

Town of Princeton

Financial Policy Guidelines



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Contents

Town Financial Policy Guidelines3
 Budget Policy3
 Revenue Policy6
 Free Cash Policy7
 Stabilization Fund Policy8
 Infrastructure Stabilization Fund Policy9
 Reserve Fund Policy10
 Debt Management Policy11
 Capital Improvement Plan Policy13
 Investment Policy16
 Audit Policy17
Glossary of Terms20
Exhibit A: Budget Calendar23
Exhibit B: Capital Request Forms25
Appendix A: Policy Adoption/Revision Log30
Appendix B: References31

Town Financial Policy Guidelines

PURPOSE

These Financial Policies are established by the Town of Princeton through its Selectboard and Advisory Committee in order to set forth the broad framework for the management of the Town's finances and to inform the annual budgeting process. It establishes a framework to ensure future fiscal stability for the Town and serves as a foundation for long range financial planning.

While they are intended to encourage consistent, well-guided fiscal decisions from year-to-year, the Town recognizes that unforeseen or extraordinary circumstances can arise. In these instances, decision-makers will strive to ensure that any deviation from adopted Financial Policies will still remain consistent with the overall goals and objectives set by the Town. This document sets principles that:

- Guide decision-makers on matters which have significant fiscal importance.
- Remain consistent from year to year and enhance stability and continuity in government.
- Promote sound annual budget practices and accountability in government.

Budget Policy

PURPOSE

The budget policy is a mechanism for communicating town revenue setting policies, spending priorities and financial goals. It serves as the foundation for the Town's long-range financial plan. By adopting and adhering to these policies, the Town improves its ability to provide a balanced level and quality of services to the Town while protecting and improving the public health, safety, education and general well-being of its citizens. A consistent budget process sets clear expectations for department heads and valuable predictability for residents from year-to-year.

APPLICABILITY

Adherence to Budget Guidelines is the responsibility of the Town Administrator, department heads and others with spending authority, who present annual appropriation requests; of the Advisory Committee, as the reviewer; and of the Selectboard, who approves the budget articles for the Town Meeting warrant.

POLICY

- The development of the annual budget will consistently follow a process where responsibilities assigned to public officials are clear and a calendar for the completion of tasks is set (see Exhibit A).
- The Town will develop annual balanced operating budgets in which current recurring revenues equal or exceed current expenditures. This will ensure that the Town does not spend more than it receives in revenue in any one year and therefore does not degrade its overall financial condition.
- One-time, or nonrecurring, revenue will not be used to support recurring expenditures, but will be reserved for capital, emergency or other one-time costs.
- Revenue projections will be conservative with the intent to maximize the Town's ability to build and maintain Free Cash levels.
- The Town will make a best effort in presenting a balanced snow and ice budget based on multiple year experience. Recognizing that winter weather can be unpredictable, M.G.L. Ch. 44 Section 31D allows the Town to incur expenditures in any fiscal year in excess of available appropriations for snow and ice removal provided that such expenditures are approved by the Town Administrator. Snow and Ice deficits are to be funded from surplus appropriations from other budgets and/or free cash.
- The Selectboard will make available to the citizens a summary of the Town's financial condition, an analysis of revenues and expenses used in the proposed budget, an analysis of outstanding debt and a summary of the Town's capital condition and capital needs (buildings, infrastructure, rolling stock and information technology). This will provide voters with an analysis of the financial condition of the Town to allow for informed decisions. The analysis will include a 5-year forecast of the operating budget which includes consideration of the Capital Improvement Plan.

- As required by Town-By-Law, all warrant articles will be referred to the AC for its consideration. The AC will conduct a public hearing on warrant articles. After such public hearing and due consideration, the AC will issue a recommendation on each warrant article which is read to the town meeting prior to any motion or discussion relative to the article. The AC will issue a separate letter to the Town Meeting which informs the citizens on budget matters and the warrant articles.
- The Town's annual budget will be adopted at the Town Meeting, since it is the legislative body of the Town. The budget will be at the organization line-item level (these are classifications of expenditures, i.e., salaries, purchase of service, supplies, other expenses and capital).
- The budget will provide for adequate maintenance and the replacement of operating capital and equipment. This will ensure routine maintenance to existing properties and equipment. Proposed capital projects, improvements and equipment that have a useful life of at least five (5) years and a cost over \$25,000 will be part of the Capital Improvement Plan. Funding required maintenance is essential to receive the maximum return on capital dollars invested.
- In order to maintain or increase the level of service, if necessary, the Selectboard will take a leadership role in asking the voters for a proposition 2 ½ override.
- The Town Accountant will file a monthly balance sheet and report on revenues and expenditures (at the line-item level) with the Administration. The Town Accountant will file financial reports on a quarterly basis with the Selectboard and Advisory Committee. This policy provides a tool for municipal officials to ensure that revenue and expense projections are being met. It ensures accountability and prevents problems from going unnoticed by the public and policymakers.
- Any exception to the town's Financial Policy Guidelines will be identified and carefully considered by the Selectboard, Advisory Committee and Town Administrator. Exceptions to the town's Financial Policy Guidelines will be tabulated by the Town Administrator at the end of the budget season with an explanation as to why the exception was made. Should a pattern of exceptions develop, a change of the policy might be warranted.

