



Financial Update Presentation to FinCom October 10, 2023

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Financial Policies - Highlights

- Structurally balanced budgets
- Quality financial reporting
- Annual audit by 3rd party plus Audit Committee review
- Ongoing operating expenses supported by ongoing recurring revenue sources, not one-time funding sources
- Annual appropriation to an operating reserve fund for unforeseen or extraordinary expenses throughout the year
- Maintain adequate working capital to provide for sufficient cash flow
 - Free Cash policy
- Reserve Funds - Stabilization, Capital and Meals/Hotel
- Nonexempt debt policy – not to exceed 8% of net general fund revenue
- Total general fund debt not to exceed 10-12% net general fund revenue
- Invest in capital assets by maintaining 3% of operating budget for base capital

General Information About Municipal Finance

- Fiscal year is from July 1 – June 30
- The Town is required to report all revenue and expenditures annually
 - Also required to send monthly budget vs actual reports to department heads for tracking
- Finances are overseen and regulated by the Department of Revenue
 - Approves tax rate
 - Regulates revenue and expense treatment
 - i.e., Meals Tax, type of accounts, Town Meeting vote requirements etc.
 - Authorizes use of debt
 - Approves all Town values
 - Certifies Free Cash
- Annual Audit
 - Outside audit firm on site spring and fall each year.
 - Annual Comprehensive Financial Report (ACFR) produced each year
 - Audit Committee
 - 3 member committee, comprised of appointed residents
 - Report to the Select Board on audit results
- Credit Rating
 - Current rating from Standard & Poor's: AAA
 - Updated when debt is issued

Budget Cycle

- There is significant activity in the Fall on 3 fiscal years at the same time:
- **FY23 – Year End Close Out**
 - Free Cash certification – Completed in the fall with Department of Revenue (DOR)
 - Significant State reporting requirements – October
 - Department of Revenue (DOR) and Department of Education (DOE)
 - FY23 Audit – On Site Audit completed in fall, FY23 Financials (ACFR) by 12/31/2023
 - Audit Committee meets with auditors – reports to Select Board
- **FY24 - Completion of Current Year Budget Process**
 - Finalize FY24 Property Values – October/November
 - Finalize and get DOR approval for all FY24 values, including final FY24 new tax growth
 - FY24 Tax Rate - November
 - Select Board hold classification hearing, this year is November 13th
 - Set shift factor for residential/commercial split
 - Submit FY24 tax rate for approval by Department of Revenue
 - Actual FY24 tax bills mailed January 1, 2024 with final numbers
- **FY25 – Begin Budget Process**
 - Capital and operating budgets drafted and reviewed through the next few months

FY25 Budget Overview and Timing

Key Dates

May 6, 2024	Annual Town Meeting, FY25 budget is voted
February 1, 2024	By charter, Select Board required to present FY25 budget recommendation
March 26-27, 2024	Finance and Warrant Commission public hearings on the budget

Detail Timeline

Early Fall 2023	Presentation of prior year end close and update on financial information
November/Dec 2023	Five Year Capital Book issued
Late November 2023	FY25 Property values finalized and approved by Department of Revenue
December 2023	FY25 Tax Rate approved by the Department of Revenue
Late Fall through Jan 31	Select Board review overall and detailed budget requests Update on financial projections
February 1	Select Board issues FY25 Budget recommendation
February 12, 2024	Overall budget, municipal and schools budget presentations to Fincom
March 12, 2024	Fincom subcommittee reports
March 26-27, 2024	Final public hearings in advance of Annual Town Meeting
May 6, 2024	Annual Town Meeting – budget presented and voted by Town Meeting

Available Budget and Finance Documents

Capital Book

Timing: Fall

- Five year projection of capital needs for maintaining and upgrading school and municipal physical assets. Includes information on prior capital, assets and debt schedules.

