debt, shall be limited to 10% of General Fund revenues, with a target of 5-7%.
2. As dictated by state statute MGL ch 44 section 10, the Town's debt limit shall be 5% of its most recent equalized valuation.
3. 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 budget.

#### C. Structure and Term of Debt

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

1. 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.
2. 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).
3. For non-excluded debt the Town will generally choose terms less than 20 years and structure as level principal payments, so that over time the annual debt payment goes down, opening up capacity for future capital.
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.
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 Meeting 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.

## **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 funds, 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 ([TODO: ADD DOC TO WEBSITE AND LINK](#)) document as well as the [Town of Sudbury CPA Investment Policy](#) document.

## 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, [Select Board](#), [Sudbury Public](#) School Committee, and Finance Committee.

### POLICY

#### A. Capital Improvement Plan

The Town Manager shall maintain an inventory of all Town 'capital assets' (defined in Appendix A), their age, value, and condition. 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. The 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.

Annually, the minimum level of capital spending the town should target year to year should be equivalent to 6% of the prior year's General Fund budget, drawn equally from within-levy debt and cash capital sources.

The 6% target shall guide how much capital spending can be planned in each year of the CIP.

1. The Town Manager shall establish criteria to determine capital asset prioritization, including but not limited to:
  - mitigation of safety hazards
  - legal compliance
  - ADA compliance (Americans with Disabilities Act)
  - operating cost reduction
  - service or efficiency improvement
  - availability of outside funding sources
  - conformance to asset replacement schedule
  - 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 sorted by urgency score, with appropriate justification.
3. A Capital Project Submission Sheet shall be required for every item listed on the five-year CIP.

4. 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.
5. Alongside the CIP prioritization, potential Funding Sources shall be identified. Wherever possible, funding sources should be derived from 'cash capital' and within levy debt funding options. Funding sources for capital may include:
  - Community Preservation Act (CPA) funds (if eligible; Open Space, Recreation, Historic)
  - Town Manager's Capital Budget (items <\$100K)
  - New growth dedicated to capital
  - Capital Stabilization Fund
  - Special-purpose stabilization funds
  - Free Cash
  - In-levy Debt
  - Dedicated revenue sources (i.e. Sewataro revenue share).
  - Capital Exclusion
  - Debt Exclusion
6. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
7. The CIP shall not include items deemed to be departmental maintenance. Rather, such smaller, shorter life maintenance items should be included in departmental budgets.
8. Annually, the Town shall request LSRHS's 5 and 15 year capital plans. The Town's obligation per the LSRHS agreement shall be factored into the Town CIP.

#### 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.

#### C. Reporting

1. Annually, the 5 year capital improvement plan shall be posted and accessible for public view on town website for public review at all times, reflecting updates for any changes made. The Capital Project Submission Sheet for each project on the 5 year CIP shall be posted and linked from the CIP.
2. The Town Manager will submit a capital program annually to the Capital Improvement Advisory Committee (CIAC). The proposed program will detail each capital project, the estimated cost, description and funding.
3. The Town Manager shall submit Town Meeting articles for the CIB by January 31<sup>st</sup>.
4. The Select Board shall report all requests for capital appropriations to the Finance Committee on or before February 5. (Bylaws Article IV Section 5).
5. The Town Manager will present the CIB for approval at the Annual Town Meeting (generally the 1<sup>st</sup> Monday in May).

## **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.

### **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.

### **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.

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.

### 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.

## Appendices

### Appendix A: Definition of Capital

#### 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.

### Appendix B: Protection of Credit Rating Policy

Maintenance of the highest-level credit rating possible is important to the continued financial health of Sudbury as it reduces the costs of issuing debt. Credit rating firms consider management practices to be very important factors. Poor management practices can inadvertently jeopardize the financial health of a local government. To be proactive in assuring the Town of Sudbury does not engage in these practices, the Select Board of the Town of Sudbury has adopted the following credit rating protection policies. The Town will not rely on reserves to sustain operating budgets. Use of such reserves will be limited to helping the Town deal with short-term or emerging financial stress. In the subsequent year, 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. The Town will not defer current costs, such as pension or benefit costs, to a future date.