Revenue Policy

PURPOSE

Significant attention is provided to the Town's expenditure budget to ensure that taxpayer money is prudently spent. The Town's revenue budget should receive the same level of attention, as the Town cannot spend more money than it expects to receive in revenue during the course of the year.

APPLICABILITY

The policy applies to the Town Administrator and Selectboard as formulators of the Town's annual budget.

POLICY

- The annual budget will include a revenue budget that is created in line-item detail for Town operations. This will provide information to the public regarding the Town's income potential.
- Property taxes will grow within the limits of Proposition 2 ½.
- The Town of Princeton will maintain property assessments at full and fair market value for the purpose of taxation, as prescribed by State Law. Regular reassessments are required by Massachusetts State Law and are critical to ensuring the fairness and stability of the property taxation system.
- New growth will be projected conservatively taking into account the Town's 3-year average by property class.
- Town administration will estimate its local receipts at no more than 85% of prior year actual receipts unless substantiated by a deliberate increase in set fee/permit rates. This rate is designed to be conservative. Overly optimistic revenue estimates may result in a deficit. According to Massachusetts State Law, any deficit that remains at the end of one fiscal year will automatically be deducted from the available revenues of the subsequent fiscal year. On the other hand, an underestimation of revenues may result in an over-taxation of the citizens of the town.

- The Selectboard will review and update the fee schedule and Revolving Funds of each of the Town's departments every year to ensure that costs of service provided for specific services provided to individuals (i.e., building inspections) are being fully recovered. If fee revenue is insufficient to support these services, those costs are underwritten by tax dollars.
- Local receipts and state aid will reflect economic cycles.
- An Overlay Reserve pursuant to MGL Ch. 59 Section 25 will be appropriated annually to fund property tax exemptions and abatements resulting from adjustments in valuations under the direction of the Board of Assessors. Any surplus in the reserve will flow to Free Cash.

Free Cash Policy

PURPOSE

Free Cash is a General Fund surplus from the prior fiscal year that is available for appropriation after July 1 when certified by the State Department of Revenue. Free Cash is generated when actual revenue collections are in excess of estimates and when actual expenditures are less than appropriations at fiscal year-end. Also included is unexpended Free Cash from the prior year, all of which is reduced by year-end deficits and other off-sets, if any.

APPLICABILITY

This policy applies to the Town Administrator and Selectboard as formulators of the Town's annual budget, to the Advisory Committee as the reviewer, and to Town Meeting as the final decision-maker relative to town appropriations and spending.

POLICY

- It is the policy of the Town of Princeton, that Free Cash is viewed as a one-time, or nonrecurring, revenue source.
- It is the goal of the Town of Princeton to generate certified Free Cash at a level of three (3) to six (6) percent of annual General Fund revenues.

- Free cash will be exclusively appropriated to
 - Snow & Ice Deficits
 - Stabilization Fund
 - O.P.E.B Liability Trust Fund (Other Post-Employment Benefits)
 - Infrastructure Stabilization Fund.
 - One-time Immediate Capital expenditures
 - Reduction of Debt
 - Reduction of the Tax Levy
- Free cash will not be used to offset General Fund expenses or for any other recurring expense.

Stabilization Fund Policy

PURPOSE

The Town of Princeton's Stabilization Fund is a reserve intended to provide long-term financial stability while also improving the Town's credit worthiness and fiscal flexibility. Stabilization Funds are established under Chapter 40, §5B of Massachusetts General Law and can be revenue sources for any lawful municipal purpose. Money is appropriated into a Fund by majority vote of Town Meeting and can be expended by Town Meeting approval but only by a two-thirds vote.

APPLICABILITY

This policy applies to the Town Administrator and Selectboard as formulators of the Town's annual budget, the Advisory Committee as the reviewer and to Town Meeting as final decision-makers relative to town appropriations and spending.

POLICY

In the management and use of the Stabilization Fund, it is the goal of the Town of Princeton

- to achieve and maintain a fund balance at no less than five (5) percent of annual General Fund operating revenues to be funded through transfers from Free Cash and other available funds and appropriations of unanticipated and/or one-time revenues;

- to use the fund balance as a means to avoid the incurrence of debt;
- to permit the use of only that portion of the Stabilization Fund balance that exceeds five (5) percent of the operating revenues in any fiscal year;
- to restrict the appropriation of Stabilization Funds to financing, as a direct dollar outlay, facility improvements, highway equipment, or major building repairs;
- to use the fund for extreme events, such as natural disasters, emergency conditions, and sudden economic stress or as a bridge for a short-term financial event.

Infrastructure Stabilization Fund Policy

PURPOSE

An Infrastructure Stabilization Fund is a Special Purpose Fund established under MGL Chapter 40, §5B. The goal of a special purpose stabilization fund is to set aside and earmark money to only be used for defined purposes. There can be multiple special purpose stabilization funds. Money is appropriated into the Fund by majority vote of Town Meeting and can be expended by Town Meeting approval but only by two-thirds vote.

APPLICABILITY

This policy applies to the Town Administrator and Selectboard as formulators of the Town's annual budget, to the Advisory Committee as the Reviewer and to Town Meeting as the final decision-maker relative to town appropriations and spending.