Municipal Budget Detail

Timing: January

- Summary of budget requests for Town wide Municipal departments

School Department Budget Detail

Timing: January

- Summary of budget requests for School department

Overall Budget Summary

Timing: February 1

- Contains overall budget recommendations by the Select Board , including revenue and expense projections. Also includes a summary from each detail book, Schools, Municipal and Capital

Town Meeting Warrant Book

Timing: April 1

- Includes Operating Budget (Appendix D) and other financial articles to be voted by Town Meeting.
- Also includes substantial background financial information.

Annual Comprehensive Financial Report (ACFR)

Timing: December

- Includes annual financial statements audited by outside firm. Also includes significant other supplemental financial information beyond basic financial reporting. Heavily used by ratings agencies.

All are posted on the Town website

FY23 Year End Review

Overall Summary

- FY23 Year End Review
 - Revenue – FY23 revenue closed out successfully
 - Real estate tax and motor vehicle revenue collections were on target and collections remained strong.
 - While Hotels and Meals tax revenue had been down due to COVID impact, this revenue has rebounded in FY23
 - Expenditures - FY23 expenditures closed out successfully
 - Any department overages were covered by Select Board transfers or Town Meeting Articles 1 and 2 in compliance with financial policies
 - Overall, FY23 closed out successfully with revenue and expenditure results on track with prior years

Free Cash

- DOR Certified Free Cash as of July 1, 2023 is \$10,959,301.
- Disciplined use of free cash balance.
 - Not used to fund ongoing operating expenditures or budget shortfalls.
 - Keep available fund balance by not using full amount.
 - Adhering to Financial Policies, the available amount continues to be used for capital needs, not operating budgets.
 - Positive FY23 budget to actual results, appropriate amount for year end operating budget turn back
- FY24 current budget was funded by \$3,833,250 of free cash :
 - \$2.3M for school and municipal capital
 - \$125K for Stabilization
 - \$405K for Fincom Reserve Fund
 - \$393K for Town Meeting Article 2 Transfers

MA Dept. of Revenue definition: Free cash is a revenue source that results from the calculation, as of July 1, of a community's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended free cash from the previous year. Cities and towns generally use free cash to support current-year operations or to provide a revenue source for the ensuing year's budget. However, free cash is not available for use until after the accountant, auditor, or comptroller submits a prior-year balance sheet to the Division of Local Services (DLS) and the Director of Accounts certifies the free cash. The DLS certification protects communities from relying on free cash that might not materialize due to inaccurate local estimates. Under sound financial policies, a community strives to generate free cash in an amount equal to three to five percent of its annual budget. This goal helps deter free cash from being depleted in any particular year, which enables the following year's calculation to begin with a positive balance. To do this, the community would orchestrate conservative revenue projections and departmental appropriations to produce excess income and departmental turn backs.

Free Cash

- Unallocated free cash target per financial policies is approximately \$4M
 - This is an important component of the credit rating
- Additional free cash beyond target has been used for:
 - Base school and municipal capital
 - Extra capital, snow and ice, one time needs
 - Fincom Reserve Fund
 - to cover extraordinary or unforeseen expenses that arise during the fiscal year
- Unallocated balance provides protection for the Town
 - Cannot be used for ongoing expenses
- This year's increased free cash certification balance is due to a few unique factors
 - Increased investment income due to high cash balance/interest rates
 - Higher than normal cash balance due to the borrowing for the elementary school project
 - Utilization of other revenue sources for this year's additional capital projects
 - Meals and Hotels Tax Revenue
- It is important to note that the higher amount is not an indication of ongoing budget issues but just due to unique combination of conditions
 - The combination of these factors created a unique situation for the Town
 - Can not be relied upon to continue in future years