Policy Decision	Description	Comments
Name a second document for Action Plan 1 (versus Policy doc)	"How to achieve targets Plan": For example: consider over time increasing the in-levy debt capacity. E.g. when there is capital that we might have historically considered paying with debt or capital exclusions, attempt to fit within the levy. FIRE STATION EXAMPLE...	
HOWTO: initially achieve Capital Stabilization 2 Fund target balance	Map out in How to document, plan to get to 2% target. (Approach may include "wheel of free cash")	
3 overall reserves target	10-12 percent of prior year General Fund budget (Stabilization funds (5%) + Free Cash (3%) + Capital Stabilization Fund (2%))	
4 free cash target	year-to-year goal of maintaining free cash in the range of 3-5 percent of prior year General Fund budget	
5 acceptable uses of free cash what to do with free cash in excess of max 6 target	Town will limit its use of free cash to funding one-time expenditures (like capital projects or emergencies and other unanticipated expenditures) appropriate any excess above 5 % of the General Fund to reserves or to offset unfunded liabilities or to set aside for existing debt	
7 general Stabilization Fund target	5% of prior year general fund budget If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general	
8 general Stabilization Fund withdrawal policy	stabilization fund balance	
general Stabilization Fund replenishment 9 policy	Replenishment of the funds should be made annually at the Fall Town Meeting, or the earliest available meeting after Free Cash has been certified.	
capital-related Special Purpose Stabilization 10 Fund(s) target	2% of prior year General Fund budget (per DLS) Capital Stabilization Fund (target of 2% of prior year general fund budget). Also we are recommending not using fund until target balance is achieved. If funds are used they should be replenished at the next Town Meeting as free cash allows.	
11 Capital Stabilization Fund target Close Melone Stabilization Fund and transfer 12 to Capital Stabilization Fund	DLS recommendation "Close Melone Stabilization Fund"	
Limit the number of stabilization funds to small few that have clear but broadly defined 13 purposes	does Turf fund fit this recommendation (clear but broadly defined?) and to what degree do we want to limit stabilization funds?	

Attachment 3.c: Financial Policy Decisions For Consideration 04.29.21 (4663 : Incorporate edits to draft

- 14 Turf Stabilization Fund
  - Do we want to keep this? DLS recommendation to eliminate special purpose stabilization funds. Currently we put \$20K a year in (\$10K from field maintenance enterprise fund and \$10K from the general fund.)
  - Sale of moveable property: M.G.L. c. 44, § 53 \*\*\* DLS option... if we want to divert to Capital Stabilization, we could accept 4th para of ... M.G.L. c. 40 § 5B and specify a percentage of each sale (of moveable property e.g. Vehicles that will be dedicated, without further appropriation, to the capital stabilization fund.
- adopt Sale of Moveable property policy (to fix
  - 15 Vehicle Surplus bylaw problem) treat like other one-time revenues for non-recurring expenses
  - 16 use of Overlay Surplus funds policy target of 3% of prior year's General Fund budget [see DLS pg 22
  - 17 Annual Capital Spending (non-debt) target terminology and targets]
  - 18 OPEB Trust Fund annual contribution policy How to determine how much each year, considering 'catch up contributions' - we chose to not specify within Policies (consider for How To document)
- 19 special one-time revenue to offset Debt policy
  - In policies, "set aside for existing debt" e.g. Sewataro. Can't 'pre-pay' in this year's debt payment, but can make conscious decision to set aside revenue and not to raise corresponding amount of funds from levy next year for next years payment
  - 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. In talking to Dennis determined this was too aggressive. Changed to "The Town should endeavor to contribute any new growth in excess of 1 percent of prior year's general fund budget to capital expenditures or reserves."
- special New growth revenue towards capital
  - 20 expenditures policy
- Policy on "Town departments that charge fees
  - 21 (Enterprise Funds and recreation programs...)" 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 generate retained earnings of 3-5% of prior year's enterprise fund budgets for asset replacement.

22 Overlay Surplus transparency  
 Minimizing debt by maximizing use of  
 23 available funds

At the annual Tax Classification Hearing, the Select Board shall request an update from the Board of Assessors on the balance of the overlay account

Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects

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.

24 Long-term borrowing circumstances

25 Debt exclusion circumstances

Restrict debt exclusion borrowing to proposals which 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 of the Select Board shall be to include sufficient debt capacity within the levy, such that capital items can be more predictably funded.