POLICY

- Capital expenditures are for items costing more than \$25,000 that have useful lives of at least 5 years. These items include but are not limited to furniture, fixtures, equipment, purchase of real property, or improvement of real property.
- It is the goal of the Town to annually appropriate a sum equal to 2.5% of net fixed assets or approximately 3.50% of General Fund revenues to the Infrastructure Stabilization Funds.

Reserve Fund Policy

PURPOSE

The establishment and use of the Town Reserve Fund are authorized by MGL Chapter 40, Section 6, for emergency or unforeseen expenditures. The Advisory Committee has sole authority to approve its use when, in its opinion, an unforeseen or emergency circumstance exists. Any year-end reserve fund balance that remains unspent potentially flows to Free Cash. This policy is intended to set rules for the use of the Town Reserve Fund.

APPLICABILITY

This policy applies to the Advisory Committee which has sole statutory authority to approve the transfer and expenditure of Reserve Fund balances.

POLICY

- The Town will annually fund the Reserve with an amount equal to at least 0.75 percent of the General Fund revenues.
- Requests for Reserve Fund transfers will be initially submitted to the Town Administrator.
- The Town Administrator will review all requests without unreasonable delay and, whenever possible, submit requests to the Advisory Committee with sufficient notice to ensure a thorough and timely review.
- All transfer requests will be submitted on a standard form and all requisite information must be included before a request will be considered.
- Approval of a transfer request must be sought in advance of the expected expenditure in order to avoid an appropriation deficit.
- The Advisory Committee may not approve any transfer request for a purpose that has already been placed before Town Meeting and not approved by it.

- The Town Administrator may transfer up to \$500 from the Reserve Fund to resolve small deficit(s) or anticipated deficit(s). The Town Administrator will notify the Advisory Committee and the Town Accountant, seven (7) days in advance of the planned transfer(s), with the stated purpose and amount of each transfer. A meeting of the Advisory Committee to review the transfers before they are approved for transaction will be held if three (3) or more members of the committee so request within the notification period by notifying the Town Administrator.

Debt Management Policy

PURPOSE

A debt management policy is intended to provide guidelines that

1. ensure high quality debt management decisions
2. impose order and discipline in the debt issuance process
3. promote consistency and continuity in the decision-making process
4. demonstrate a commitment to long-term financial planning objectives
5. ensure that the debt management decisions are viewed positively by the rating agencies, investment community, and taxpayers

The policy should encourage practices that maintain debt and debt service levels within supportable standards that demonstrate the town's commitment to improving its infrastructure, to controlling taxpayer burden and to favorably impacting credit ratings.

APPLICABILITY

The Town Treasurer has statutory responsibility for initiating borrowings and overseeing the Town's debt obligations. The purpose of this policy is to provide the Treasurer with guidance through a statement of Town goals for the issuance and management of Town debt.

POLICY

- 1) The Town of Princeton strives to maintain a debt ratio of five (5) to seven (7) percent (including regional school system debt). In particular, the annual debt service on General Fund debt (including debt exclusions net of all subsidies, reimbursements and offsets) will not exceed seven (7) percent of the annual General Fund revenues. (Based on MGL Ch. 44 Section 10, a town can authorize indebtedness to an amount up to 5% of the equalized valuation of the town).
- 2) If by vote of the Selectboard, an emergency or significant unforeseen circumstance is declared which can only be addressed through borrowing, the Town may exceed the debt service ceiling.
- 3) The Town will make efforts to schedule future, new debt service to coincide with reduced principal and interest obligations on maturing debt.
- 4) Debt financing for projects supported by General Fund revenue will be reserved for capital projects and purchases which either cost in excess of \$250,000 or have an anticipated life span of five years or more. Smaller capital items may be financed via lease purchase financing agreements for a term up to the useful life of the capital item to be procured (see MGL Chapter 44 Section 21c).
- 5) A bond term will not exceed the estimated useful life of the capital purchase or project being financed.
- 6) The target weighted average maturity of all debt will be 10 years or less; at least fifty (50) percent of the outstanding debt (principal net of debt exclusion) will mature within ten years.
- 7) Short-term debt, such as bond anticipation notes, tax anticipation notes, or grant anticipation notes, may be used when it provides immediate financing and an interest rate advantage, or if there is an advantage to aggregating multiple authorizations or to delaying long-term debt until market conditions are more favorable. The primary reason for issuing short-term debt is to provide "bridge financing" for capital projects or to meet cash requirements in anticipation of revenue or grant funding.

- 8) Any bond anticipation debt will generally be retired as soon as the project is completed. If there is a financial advantage to deferring the issuance of permanent debt, the Town will make annual reductions of the outstanding principal. Short-term debt will not be rolled over beyond two years without a principal pay down or as prescribed by State Law – Chapter 44 Section 17.
- 9) The Town of Princeton may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Massachusetts General Law allows interfund borrowing so long as the fund that borrows the money repays it by the end of the fiscal year.
- 10) The Town of Princeton will conduct debt financing on a competitive basis (sold on the open market) unless for reasons of market volatility, unusual financing structure or a complex security structure the Town would be better served through a negotiated financing.

Capital Improvement Plan Policy

The tangible (capital) assets of the Town of Princeton, in the form of public buildings, facilities and infrastructure, rolling stock and machinery, and equipment including technology are central to efficient operations and the services provided to residents. When well-maintained and enhanced, they add to the quality of life in the Town. Consequently, a program that maintains the condition and functionality of these assets; enhances their value and lifespan; and advocates new investment as need arises is an important, ongoing responsibility of town government.