FY23 Revenue – Consistent Collections

Final FY23 Budget Revenue - \$113.6M

- As taxes are approximately 80% of revenue, most important component to our financial stability.
- Taxes - \$85.9M collected on time, 99%.
 - Tax collections remain strong, consistent year to year results.
 - Reliable source of revenue
 - Standard collection rate for suburban community with owner occupied housing stock
- Proposition 2 ½
 - Limits total property taxes a community can raise – can increase 2.5% plus new growth
 - Calculation not applied to individual tax bills
- Overrides
 - A town may choose to override these limits with a Town Meeting vote
 - Two options:
 - General Override
 - Additional funds for any purpose
 - Permanently increases the levy limit
 - Debt Exemption
 - Pay for capital projects – annual debt service added to tax levy
 - Not permanent – taxes end when bond ends

Tax Levy Calculation per Prop 2 ½ - FY24 Budget

Tax Levy Calculation	FY2020	FY2021	FY2022	FY2023	Budget FY2024	
Prior Year Levy Limit	\$76,623,854	\$79,703,916	\$83,076,625	\$86,718,329	\$90,010,426	
Plus 2.5% Increase	\$1,915,596	\$1,992,598	\$2,076,916	\$2,167,958	\$2,250,261	Plus 2.5%
Plus New Growth	\$661,466	\$889,111	\$1,356,788	\$1,017,139	\$450,000	New growth
New Tax Levy - University Station TIF	\$503,000	\$491,000	\$208,000	\$107,000	\$100,000	Uni Station growth
General Overrides	\$0	\$0	\$0	\$0	\$0	General Override
Tax Levy Limit	\$79,703,916	\$83,076,625	\$86,718,329	\$90,010,426	\$92,990,687	
Exempt Debt*	\$1,320,986	\$1,217,416	\$1,048,819	\$1,059,561	\$4,369,541	Exempt Debt
Levy Capacity	\$81,024,902	\$84,294,041	\$87,767,148	\$91,069,987	\$97,360,228	What we could tax
Actual Levy Assessed	\$80,224,068	\$83,468,800	\$86,593,963	\$90,274,411	\$97,160,228	What we do tax
Excess Levy(Taxes not raised)	\$800,834	\$825,241	\$1,173,185	\$795,576	\$200,000	Unused Tax Levy
Increase in Actual Levy (including new growth)	4.2%	4.0%	3.7%	4.3%	7.6%	
Increase in Levy without new growth	2.73%	2.32%	1.87%	2.95%	7.02%	

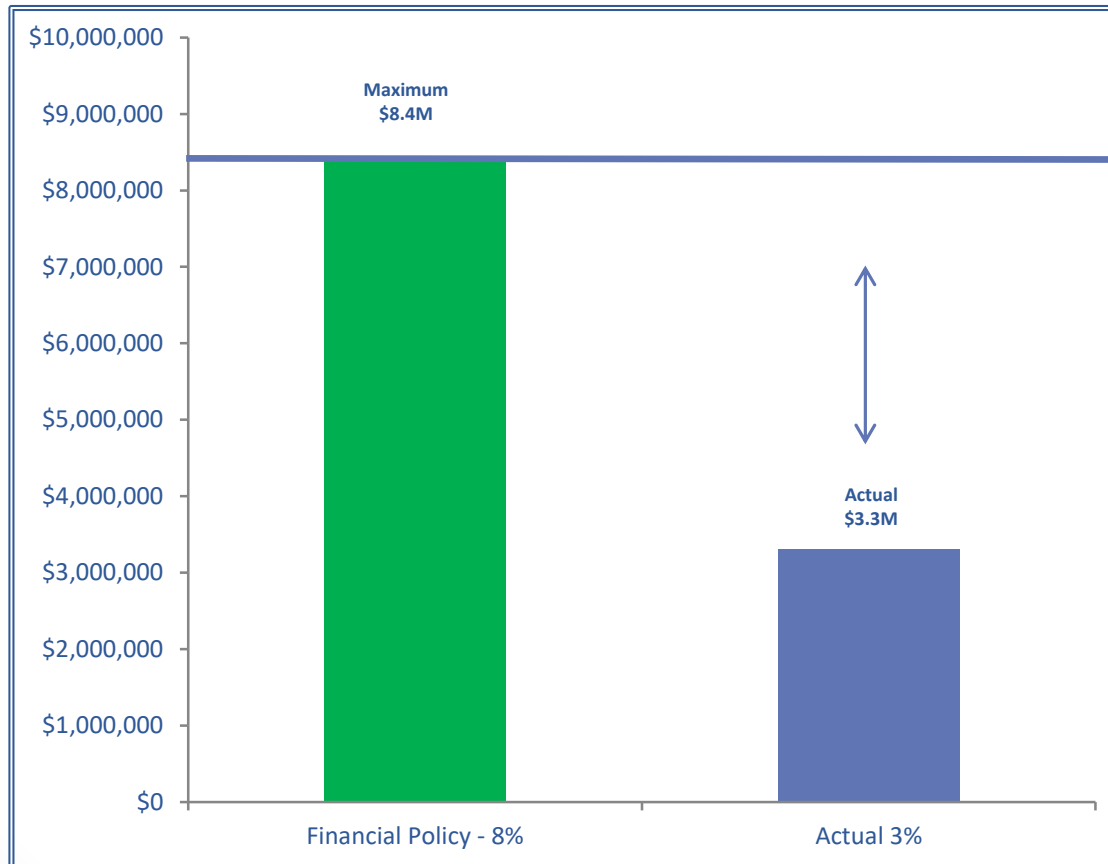
- Exempt debt - the net principal and interest payment required each year for projects approved outside Prop 2 1/2.
- New Growth - This represents taxes from new residential and commercial development.
 - Estimate throughout the budget cycle.