As debt within the levy decreases annually, this amount shall be used for capital, future debt, or set aside for future capital.

26 Debt within the levy

27 Total debt service limit

28 Bond term limit 10 years except for...

NOTE: is this too aspirational / infeasible  
 Might we make the notional 1% a value that the Select Board initially sets at lower bar, and increases as we gain more discipline and debt within the levy capacity? (Back of envelope: 1% of prior years general fund revenue is ~ \$1M. Only purchases of around \$20M or more would have first year Principal payment of > \$1M. ?? So this would say Broadacres, Sewataro would not have qualified for a debt exclusion.)

29 Debt re-funding options    Issue debt with optional call dates no later than 10 years from issue

30 Annual Capital Spending Target                                    Annually, the minimum level of capital funding (spending) the town should target year to year should be equivalent to 6% of the prior year's general fund budget, (drawn equally from within-levy debt and cash capital sources).

    Requirement for adding item to CIB and CIP                    require a Capital Project Submission Sheet for every item listed on CIB

31 list    (this year) and CIP (5 years plan)

32 CIP inclusion / exclusion threshold                                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.

    Alongside the CIP prioritization, potential Funding Sources shall be identified. Wherever possible, funding sources should be derived from 'cash capital' and within levy debt funding options. Funding sources for capital may include:

    -Community Preservation Act (CPA) funds (if eligible; Open Space, Recreation, Historic)

    -Town Manager's Capital Budget (items <\$100K)

    -New growth dedicated to capital

    -Capital Stabilization Fund

    -Special-purpose stabilization funds

    -Free Cash

    -In-levy Debt

    require potential funding sources including                    -Dedicated revenue sources (i.e. Sewataro revenue share).

    CPA eligibility be in the CIP (for each project                    -Capital Exclusion

33 submission)    -Debt Exclusion

34 in Dept budget    The CIP shall not include items deemed to be departmental maintenance. Rather, such smaller, shorter life maintenance items should be included in departmental budgets

Attachment 3.c: Financial Policy Decisions For Consideration 04.29.21 (4663 : Incorporate edits to draft

- do not include / itemize LSRHS capital in  
35 Sudbury CIP
  - 36 Transparency of CIP edits
  - 37 Continue CIAC?
  - 38 Deadlines
  - Prescriptive Use of Free Cash (Wheel of Free  
39 Cash)
  - 40 Moveable property
  - 41 Capital Asset Inventory
- LSRHS capital assets, while funded by Sudbury and Lincoln taxpayers, are not to be itemized in the Town of Sudbury Capital Improvement Plan. Rather, a single line item per year in each of the 5 and 15 year plans shall represent Sudbury’s contribution to LSRHS’s own independent capital plan (We did not choose to do this).
- Annually, the 5 year capital improvement plan shall be posted and accessible for public view on town website for public review at all times, reflecting updates for any changes made. The Capital Project Submission Sheet for each project on the 5 year CIP shall be posted and linked from the CIP.
- or eliminate this step from policies: "The Town Manager will submit a capital program to the Capital Improvement Advisory Committee (CIAC). The proposed program will detail each capital project, the estimated cost, description and funding. \*\*\*\* POLICY DECISION – IF WE FOLLOW DLS TAB’S RECOMMENDATION TO DISCONTINUE CIAC FOR LEANER, CENTRALIZED PROCESS / EMPOWERED TOWN MANAGER... THEN CAN ELIMINATE THIS STEP OF SUBMITTING TO CIAC. \*\*\*"
- confirm Jan 31 for articles for CIB, Feb 5 bylaw to send to Fincom appropriate and compatible dates
- Decided to keep out of Policies, more appropriate for How to Get There document
- Decided not to address in Policies, other than to list M.G.L. c. 40 § 5B with laws we comply with. \*\*\* DLS option... if we want to divert to Capital Stabilization, we could accept 4th para of ... M.G.L. c. 40 § 5B and specify a percentage of each sale (of moveable property e.g. Vehicles that will be dedicated, without further appropriation, to the capital stabilization fund.
- Town Manager shall maintain an inventory of all 'capital assets" (see Financial Policies Draft Appendix for definition).

42 Debt Schedule Length Policy

Removed policy of "The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within 10 years."