The Town of Princeton is committed to establishing and maintaining a process for reviewing and prioritizing capital needs each year and into the future. Therefore, it is the goal of the Town to establish and sustain a capital improvement program that

- 1) defines what qualifies as a capital expenditure;
- 2) assigns responsibility for reviewing all capital expenditure requests from town departments, boards, committees and commissions and for making funding recommendations;

- 3) outlines a capital budget process calendar;
- 4) develops criteria, objective and otherwise, for evaluating and prioritizing annual and long-term capital needs;
- 5) considers the availability of Town resources, funding options, the Town's ability to pay for capital requests and potential property tax impacts;
- 6) establishes and maintains a long-term Capital Improvement Plan (CIP) projecting at least five (5) years into the future.

Accordingly,

- It is the policy of the Town of Princeton that any purchase or acquisition of goods or services costing \$25,000 or more and that have a useful life of five (5) years or greater qualifies as a capital expenditure. Capital projects are major, nonrecurring expenditures for the acquisition of land for a public purpose, construction of a new facility or external expansion or major rehabilitation of an existing one, purchase of vehicles or major equipment, planning, feasibility, engineering or design study related to a capital project, equipment for public improvements when they are first constructed and major equipment which is expensive and has a relatively long life such as a fire apparatus and construction equipment.
- It will be the responsibility of the Town Administrator and Selectboard to arrive at recommendations for all Capital expenditures and to present them to the Advisory Committee for the purpose of reaching consensus on the proposed expenditures.
- All capital projects must be justified as providing a basic service, improving or rehabilitating deteriorated facilities, reducing costs, promoting jobs, providing an essential benefit to a large population segment or as addressing a critical need in a section of the Town.

- All capital improvement proposals are to be prioritized according to the following criteria levels:

Primary: The proposed expenditure

- Involves public safety
- Is court ordered
- Is necessary to comply with State or Federal law or regulations
- Is necessary to meet a contractual obligation
- Has a written commitment of full grant funding.

Secondary: The proposed expenditure

- Is part of a schedule of planned improvements
- Includes probable grant commitments
- Will satisfy a justified need
- Is a continuation of prior funding.
- Has been deferred from prior years

Tertiary: The proposed expenditure

- Avoids a future cost
- Provides a significant improvement of service
- Provides a reasonable and documented cost savings

- The Town Administrator will create and distribute forms and otherwise gather information necessary for its purposes in accordance with a budget calendar jointly agreed to in advance by the Selectboard, Advisory Committee and Town Administrator.
- All capital expenditures will be included in the Long-Term Capital Improvement Plan ("CIP"), which will be approved and adopted by the Selectboard annually.
- Except as required by an emergency, all proposed capital requests for funding must be part of the approved CIP.
- The CIP will include a multi-year forecast of annual debt service requirements to permit the examination of the future impact of additional debt issuance.

- Decisions to undertake specific capital improvements will include in their analysis the identification and cost estimates of additional or reduced operational funding and personnel requirements or an outline of enhanced services to be provided. The analysis should also consider the cost of continuing to delay the improvements or replacements and identify the potential loss of related services. This will ensure that capital investments are made with the full knowledge and understanding of the project costs and budget implications.
- The CIP will include sources of funding for each capital improvement or category (to include General Fund revenues, Free Cash, Grants, Stabilization Funds and Bond Proceeds) in their recommendations to the Selectboard.
- The CIP will seek to fund capital improvement expenditures at a level of at most seven (7) percent of the general fund revenues collected from the prior year to include all funding sources above.
- The CIP will seek to fund road construction expenditures at a level of 3.50% of the general fund revenues. This percentage does not include funding from other sources to include grants, debt for long-term capital projects and available state and federal funding sources.

Investment Policy

PURPOSE

Massachusetts General Law places responsibility in the Town Treasurer for the investment of all public funds with the exception of funds intended for immediate distribution. In addition, statutes set out investment rules and guidelines for various town funds. This policy is intended to reflect the town's commitment to comply with state law and to support the Treasurer as he carries out his duty to insure that invested town money is protected and safeguarded, and that adequate cash flow is maintained to meet the Town's operational needs.

APPLICABILITY

This policy applies to the Town Treasurer who has sole statutory authority to have custody off and manage town funds. The Town Treasurer will maintain a separate, written, detailed investment policy consistent with the following general policy principals.

POLICY

- 1) Maximize the return on the Town's portfolio, with the primary objectives of safety of principal, liquidity of funds and maximum yield.
- 2) Manage short term investment decisions in accordance with the requirements of MGL c.44 §55.
- 3) Build diversification into the Town's portfolio a) in terms of maturity and b) in terms of instrument type and issuer.
- 4) Set performance expectations that the Treasurer, and any Assistant Treasurer, act in strict adherence with the state conflict of interest law under MGL c.268A.
- 5) Make overall investment decisions in accordance with "prudent person" standards under MGL c. 203C and as otherwise allowed by state law.

Audit Policy

PURPOSE

The purpose of this policy is to underscore the Town's commitment to the completion of independent audits, and in doing so, to strengthen public confidence in the Town's finance related practices.

