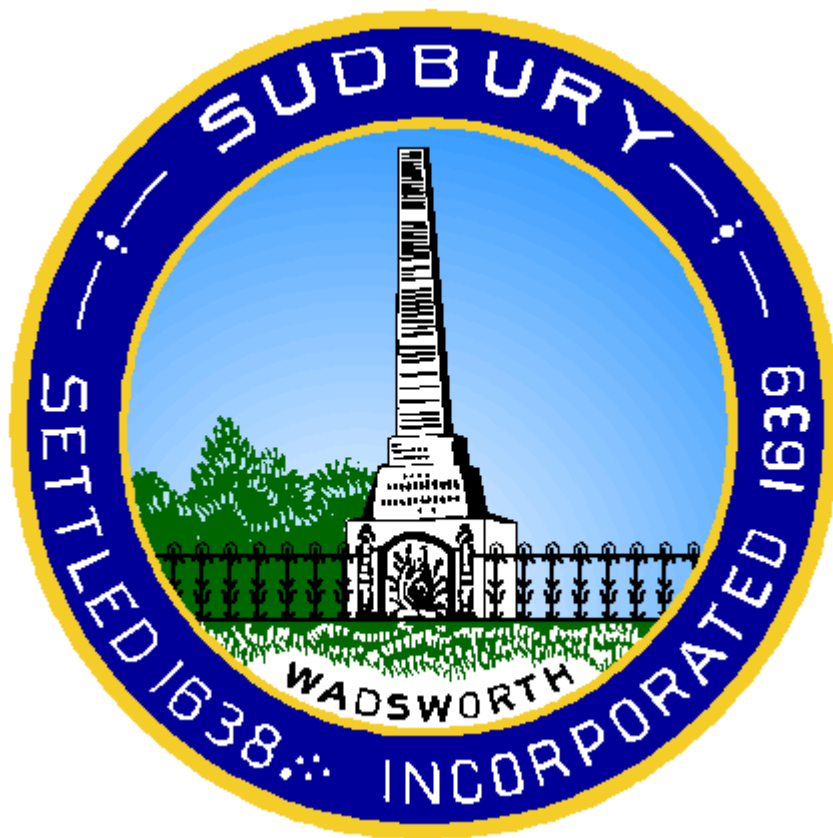


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*Town of Sudbury, Massachusetts*  
Financial Policies Manual  
**DRAFT December 21, 2021**



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## **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 and enhancing as needed and able
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Ensuring the quality and maintenance of capital assets.
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure
- Revisiting and reviewing the policies every three years to assess thresholds and targets.

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## **Town of Sudbury, Massachusetts**

### **Financial Policies Manual**

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## ***FINANCIAL RESERVES***

### **PURPOSE**

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

### **APPLICABILITY**

This policy pertains to short- and long-range budget decision making and applies to the 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. Protection of Credit Rating**

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.

#### **B. Free Cash**

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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.

As close to fiscal year end as reasonably possible, 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 should 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.

#### **C. 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

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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 can be used towards items on the CIP. Once funds are used, the Town will seek to make annual contributions to the fund until the target balance is achieved.

**Turf Stabilization:** The Town maintains a special purpose fund to offset the cost of repairs or replacement of Town owned and operated synthetic turf fields. Contributions to this fund should be made annually from the General Operating Fund and Field Maintenance Enterprise Fund. **Reference to TM article. Add footnote about why does not apply to LS)**

### D. 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 governed by MGL Ch.59 Sec. 25 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 on behalf of the Select Board may request that the Board of Assessors vote to declare those balances surplus, available for one-time expenditures (as with free cash).

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## ***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, reserves, or potentially to augment the Town Manager's Capital Budget.

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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 towards asset maintenance / 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.



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### 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.

### D. Reporting

The Town financial results vs. forecast (revenues and expenses) shall be reported out quarterly for the Select Board and public.

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## **OVERLAY**

### **PURPOSE**

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

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

### **APPLICABILITY**

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

### **POLICY**

#### **A. Annual Overlay**

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

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

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**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 on behalf of the Select Board makes a written request for a determination of overlay surplus, the Board of Assessors shall vote on the matter within the next 10 days and notify the Town Manager and Finance Director of the result in writing. In advance of 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.

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## ***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 and statutory responsibilities associated with debt management, in their role as Treasurer/Collector.