Changed to 3. For non-excluded debt the Town will generally choose terms less than 20 years and structure as level principal payments, so that over time the annual debt payment goes down, opening up capacity for future capital.

Attachment 3.c: Financial Policy Decisions For Consideration 04.29.21 (4663 : Incorporate edits to draft

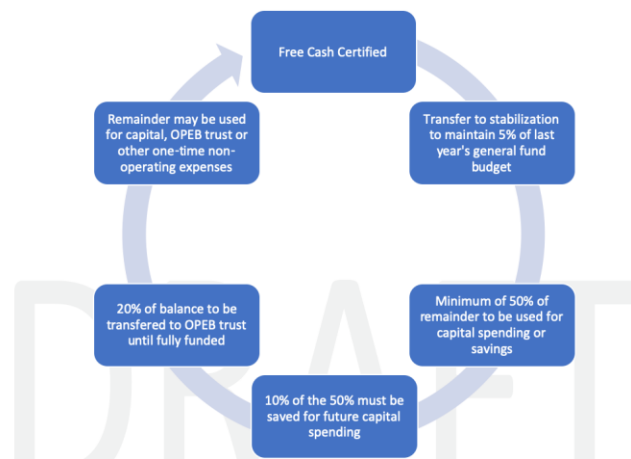
**Q&A for Dennis Keohane (Sudbury Finance Director)**  
**for Financial Policies Update Process 05.18.21**

1. Q: Opinion on policy for replenishing Capital Stabilization Fund after we withdraw from it?
  - a. **A: policy to “evaluate on annual basis how to achieve goal” and after achieve level, then policy kicks in to try to evaluate annually maintaining goal. (don’t be too prescriptive in policy)**
  - b. **Evaluate on annual basis. If we have free cash, then we can replenish. Address in free cash policy. Goal to achieve the target. DON’T have policy ‘shall replenish in subsequent FY’. Policy establishes goal and our ability to do it is a function of free cash...**
  - c. **Suggest as part of Select Board annual goals, we set goals on progress to achieve/maintain targets.**
2. Q: 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.” **A: The 8-10 relates to General Stabilization 5% plus DLS recommendation of 3-5 for free cash. Dennis says other stabilization funds (e.g. Capital Stabilization fund target pct) would be ADDITIVE to the 8-10%, tending to make overall 10-13%.**
  - b. Please confirm ‘overall reserves’ = Stabilization funds + Free Cash target + Overlay funds. Anything else? **A: Exclude Overlay from this calculus**
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? **DLS Recommendation**
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, therefore automatically put anything above 5 percent towards...? **A. Dennis says Yes, anything above the 5% allocate to unfunded liabilities... In practice haven’t really been generating more than 5% free cash**



- b. i.e. by “offset unfunded liabilities” (OPEB etc?)
- c. Might we also put towards paying down Debt? **A: Can’t just prepay like a mortgage because of bonds and call date. But \*could\* set aside to use to pay debt in future years. e.g. if in policies, say evaluate on annual basis, determine if you have to raise the funds to pay debt from taxpayers.**
5. Do you recommend prescriptive “Wheel of Free Cash” be included in Financial Policies? **A: not in the policies, rather in the separate document / Bridge letter / plan to achieve goals of “How do we get there.” Dennis recommends this, and particularly some of the prescriptive stuff like ‘50% of remainder to X’ be kept out of policies, and rather put in the separate How to get there annual doc.**

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



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.
- Please elaborate on this.
  - 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?
  - 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?
- A: Dennis doesn't recall exactly where came from, but intent of policy is to prevent from using too much of general stabilization fund at one time.**
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? **A: in spirit was thinking a year's worth of usual capital spending in the Cap Stab. Could aspire to get to the point that every year you spend on capital the balance of Cap Stab from prior year. And that the levy just replenishes the Cap Stab Fund. E.g. if we had \$3M in Cap Stab Fund. That's the source of funding for next year's capital. And then next step is to replenish the Cap Stab Fund with \$3M from levy. No free cash for the usual capital. Only free cash for big nonrecurring...**
  - b. How to reconcile language? **A: Revenues is everything less ambulance receipts less free cash. Operating budget = appropriations.**
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) **A: Dennis agrees yes \$1M is good cutoff. Generally anything over \$1M is something you want to bond.**
    - 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...?) **A: not in the policies, rather in the separate document / Bridge letter / plan to achieve goals of "How do we get there. Dennis recommends this, and particularly some of the prescriptive wording like '50% of remainder to X' be kept out of policies, and rather put in the separate How to get there annual 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 **A: policy to "evaluate on annual basis how to achieve goal" and after achieve level, then policy kicks in to try to evaluate annually maintaining goal. (don't be too prescriptive in policy) Evaluate on annual basis. If we have free cash, then we can replenish. Address in free cash policy. Goal to achieve the target. DON'T have policy 'shall replenish in subsequent FY'. Policy establishes goal and our ability a function of free cash... Suggest as part of Select Board annual goals, we set goals on progress to achieve/maintain targets**
      - 3.