APPLICABILITY

The Town Accountant is the custodian of the town's official financial records which document all financial activity in municipal government. As such, she must be cognizant of and compliant with these policies.

POLICY

- Year-end financial statements will be reliable, accurate, and complete.
- Internal financial controls will be in place and executed to protect community assets.
- An audit of the Town's year-end financial statements will occur annually.
- The principal person engaged to complete the audit will be a Certified Public Accountant with Massachusetts municipal audit experience.
- Comments and issues cited in the auditor's management letter will be reviewed and, if warranted, addressed with appropriate corrective action.

Other Post-Employment Benefits Policy

PURPOSE

Other Post-Employment Benefits (OPEB) refer to benefits, other than pensions, that town employees earn while actively working but don't receive until they retire. The largest OPEB cost is for health insurance, but coverage for dental, vision, prescription drugs, etc. can be included as well. In 2004, the Governmental Accounting Standards Board (GASB Statements 43 & 45) directed that towns account for these liabilities and complete actuarial analyses to identify their total OPEB liability. More recently, whether a Town has a policy for addressing OPEB has become a concern of auditors and bond rating agencies.

APPLICABILITY

The Selectboard, through formulation and approval of the annual town budget, is obligated to ensure that these policy objectives are met.

POLICY

In order to avoid any potential detrimental impact OPEB costs might have on the Town's annual operating budget; to help ensure positive audit results; and to protect the Town's bond rating, it is the policy of the Town of Princeton to

- Maintain the OPEB liability trust fund already established under MGL, Chapter 32B, §20.
- Arrange for the completion of an OPEB actuarial analysis every three (3) years as required by GASB Statements 43 & 45.
- Appropriate in the Town General Fund budget an amount each year into the OPEB liability trust fund. The General Fund appropriation will be no less than two (2) percent of the town's OPEB liability.
- Analyze the level of annual contribution needed to achieve full funding of the Town's OPEB liability over a specified period of time.

Glossary of Terms (from Finance Committee Handbook)

Appropriation – An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended.

Assessed Valuation – A valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, assessed valuation is based on “full and fair cash value,” the amount a willing buyer would pay a willing seller on the open market. Assessors must collect, record, and analyze information about the physical characteristics of the property and the market in order to estimate the fair market value of all taxable properties in their communities.

Bond Anticipation Note (BAN) – Once borrowing for a specific project has been approved by a 2/3 vote of town meeting and prior to issuing long-term bonds, short-term notes may be issued to provide cash for initial project costs. BANs may be issued for a period not to exceed five years, but with a reduction of principal after two years (Chapter 44, s17). The final maturity date of the project borrowing, beginning from the date the short-term note was issued, may not exceed the term specified by statute (Chapter 44, s 7 and 8). BANs are full faith and credit obligations.

Budget – A plan of financial operation embodying an estimate of proposed revenues and expenditures for a given period and the proposed means of financing them.

Capital Budget – An annual appropriation or spending plan for capital expenditures (tangible assets or projects that cost at least \$25,000 and have a useful life of at least five years). This budget should recommend the method of financing for each item recommended and identify those items which are recommended to be deferred due to scarce resources.

Capital Expenditures/Improvements – These are items generally found in the capital budget such as construction, acquisitions, site development, major repairs or replacement to capital facilities and public ways and overhead costs. The fees for architects, engineers, lawyers, and other professional services plus the cost of financing, advance planning may be included.

Capital Improvement Program – A comprehensive schedule for planning a community’s capital expenditures. It coordinates community planning, fiscal capacity and physical development. While all of the community’s needs should be identified in the program, there should also be a set of criteria which prioritizes the expenditures. The capital program is a plan for capital expenditures that extends five years beyond the capital budget and is updated yearly.

Debt Authorization – Formal approval to incur debt by municipal officials, in accordance with procedures stated in Chapter 44, specifically s 1, 2, 3, 4a and 6-15.

Debt Exclusion – This is a vote by a municipality at an election to exclude debt service payments for a particular capital project from the levy limit. The amount necessary to cover the annual debt service payment is added to the levy limit for the life of the debt only. A debt exclusion may temporarily increase the levy above the levy ceiling.

Debt Service – The cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.

Free Cash – Funds remaining from the operations of the previous fiscal year which are certified by DOR's Director of Accounts as available for appropriation. Remaining funds include unspent free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet, and unspent amounts in budget line items.

General Fund - This non-earmarked fund is used to account for most financial resources and activity governed by the normal Town Meeting appropriation process.

Investments – Securities and real estate held for the production of income in the form of interest, dividends, rentals or lease payments.

Levy Ceiling - The maximum tax assessed on real and personal property may not exceed 2.5 percent of the total full and fair cash value of all taxable property (Chapter 59 Section 21c). Property taxes levied may exceed the limit only if the community passes a capital outlay expenditure exclusion, a debt exclusion, or a special exclusion.

Levy Limit – The maximum amount a community can levy in a given year. The limit can grow each year by 2.5 percent of the prior year's levy limit plus new growth and any overrides. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

Line-Item Budget – A budget which focuses on inputs of categories of spending, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Local Receipts – Locally generated revenues other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

New Growth – The taxing capacity added by new construction and other increases in the property tax base.

Operating Budget – The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

Override – A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

Revenue Anticipation Borrowing – Towns may issue temporary notes in anticipation of taxes (TAN) or other revenue (RAN). According to MGL c 44 s 4, towns may borrow for up to one year in anticipation of annual tax revenues to include the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year.