General Debt Overview

- Authorization
 - Town Meeting authorizes borrowing of any funds for a specific project
 - State law governs items allowed to be borrowed and term of borrowing
- Issuing Bonds
 - Official bond statement prepared
 - Town credit rating from rating service (Moody's)
 - Town Treasurer conducts a public bond sale (bids), Select Board approves the bond
 - At completion of sale, Town receives money and enters into a repayment schedule
 - Schedule of all current bonds issued – updated annually
- Debt Service Repayment
 - The debt service for the bonds, including principal and interest, is included in each year's operating budget
 - Current Repayment Schedule – updated annually
 - Only debt service scheduled to be repaid will be included in that year's budget
- Debt Management
 - Prudent use of debt financing as part of the Town's overall fiscal planning
 - Responsible positions on what purpose to borrow, when to scheduled debt-financed projects and how long for the repayment schedule

Debt Management Within Prop 2 ½

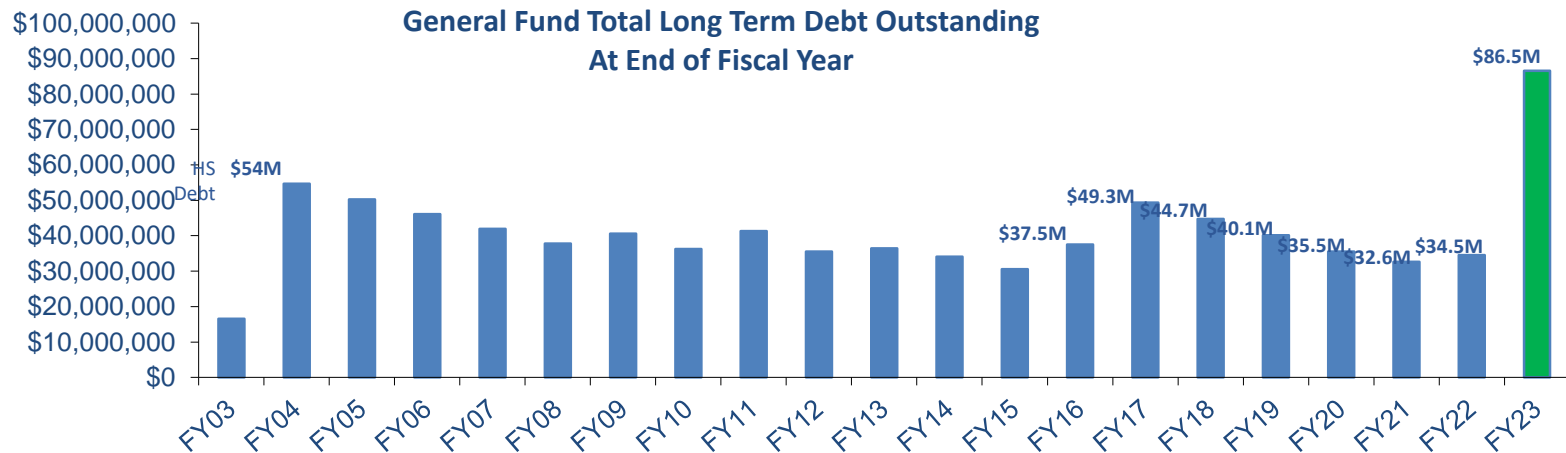
- Financial Policies – annual non-exempt debt payments should not exceed 8% of net general fund revenue.
 - Current debt level is well within guidelines
 - FY24 total debt payments within prop 2 ½ - \$3.3M
- Whenever possible, new debt payments are issued as prior debt rolls off.
 - Keeps the debt budget at the approximate same level.