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?) **A. Dennis thinks ok to keep Turf fund. Trying to get rid of would cause more problems. But agrees with DLS don't create a bunch more special purpose stabilization funds.**

11. Overlay Surplus (financial reserves)

- a. Please recommend clear consistent language concerning timing of Overlay Surplus. Compare the following:
  - i. Conclusion of each fiscal year (in section C. Overlay Surplus)
  - ii. Overlay Surplus section (silent on timing) **A: Dennis says best time to ask is in the Fall. After we set the tax rate Oct/Nov. Ask for the number, ask their opinion.**
- 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." **A: Mass General Law says any legal purpose. In current fiscal year, need TM to appropriate. "Town's capital improvement plan or for any other one-time expense." Was just a restatement of policy we state elsewhere**

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	Targets
Prior Year General Fund Revenues:	94,025,172	100,052,644	102,000,958	
<b>Capital Funding Sources</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%

**A: Dennis interprets, should be spending 6M per year including debt on capital. (if your total budget 100M.)**

- b. Please opine/confirm your intention about allocating one-time revenues to 4 or 5 bullets.

Attachment3.d: DennisQandA-051821 (4663 : Incorporate edits to draft Financial Policies)

- 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  
**A: Town manager’s capital operating budget plus any other budget articles that are capital.**
  - iv. Correct?
- 13. 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  
**A: Don’t create Enterprise fund. But in policy a specific policy on Sewataro saying that setting aside revenues so that we will not raise via levy. E.g. will NOT raise the full amount required for bond payment for Sewataro in levy. Rather if we owe \$500K, take in \$120K from Sew revenues. And only raise \$380K. Even though the state says we have levy limit of X, our policy says limit ourselves to raise X minus \$120K.**
- 14. 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?) **A: Dennis suggests, maybe any new growth in excess of 0.5% of prior year levy goes to capital...(could put a fixed number in there... e.g. 600K but would have to revisit every few yrs..)**
- 15. 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.
- 16. “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? **A. 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.**

- ii. Endeavor to retain funds for asset replacement **A: *Dennis fine with this language.***
- iii. Definition of enterprise fund? Subsidized by levy or self-sustaining? Currently enterprise funds cover cost of employees and benefits. **A. *An enterprise fund is allowed to go into deficit for one year. But not 2 yrs in a row. In second year required to fund it from levy***

17. Overlay Contribution

- a. Re: “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”
- b. WHEN does the BofA meet as part of the budget process to authorize contribution to the overlay account? (Can the Financial Policies be more specific on what month range/deadline?) **A: *As above, Dennis says best time to ask is in the Fall. After we set the tax rate Oct/Nov. Ask for the number, ask their opinion.***

18. Excess Overlay

- a. Re: “Annually, the Finance Director and Director of Assessing will conduct an analysis to see if there is any excess in the overlay account”
  - i. WHEN does/should this analysis happen? **A: *As above, Dennis says best time to ask is in the Fall. After we set the tax rate Oct/Nov. Ask for the number, ask their opinion.***

19. Overlay Surplus timing

- a. Re: the Board of Assessors shall formally vote in an open meeting to certify the amount to transfer to overlay surplus.
  - i. 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.
- b. Re: a Proposed Select Board policy: “At the beginning of the budget cycle, the Select Board shall request an annual update from the Board of Assessors on the balance of the overlay account.”
  - i. WHEN exactly would you recommend this request and determination occur? **A: *As above, Dennis says best time to ask is in the Fall. After we set the tax rate Oct/Nov. Ask for the number, ask their opinion.***