### **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 as appropriate to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least ten years or whose lifespans will be prolonged by at least ten years.
4. Restrict debt exclusion borrowing to proposals which meet all three of these criteria:
  - (1) useful life of 20 years or more

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(2) estimated cost of the principal payment in the first year of the debt issuance greater than 0.25% of the prior year's General Fund revenue. This criterion applies after target level for in-levy debt of 3% is initially achieved, as per Section B. Debt Limits and Targets Item 3.

(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 reasonable range of 5-7%.
2. As dictated by state statute MGL Chapter 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,

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finances 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.

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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.

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## ***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. The Finance Director will report investment performance to the Select Board each August including a three-year historical lookback for Trust Funds.

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.



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## ***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, Finance Committee and Capital Improvement Advisory Committee (CIAC).

Capital Assets are defined as 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.

### **POLICY**

#### **A. Capital Improvement Plan**

The Town Manager shall maintain an inventory of all Town 'capital assets.' Annually, by September 30<sup>th</sup>, each department shall assess the condition and replacement needs. 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, endeavoring to draw equally from within-levy debt and cash capital sources. The chosen ratio of cash capital vs. in-levy debt used to fund capital may vary based on available cash capital, interest rates, and other factors.

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

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1. The Town Manager shall establish criteria to determine capital asset prioritization, including but not limited to:
  - Risks to public safety
  - Legal requirements
  - Equitable provision of services (e.g. ADA compliance (Americans with Disabilities Act))
  - Revenue producing or cost savings
  - Improvement of operating efficiency
  - Funding sources availability
  - Systematic replacement or repair
  - Supports community plans (e.g. Master Plan)
  - Enhancement of quality of life (e.g. preservation of conservation, historic, and recreation resources)
2. Annually, the Town Manager shall request 5- and 15-year capital plans from Town Department Heads, SPS, and LSRHS. The Town's obligation per the LSRHS agreement shall be factored into the Town CIP.
3. The Town Manager in consultation with Department Heads, SPS, and LSRHS, shall annually update the composition and prioritization of the 5- and 15-year capital plans and create an ordered list sorted by urgency score, with appropriate justification (identifying criteria and which department it supports).
4. A Capital Project Submission Sheet shall be required for every item listed on the five-year CIP.
5. 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.
6. Alongside the CIP prioritization, proposed 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 less than \$100,000 in one year; less than \$200,000 over multiple years; and last more than 5 years)
  - New growth dedicated to capital
  - Capital Stabilization Fund
  - Special-purpose stabilization funds
  - Free Cash
  - In-levy Debt
  - Dedicated revenue sources
  - Capital Exclusion
  - Debt Exclusion
  - Grants

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7. Capital Items which are CPA-eligible and prioritized for the upcoming budget year (i.e. to be included in the CIB) must be locked down and presented to the Community Preservation Committee according to their application/evaluation timeline.
8. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
9. The CIP shall not include items deemed to be departmental maintenance. Rather, such smaller, shorter life maintenance items should be included in departmental budgets.

#### 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 and Process

1. The Town Manager will submit CPA-eligible projects under consideration for the CIB to the Community Preservation Committee by October 15th.

Annually by January 31st:

2. The Town Manager and departments shall submit to the CIAC a summary for evaluation of projects over \$100,000 for a single year, or \$200,000 over multiple years. (Bylaw Article XXV Sec. 2)) The Select Board requests progress summary reports for prior year capital items approved by the Town.
3. The Town Manager shall submit Town Meeting articles for the CIB.
4. The Town Manager shall coordinate the distribution of the CIB, CIP, and associated Capital Project Submission Sheets to the Select Board, CIAC, and Finance Committee (Bylaw Article IV Sec. 5) and other stakeholders. These materials will detail each capital project, the estimated cost, description and funding.
5. The 5 year capital improvement plan shall be posted and accessible for committees, commissions, boards, and public view on town website, 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.
6. On or before February 5th, The Select Board shall report all requests for capital appropriations to the Finance Committee. (Bylaws Article IV Section 5)
7. On or before February 15<sup>th</sup>, The Town Manager shall organize a joint meeting of the Select Board, CIAC, Finance Committee, CPC representatives, SPS/LSRHS superintendents, and department heads. They will solicit and coordinate receipt of

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questions in advance of this joint meeting. At this joint meeting, the CIAC will present its opinions on capital projects within its scope and will follow up with a final written report (Per Bylaw XXV Sec. 2-3):-

- 8. The Town Manager will present components of the CIB, in the form of Town Meeting Articles, for approval at the Annual Town Meeting (generally the 1<sup>st</sup> Monday in May).

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## ***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 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.

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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.

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