Stabilization Fund – An account from which amounts may be appropriated for any lawful purpose. Towns may appropriate into this fund in any year an amount not to exceed 10% of the prior year's tax levy or a larger amount with the approval of the director of accounts. The aggregate of the Stabilization Fund will not exceed 10% of the town's equalized value, and any interest will be added to and become part of the fund. A 2/3 vote of town meeting is required to appropriate money from the Stabilization Fund.

For additional definitions please consult the Finance Committee Handbook at:

<https://www.mma.org/members/finance-committees/finance-committee-handbook/>

Exhibit A: Budget Calendar

Legend: SB = Selectboard, AC = Advisory Committee, TA = Town Administrator
Town staff include Town Administrator, Assessor, Town Accountant, Treasurer

Responsible Roles	Monthly Timing	Activity for May ATM
Assessor, TA	August early	Assessors prepare new growth update
Assessor, TA	August late	Assessors finalize valuation tables and complete inspections of newly constructed buildings
SB, AC, TA	September early	SB identifies goals and strategic needs for financial resources, long-term projects, draft total budget growth, operating budget growth (e.g., level funded, level service)
Assessor	September late	Prepares & reviews new assessed valuations
SB, AC, TA	September late	Capital Requests guidance provided to departments; Request form and justification forms provided.
Assessor/SB	October early	Assessors calculate new growth for certification by DOR; Final Tax Rate set
SB/AC/TA	October early	SB/AC/TA meet to finalize guidance
TA	October early	Operating Budget Request Forms sent out to Departments with guidance
TA/Treasurer/Acct	October early	Estimated/certified Free Cash submitted
TA/Dept Head	October mid	Capital Requests researched by department for cost estimates, alternative estimates
TA/Dept Head	November early	1 x 1 Department meetings held to discuss historic dept operating budget and prep next FY requests
WRSD/SB/AC/TA	November early	WRSD 5 town roundtable - next fiscal year guidance and feedback
TA/Dept head/AC	November late	Develop justifications for increases, research alternatives, for operating budget
TA/Dept Head/Acct/Treasurer	December mid	TA receives requests and develops draft operating budget by third week of December. Operating budget reflects both revenue and expense projections. Draft Capital Plan list compiled
TA/SB/AC	December mid	TA shares with SB/AC the draft operating budget and the draft capital plan list
SB/AC/TA/Dept Head	January early	All Department reviews for operating budget and capital plan completed

WRSD/Monty Tech/TA	February early	WRSD and Monty Tech Budgets received and updated in the operating budget
SB/AC/TA	March early	AC/TA/SB meet to review proposed budget and refine to meet objectives set out in August/September
SB/AC/TA	March early	WRSD school committee approved budgets and assessments released to towns
WRSD/TA	March late	Decisions for free cash allocations and capital plan priorities; preliminary projections for future debt
SB/AC	April early	Taxpayer financial report prepared and made available as part of public hearing; report adjusted to align with final Warrant Articles.
AC	April mid	Public hearing of draft ATM Warrant including operating budget and capital plans
SB/AC/TA	April late	Adjust final ATM Warrant based on certified free cash, public hearing feedback
SB	May early	Proposed operating budget presented to Town Meeting, proposed Capital spend presented to Town Meeting. Taxpayer financial report information presented as part of Warrant Article votes
TA/Treasurer/Acct	June late	June 30 current fiscal year ends
TA/AC	June late (July mid)	Reserve fund transfer requests to close out fiscal year
TA	July mid	July 1 new fiscal year begins; State budget typically passed with Final State Aid numbers (a/k/a Cherry Sheets, Chapter 70). TA conveys changes to SB/AC

Exhibit B: Capital Request Forms

CAPITAL PROJECT REQUEST

(Excluding equipment)

Department & Activity _____		Date Prepared _____
Contact Person _____		Phone Number _____
1. Project Title	2. Purpose of Project Request Form (Check One) <input type="checkbox"/> Add a new item to the program <input type="checkbox"/> Delete an item in a year already a part of the program <input type="checkbox"/> Modify a project already in the adopted program	
3. Department Priority		
4. Location		
5. Description		
6. Justification & Useful Life		
7. Cost & Recommended Sources of Financing		
BUDGET FY	TOTAL*	RECOMMENDED SOURCES OF FINANCING
Program year FY	_____	
Program year FY	_____	
Program year FY	_____	
Program year FY	_____	
Program year FY	_____	
Program year FY	_____	
TOTAL SIX YEARS	_____	
After Sixth Year	_____	
If adjusted for inflation, indicate adjustment percentage here : * <u>Interest</u> cost not included.		
8. Net Effects on Operating Costs (±)		9. Net Effect on Municipal Income (±)
Direct Costs		taxes _____
personnel: number _____	\$ amount _____	other income _____
purchase of service _____	_____	Subtotal _____
materials & supplies _____	_____	gain from sale of _____
equipment purchases _____	_____	replaced assets _____
utilities _____	_____	Total _____
other _____	_____	
Subtotal () _____		
Indirect Operating Costs _____		10. Submitting Authority _____ Date _____
fringe benefits _____	_____	Submitted by _____
general admin. costs _____	_____	Signature _____
other _____	_____	Position _____
Subtotal () _____		
Total Operating Cost _____		11. _____ Reserved
Debt Service (P & I) _____		
Total Operating Cost _____		

Source: "A Capital Improvement Programming Handbook", Government Finance Officers Association.