20. Overlay Surplus appropriation

- a. verify Town Meeting (and only Town Meeting) is the only way to use Overlay Surplus funds during fiscal year (e.g. not the FinCom, or Select Board by their own vote...) **A. *Correct only Town Meeting***

21. re: “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. Question 1: should we reference a specific MGL? **A: *if you want but saying Massachusetts law ok.***

- b. Question 2: confirm that “issue debt” only for capital is distinct from allowing Town to ‘take on debt’ through other borrowing programs like the state CWMP low-interest loan? **A. Not that literal; it’s ok to take loan for CWMP as the Plan considered a part of construction process.**
22. Re: “Issue long-term debt only for objects or purposes authorized by state law and only when the financing sources have been clearly identified”
- a. Pls explain this statement. (is it obvious e.g. can’t Issue a bond if you don’t know potential bidders?) **A: We can strike this phrase. It does not add any value.**
23. Re: DLS recommendation of restrictive criteria for Debt Exclusions
- a. DLS (aspirational?) suggested criteria was: “Restrict debt exclusion borrowing to proposals which 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.”
- b. Your opinion? Are criteria (2) unreasonable, too restrictive? 1% of prior year’s general fund revenue is ~ \$1M. Only purchases of \$20M or more would have first year Principal payment of > \$1M? So this would say Broadacres, Sewataro would not have qualified for a debt exclusion. **A: Dennis thinks good policy, but it is not achievable until we have more in levy debt capacity. It is a good financial policy, but each year for a while we may need to acknowledge policy and be able to identify why we cannot pursue it (i.e. we are working toward more in-levy debt.)**
24. Re: “Total annual 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”
- a. We added ‘annual’. Correct?
- b. Why 10%? Did we make up the number 10 percent or did this come from some reference?
- c. what is our actual percentage in past few years?  
**A: 10% is a best practice (state guideline). It is on an annual basis. We are nowhere near this. We are close to 3%. If there is a “target balance” (i.e. 5%) it is to allow to pay for big projects and with the knowledge that we need to pay for big capital. Would not advocate for getting near 10%. Instead of saying “target” say goal is to keep it at less than 5-7%. Debt is o.k. particularly with low interest rates. Debt allows for project to be paid over time and more tax payers.**
25. Re: “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.”
- a. Is 3% good?  
**A: Yes, it is good, but it will take time to get there.**
26. re: “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.”

- a. Clarify 'long-term debt schedule'
  - b. Is this 50% of outstanding principal paid within 10 years good policy?  
**A: It is the current policy and basically means aim for no more than 20 years and level principal. Dennis feels some things should be 30-year bonds. He does not think it needs to be in policy in this way to have 20-year limit (perhaps only for in-levy debt projects). There could be a blend. Excluded debt could be longer. In compliance with Mass General Law X, items can be bonded with term of xyz. Whether or not something is level debt or level principal can be evaluated on a case-by-case basis.**
27. Re: "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"
- a. Please explain.  
**A: This is Mass General Law, we do it in practice.**
28. Re: "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"
- a. Confirm this is just boilerplate language from somewhere? Don't worry about it?  
**A: This is Mass General Law, we must follow. We can't just borrow money and sit on it.**
29. Re: "Issue debt with optional call dates no later than 10 years from issue"
- a. Pls explain in layman's terms. Do you agree?  
**A: This is standard. You can't prepay debt until 10 years (the call date). 10-year call dates allow for more favorable rates so can refinance. If you do less than 10 years for a call date you less favorable bids as far as interest rate.**
30. Re: "Use any net premium and accrued interest to reduce the amount of the refunding."
- a. Pls explain in layman's terms. Do you agree?  
**A: This is standard as before.**
31. Re: "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."
- a. File with whom? (assume it's obvious...)  
**A: Our advisor is Unibank. They coordinate with our bond council and do a lot of our reporting with debt issuers and rating agencies.**
32. Re: "The Town's retirement fund"
- a. OPEB is acknowledged as underfunded. How is 'the Town's retirement fund' funded? Are there employee contributions? Is the retirement fund 'fully funded' (is there a guaranteed pension amount?)  
**A: There is the retirement plan (mandate from state that it must be funded). OPEB is premiums for health and life insurance – no mandate to fund. They are both not fully funded on actuarial basis. Middlesex Retirement scheduled to be fully funded by 2038. Both are reevaluated every 2 years. There are the current contributions for**