Debt is well within guidelines

Current Debt Status as of 6.30.2023

Debt Authorized, Not Yet Issued		
Hanlon/Deerfield New School Remaining Authorization balances:		
School MSBA Initial Phase	ATM 2018	\$ 202,889
Hanlon School "Bridge" Funding	ATM 2021	\$ 30,316
Construction	STM 2021	\$24,610,386
Total New Hanlon School – Borrowing expected to be reduced by future MSBA reimbursement (\$16.4M)		\$24,843,591
Conant Road Culvert Design	ATM 2022	\$ 200,000
Canton Street Sidewalk Design	ATM 2022	\$ 900,000
Cemetery Expansion Design	ATM 2022	\$125,000
Cemetery Expansion Construction	ATM 2023	\$1,500,000
Fire Ladder Truck	ATM 2023	\$1,850,000
Total		\$ 29,418,591



Capital Planning

- Select Board has supported continued reinvestment in the Town's assets and infrastructure
- Town annually produces a 5 year capital improvement plan document
 - This document is the basis for Select Board recommended capital articles
 - Includes on-going capital purchase, maintenance and replacement needs
 - Base capital budget for School and Municipal
 - Supplement /additional capital budget to address larger community wide needs
- Capital book also includes capital financial policies, asset inventory schedules, long term debt policies, debt schedules and history of capital expenditures
- All capital requests are categorized based on how the item will be voted and funded
 - Warrant Article Capital Projects/Equipment
 - Capital Projects to be Funded by Bonds
- Long Range Financial Planning Committee
 - Members include Select Board, School Committee, Planning Board, Board of Assessors, Town Administrator, Tax Collector, Treasurer, Economic Development, Town Administration, School Administration
 - Tasked with focusing on the broader financial picture of the Town and the long-term financial issues and budgetary impacts of possible large building projects
 - Provides advise on competing priorities

Next Steps in Budget Cycle

November 13, 2023 – Tax Classification Hearing

- Determine Commercial/Residential Tax shift
- Get tax rate approved by the DOR

November through February Select Board Meetings:

- Continue update and review of FY25 revenue projections
 - Local Revenue Sources.
 - FY25 State Budget.
 - Tax Levy calculation including FY24 new growth
- Review capital budget articles with Select Board
 - Ongoing Annual Capital
 - Timing of larger projects being considered
- Review FY25 municipal budget requests
 - Base budget
 - Any Requested new positions/programs
- FY25 State aid
 - Governor’s budget typically at end of January
 - Preview at MMA meeting in January
- Select Board proposed budget document February 1, 2024
 - Municipal Budget Document
 - Overall Budget Summary
 - Capital Budget Articles
- Present proposed FY25 budget to Fincom February 2024