Instructions for: CAPITAL PROJECT REQUEST form

Form requests the basic information required for each department project request. It should be completed for each project whether it is for a new project, project modification, or cancellation of a previously approved project.

1. **Project Title:** Insert title of proposed project.
2. **Purpose of Project Request Form:** Indicate whether the project is a new project, a modification or cancellation.
3. **Department Priority:** Consider all projects being proposed by your department in the same program year. Assign a priority of Highest to the top priority project for each year. Rate all other projects proposed for the same year relative to the top priority project as High, Medium, Low.
4. **Location:** Designate the location or boundary limits of the proposed project. If a site is required but has not been selected, this should be indicated; or, if a site is tentative, provide as much accuracy as possible. If not applicable, enter "N/A".
5. **Description:** Explain the nature of the project and indicate whether the project is to replace existing facilities, equipment or land, or is an addition involving an increase in service delivery.

Describe the expected relationships of this project to existing or planned facilities and services, both public and private. Also, summarize the probable impact of the project on the environment or the municipality, if applicable. The description of land acquisition and construction projects should include dimensions, overall characteristics, unusual conditions, and any other pertinent information.

Include references to any supporting studies or other relevant background information regarding this project. Attach additional sheets as necessary.

6. **Justification and Useful Life:** Indicate the need for the project and what it is expected to accomplish and its anticipated useful life. Describe its relationship to local, regional, state and federal policies and plans, as well as the requesting department's multi-year plans and program. Explain the priority assigned to this project, and the selection of the time period proposed. **Include any other pertinent information and references to surveys or studies regarding the justification for the project not mentioned in Item 5 above.**
7. **Cost and Recommended Sources of Financing:** Insert the appropriate fiscal year for the budget (1st Year) and each program year (2nd through 6th). Then, indicate the proposed project expenditures for each fiscal year in the six-year budget and program; and any expenditures beyond the sixth year (after Sixth Year). If adjustments are made due to inflation, indicate the rate used for this adjustment.

List any recommendations for sources of financing including independent, joint or nonlocal financing sources. Such sources may include federal, state and regional authorities, the county, adjacent municipalities, civic organizations and private business. If the project's recommended source of financing involves special conditions or requirements, they should be indicated.

8. **Net Effects on Operating Costs:** Indicate the effect of the project on the operating expenditures for each category shown. Estimate the budgetary impact of each change, in dollars, if possible, otherwise indicate the change with a \pm in the project's first year. Changes in operating costs in subsequent years should also be noted if different from first-year changes.

For personnel, show the estimated increase or decrease in the number of employees and in salary or wage expenses. For purchase of services, show costs related to services received from suppliers, such as contract labor. Identify any entries for "other." Debt service costs may be computed later by the Finance Committee as an annual debt service cost (principal and interest) over the project's life.

9. **Net Effects on Municipal Income:** Indicate the effect of the project on municipal income in each category shown in terms of an increase or decrease (\pm) over the first year of the project's life. If possible, estimate the amount of change in income in subsequent years if substantially different from the first year. Income changes might be due to removal of property from tax rolls; a change in its assessed valuation; a change in fees or rents collected; or other causes.
10. **Submitting Authority:** The department head or other official representative should review, sign and date each **Form**.
11. **Reserved:** This space is reserved for any notes or comments made by the Town Administrator, Finance Committee, Selectboard and or Advisory Committee

Source: Adapted from a form presented in "*A Capital Improvement Programming Handbook*", Government Finance Officers Association.

CAPITAL PROJECT REQUEST FOR EQUIPMENT PURCHASE OR MAJOR RENTAL

Department & Activity _____		Date Prepared _____																
Contact Person _____		Phone Number _____																
1. Project Title & Reference No. _____		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: center;">Per Unit</td> <td style="width: 20%; text-align: center;">Total</td> </tr> <tr> <td>Purchase price or annual rental \$ _____</td> <td></td> <td>\$ _____</td> </tr> <tr> <td>Plus: Installation or other costs \$ _____</td> <td></td> <td>\$ _____</td> </tr> <tr> <td>Less: Trade-in or other discount \$ _____</td> <td></td> <td>\$ _____</td> </tr> <tr> <td>Net purchase Cost or annual rental \$ _____</td> <td></td> <td>\$ _____</td> </tr> </table>			Per Unit	Total	Purchase price or annual rental \$ _____		\$ _____	Plus: Installation or other costs \$ _____		\$ _____	Less: Trade-in or other discount \$ _____		\$ _____	Net purchase Cost or annual rental \$ _____		\$ _____
	Per Unit			Total														
Purchase price or annual rental \$ _____				\$ _____														
Plus: Installation or other costs \$ _____				\$ _____														
Less: Trade-in or other discount \$ _____		\$ _____																
Net purchase Cost or annual rental \$ _____		\$ _____																
2. Form of Acquisition (check appropriate) _____ Purchase _____ Rental																		
3. Number of Units Requested _____																		
5. Purpose of Expenditure (check appropriate) <ul style="list-style-type: none"> <input type="checkbox"/> Schedule replacement <input type="checkbox"/> Present Equipment obsolete <input type="checkbox"/> Replace worn-out equipment <input type="checkbox"/> Reduce personnel time <input type="checkbox"/> Expanded service <input type="checkbox"/> New operation <input type="checkbox"/> Increased safety <input type="checkbox"/> Improve procedures, records, etc. 																		
6. Number of Similar Items in Inventory _____		7. Estimated Use of Requested Item(s) _____ Weeks per year _____ Approx. months (if seasonal) For the weeks used, estimate: _____ Average days per week _____ Average hours per day used Estimated useful life in years _____																
8. Replaced item(s)																		
			Prior Year's															
Item	Make	Age	Maint. Cost Breakdowns Rental Cost															
A.																		
B.																		
C.																		
D.																		
E.																		
9. Recommended Disposition of Replacement Item(s) _____ Possible use by other agencies _____ Trade-in _____ Sale																		
10. Submitting Authority Submitted by _____ Date _____ <div style="text-align: center;">(signature)</div> Position _____																		
11. Reserved																		