**current retirees to the OPEB Trust and the ~\$600K we set aside for the future. We pay the current obligation for current retirees. There is no mandate that requires us to set aside extra money. If Sudbury doesn't contribute for future, it could look less favorable to bond agencies (particularly if other towns are).**

**For the Town's retirement fund employees have a contribution ~9% and 2% of over \$30K, and Town has obligation to pay out a defined benefit. The Town pays into the Middlesex Retirement Fund.**

33. Re: "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, Select Board, School Committee, and Finance Committee"
- a. Confirm LSRHS is not subject to this policy?  
**A: LS is a separate legal entity, and these policies do not apply to them. They have their own governing body. We contribute to them.**
34. Proposed "Annually, the minimum level of capital funding (spending) the town should target 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)."
- a. Your opinion? How feasible, aggressive?  
**A: Dennis thinks this makes sense, but it will take time to achieve this since we do not have much debt in the levy. It would be about \$6MM, and right now we are around \$5MM including excluded debt.**
35. Re: "The Town Manager shall establish criteria to determine capital asset prioritization"
- a. Please identify the currently used criteria  
We currently have criteria that are similar (we have about four now).
  - b. DLS suggests: "DLS suggests Select Board est criteria including but not limited to:
  - c. - mitigation of safety hazards
  - d. - legal compliance
  - e. - operating cost reduction
  - f. - service or efficiency improvement
  - g. - availability of outside funding sources
    - i. Not a part of evaluation now
  - h. - conformance to asset replacement schedule
    - i. Not as much a part of evaluation now as it is difficult with limited funding.
    - ii.
  - i. - enhancement of quality of life"
    - i. Talk about in context of nice to have vs need to have.
  - j. QUESTION: what do you think of this list? Useful? Any value added to the doc?

**A: Dennis thinks a list like this makes sense. The order makes sense. We look at it a bit more broadly now but do touch on these. If you apply numbers, you may never get to lower on list. (So, it does require some subjectivity or flexibility.) This year items were "color-coated."**



36. Require a Capital Project Submission Sheet for every item listed on CIB (this year) and CIP (5 years plan).

- a. Does this happen now? Are items making it onto the CIB and CIP spreadsheet that don't have accompanying submission sheet filed? Right now we have a Form A with 1-5 urgency score.

**A: Process was modified slightly this year. Each year put their items in numbered priority. Then full group discussed how each fell into key categories and color-coated the according to priority across 4 categories.**

**For each item on an annual basis there is a Form A, but future items (i.e. 5 years out) may not have a form now. Now not a big deal to submit a form for each one, but some may not have a lot on them or may have estimates (not specific quotes).**

37. Would acquiring Open Space ever be in the Capital Improvement Plan?

**A: No, not unless it was something planned well in advance with a known date of acquisition. Otherwise, it would just be on the Open Space and Recreation plan.**

38. Re: proposed "DLS: put maintenance in Department budgets... <--- this would be a significant policy change Rather, such smaller, shorter life maintenance items should be included in Departmental budget capital line item. [DECISION: adopt this DLS section B-1 recommendation of putting in Dept budget???: clearly define what items included in capital plan]"

- a. How radical would this be? Do department budgets currently have line items that cover ALL items under \$20K or 5 years?
- b. Department Budgets per DLS recommendation, should have capital line items for these smaller, shorter life maintenance items...
- c. QUESTION: do we currently have such a line item per department budget?
- d. Type of expense e.g. maintenance and anticipated replacement. Maintenance (not huge unanticipated maintenance...) is recommended by DLS to go in Dept OPERATING budgets.
- e. Replacement of trucks (<100K?), ambulances/firetrucks <\$1M

**A: This is not a radical idea. Most departments (but not all) have line items in their budgets for smaller budget items. Not all departments have maintenance needs.**

39. Re: proposed "LSRHS capital assets, while funded by Sudbury and Lincoln taxpayers, are not to be itemized in the Town of Sudbury Capital Improvement Plan. Rather, a single line item per year in each of the 5- and 15-year plans shall represent Sudbury's contribution to LSRHS's own independent capital plan"

- a. Opinion? Good idea

**A: They are a separate legal entity. Right now LSRHS items are included on the capital plan just like any other item. (This started 6-7 years ago). The Town still would need to decide whether or not to fund them regardless. The one line item could include all the capital items in one article. This means all items might not be presented separately. However, this one should be thought through. It can be challenging to blend them together sometimes, but it is good to know what they**

**have coming up. Perhaps it could be a separate section of the capital plan so people realize we are separate entities. In the future, the roof will come forward which will require debt (so will have to be a separate vote).**

40. Risk Management Program

- a. What is the Risk Management Program (besides holding insurance policies...) who is the Risk Manager? (Town Manager?) Does Risk Management flow down to various accountable departments?

**A: This is more of an overriding concept. We don't have a specific risk manager. The Asst Town Manager handles insurance.**

41. Continuation of CIAC

- a. Eliminate this step? "The Town Manager will submit a capital program to the Capital Improvement Advisory Committee (CIAC). The proposed program will detail each capital project, the estimated cost, description and funding."
- b. \*\*\*\* POLICY DECISION – IF WE FOLLOW DLS TAB'S RECOMMENDATION TO ABOLISH CIAC FOR LEANER, CENTRALIZED PROCESS / EMPOWERED TOWN MANAGER... THEN CAN ELIMINATE THIS STEP OF SUBMITTING TO CIAC. \*\*\*
- c. Opinion

**A: This a judgement call. It may have been needed more before we had a "strong Town Manager." Ultimately, it is a judgement call by the Select Board.**

42. OPEB Trust Fund

- a. How to determine policy of how much to contribute annually to OPEB Trust Fund? 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?
- b. Consider phrase "until it is fully funded as actuarially determined" (from 2019 draft)?
- c. Do you have a trend chart of fund balance, contributions per year, withdrawals per year and forecast future liabilities(withdrawals) in future years?
- d. How is the liability measured? What metric should be tracked to inform whether we are contributing enough?
- e. How to determine policy of how much to contribute annually to OPEB Trust Fund? 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?

**A: There is an actuarial evaluation. Now our annual contribution is about \$1.8MM. We appropriate for current retirees and \$1.2MM for future retirees and ~\$600K. "Normal costs" are how much we need to set aside for future benefits for current retirees. We are working towards the "annual required contribution." Back in 2015, we were trying to achieve this number (it fluctuates based on factors). As far as right amount, anything that is required above what we "need to pay" is a good thing. If we continue to put money aside eventually,**

***we will get to a point where we are fully funded. (Although it may take a long time such as 60 years). Amount we are putting away is reasonable and on high end vs peer communities. Now we have ~\$10MM set aside. In 2015, we were under \$1MM set aside so we have been steadily adding (\$600-800K between our contribution and investment earnings). Some of this is after a conversion of money from the old self insurance plan.***

**In our “How we get there” future document we could add “we will continue contributing a certain baseline budget number...” Or a certain % of free cash over and above the baseline amount we contribute.**

***Dennis would consider putting more of budget into capital and more free cash into the future OPEB (since we have capital every year and is a known need.)***



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**4: Review and approve meeting minutes**

REQUESTOR SECTION

Date of request:

Requested by: Patty Golden

Formal Title: Review and approve Meeting Minutes

Recommendations/Suggested Motion/Vote:

Background Information:

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**5: Citizens comments**

REQUESTOR SECTION

Date of request:

Requested by: Patty Golden

Formal Title: Citizen comments

Recommendations/Suggested Motion/Vote:

Background Information:

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM



SUDBURY SELECT BOARD  
Wednesday, June 23, 2021

**MISCELLANEOUS (UNTIMED)**

**6: Upcoming agenda items/next meeting planning/next steps**

REQUESTOR SECTION

Date of request:

Requested by: Patty Golden

Formal Title: Upcoming agenda items/next meeting planning/next steps

Recommendations/Suggested Motion/Vote:

Background Information:

Financial impact expected:

Approximate agenda time requested:

Representative(s) expected to attend meeting:

Review:

Patty Golden	Pending
Henry L Hayes	Pending
Jonathan Silverstein	Pending
Janie Dretler	Pending
Daniel E Carty	Pending
Select Board	Pending

06/23/2021 5:30 PM