Source: Adapted from a form presented in "A Capital Improvement Programming Handbook", Government Finance Officers Association.

Instructions for: CAPITAL PROJECT REQUEST FOR EQUIPMENT PURCHASE OR MAJOR RENTAL form

This form should be included if the capital project is an independent equipment purchase or major rental.

1. **Project Title:** Insert title of proposed project.
2. **Form of Acquisition:** Check appropriate category.
3. **Number of Units Requested:** Indicate the total number of units to be rented or purchased.
4. **Cost:** Provide cost data requested.
5. **Purpose of Expenditure:** Check the appropriate reasons for this expenditure.
6. **Number of Similar Items in Inventory:** Indicate and list the number of similar equipment items in the inventory of the requesting department.
7. **Estimated Use of Requested Item(s):** Indicate the number of weeks per year the item is expected to be used and the approximate months of the year, if seasonal, and estimate the average usage (in days per week and in hours per day) for the specified period. Also show estimated useful life of the item based on planned usage.
8. **Replaced Items:** Provide the information indicated for any municipally owned or rented item(s) that will be replaced by the request item(s). If there are no items replaced, enter N/A.
9. **Recommended Disposition of Replaced Items:** Self-explanatory.
10. **Submitting Authority:** The agency head or other official representative should review, sign and date each form.
11. **Reserved:** This space is reserved for any notes or comments made by the Town Administrator, Finance Committee, Selectboard and or Advisory Committee.

Source: Adapted from a form presented in *“A Capital Improvement Programming Handbook”*, Government Finance Officers Association.

Appendix A: Policy Adoption/Revision Log

As part of the annual budget process, financial officers and other personnel cited in each policy’s Applicability section will review the policy to ensure it is current. If a policy needs to be updated, the Town Administrator will draft proposed edits in consultation with the Town Accountant and Treasurer. Revised policies will then be submitted to the Selectboard and Advisory Committee for adoption. The Town Administrator will maintain an official record of the annual reviews and revision dates in the log below. Current policies inclusive of all amendments will be available in the Town Administrator’s office.

Policy Revision Log	Date of Revision	Notes, Amendments, Comments
Advisory Committee	Dec 15, 2020	V1.0 Approved and submitted to SB
Select Board	Dec 29, 2020	V1.1 Approved with P 3. 2 nd paragraph added and 3 bullets to clarify intent under the main header. Approved for posting to town website.

Appendix B: References

This policy statement is the collective effort of the Advisory Committee and the Selectboard and was prepared with the assistance of the Town Administrator, Accountant and Treasurer. It reflects and is based on Princeton historical practices, Princeton Bylaws, Massachusetts General Law, best practices taken from Massachusetts towns, relevant authoritative literature and analysis.

In compiling this policy, the following resources were consulted:

- Finance Committee Handbook, Association of Town Finance Committees, October 2017 Revision
- A Guide to Financial Management for Town Officials, Massachusetts Department of Revenue Division of Local Services
- Government Finance Officers Association Best Practice Adopting Financial Policies
- Financial Policies of other Towns to include Dennis, Deerfield, Montague, Holland, Sterling, Weston, Holliston, Franklin, Bellingham, Charlton, Northborough, Nantucket, Brookline, Westminster
- Moody's Investors Service – Credit Opinion for Town of Princeton, MA dated March 6, 2017
- Princeton town budgets for FY14 to FY21
- Town of Princeton OPEB Trust Investment Policy Statement and Investment Policy Statement
- The FY2020 – FY2024 Capital Improvement Plan (CIP) for the Town of Princeton prepared by Collins Center
- <https://www.mass.gov/doc/a-guide-to-financial-management-for-town-officials/download> (free)
- <https://www.mma.org/members/finance-committees/finance-committee-handbook/> (discounted fee for members)
- MMA : <https://www.mma.org/resources/local-aid-and-finance/>
- DLS Dashboard : <https://www.mass.gov/service-details/municipal-finance-trend-dashboard>
- DLS : <https://www.mass.gov/municipal-finance-best-practices>
- MA: <https://www.mass.gov/info-details/community-compact-best-practice-areas#financial-management-best-practices>
- MA: <https://www.mass.gov/lists/community-compact-reports-and-completed-best-practices#financial-management-best-practices>