CITY OF WOBURN, MASSACHUSETTS
FINANCIAL POLICIES AND OBJECTIVES

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INTRODUCTION

The City of Woburn established these financial management policies to ensure the provision of efficient and effective municipal services and to establish policies and procedures that are financially prudent and economically sound.

The objectives of the City of Woburn's financial management policies are as follows:

- To guide the Mayor, City Council, and management staff in evaluating and implementing decisions that have significant impact on the City;
- To regularly evaluate the City's financial capacity to meet present and future needs;
- Establish operational principles that minimize the cost of government, consistent with services desired by the public, and that minimize financial risk;
- Provide effective financial management that conforms with Generally Accepted Accounting Principles (GAAP), Uniform Municipal Accounting System (UMAS) and Massachusetts Department of Revenue (DOR) Informational Guideline Releases;
- To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs;
- To promote credible and sound financial management by providing accurate and timely information on the City's financial condition to elected officials, staff, the public and other external interests;
- To ensure current and future capital needs are addressed in a comprehensive and financially sound manner;
- Modernize the financial systems and provide increased public access to annual budgets, reports, audits and other needs as they occur;
- Provide residents with a high level of clarity of taxes and charges and maximize their ability to utilize online payment services;
- Provide increased public confidence in financial management;
- Protect and enhance the City's long-term financial health and credit strength, as reflected in its credit ratings;
- Provide safeguards to ensure the quality and integrity of financial systems; and,
- To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

A. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

A-1 Annual Audit

Background

The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the City chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

Policy:

1. The City will utilize accounting practices that conform to GAAP as set forth by the Government Accounting Standards Board (GASB), UMAS and DOR Informational Guideline Releases. The City shall have an independent outside audit performed by a certified public accountant each year. The Mayor shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the City government or of any of its officers or employees.

2. The City will either re-advertise for auditing services every five to eight years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The City will strive to have the annual audit completed by January 1st of the following year.

3. The City will utilize a cash basis of budgeting, while the audited financial statements will be reported on an accrual basis, in accordance with statutory requirements.

4. The Finance Committee shall review the audit plan with the independent auditor(s) prior to interim testing and year-end fieldwork. Upon completion of the audit, the City Council shall meet with the independent auditor(s) to discuss the results of the audit and the annual financial reports.'

References:

Annual Audits, MA DOR Division of Local Services Best Practice.

A-2 Comprehensive Annual Financial Report

Background:

A Comprehensive Annual Financial Report (CAFR) is a set of Government financial statements comprising the financial report of the municipal entity that complies with the accounting requirements promulgated by the General Accounting Standards Board (GASB). GASB provides standards for the content of a CAFR in its annual updated publication *Codification of Government Accounting and Financial Reporting Standards*. A CAFR is compiled by the municipal accounting staff and audited by an external Certified Public Accounting firm utilizing GASB requirements. It is comprised of three sections: Introductory, Financial, and Statistical. It combines the financial information of fund accounting and Enterprise Authorities accounting.

Policy:

The City shall work towards the preparation of a Comprehensive Annual Financial Report (CAFR) that meets the criteria established by the GFOA's Certificate of Achievement in Financial Reporting Program. This program encourages the preparation of a comprehensive report that goes beyond the annual audit report and presents information that enhances government transparency and disclosure.

A-3 Monthly Reporting

Background:

Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing.

Policy:

The City Auditor shall produce and distribute monthly budget-to-actual reporting to evaluate the City's financial position per Massachusetts state law. These reports shall be submitted to the Mayor and City Council, among others. This will enable the City to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges. If financial problems are indicated, the Auditor will review with the Mayor a monthly report of revenues and expenditures at the line item level.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

A-4 Cash Collections

Background:

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Treasurer/Collector's office, Auditor's office, Legal Counsel, Tax Assessor, other Departments or Agencies, other Governments at the State and/or local level, commercial banks, and private collection agencies.

Policy:

The City shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before January 31st of the next year, the City shall commence tax title proceedings against all properties that owe property taxes to the City.

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office daily and not less than weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other City officials to pursue collection of outstanding real estate taxes, personal property taxes, water/sewer fees, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the City.

References:

Revenue Collection, Government Finance Officers Association Best Practice.

A-5 Reconciling Cash and Receivables

Background:

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the City Auditor. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and an Auditor is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

Policy:

Within thirty days after the end of each month, the Treasurer/Collector shall internally reconcile the cashbook to all bank statements, and the Treasurer/Collector shall internally reconcile all receivable balances with the receivable control. The results of these activities shall be forwarded to the City

Auditor's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Auditor shall reconcile the variances (e.g., missing information, errors, and timing differences). The Mayor shall ensure compliance with the timeliness and completion of this process.

The City shall reconcile revenues and expenditures for each fiscal year within one to two months of the end of the fiscal year.

References:

Reconciling Cash and Receivables, MA DOR Division of Local Services Best Practice.

A-6 Cash Flow Forecasting and Budgeting

Background:

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may require temporary borrowing.

The Division of Local Services (DLS) recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessary coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity.

Policy:

Beginning in FY2018, the City Auditor and Treasurer/Collector will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

B. GENERAL FUND

Background:

The General Fund is the primary operating fund for the City. It is used to account for all financial resources except those that are required to be accounted for in another fund (i.e.), special revenue, debt service, capital project, trust fund and permanent funds. The General Fund balance includes Stabilization Funds and Free Cash. In accordance with GASB 54 the General Fund balance consists of 5 components, non-spendable, committed, assigned and restricted. The remaining resources after funds have been identified in the General Fund are designated as the unreserved fund balance. As a measure of liquidity, The Government Finance Officers Association (GFOA) recommends a minimum unreserved fund balance of two months of general fund operating expenditures or approximately 17% of operating expenditures.

Policy:

1. Budget Goals and Objectives shall be developed annually by each Department Head in consultation with the Mayor, no later than May 15th of each year. The Mayor shall submit to the City Council a proposed operating budget for all City departments, which shall include the school department, for the ensuing fiscal year with an accompanying budget message and supporting documents. The budget document should conform to guidelines set forth by Section 3-3 of the Woburn Municipal Code, the City Charter, the Governmental Finance Officers Association (GFOA), and the DOR.

2. The City will carefully and routinely monitor all amounts due. An active collection policy will be followed for all receivables, including property taxes. An average collection rate of at least 99% of current levy shall be maintained provided, however, that it is the City's full intent to collect 100% of all receivables in any given year. The City of Woburn tax billing and lien process is to be administered in accordance with all Massachusetts statutory laws. Timely tax collections are to be performed in order to maintain a steady cash flow.

3. Charges for services and other revenues shall be reviewed on a regular basis at least every three (3) years. Charges shall be adjusted as necessary in respond to changes in the cost of providing services. The Mayor, in consultation with Department Heads, shall be responsible for cost recovery goals for individual departments or services, as appropriate, and shall make recommendations to the City Council for review and final approval of all applicable fees.

The City of Woburn is required to follows GASB 54 for fund balance reporting.

The City of Woburn has a target goal of 17-20% of general fund operating expenditures for its unreserved fund balance.

C. BUDGET POLICIES

C-1 Balanced Budget

Background:

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

Policy:

The Mayor shall present, and the City Council shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The City shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The City will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. The City will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to avoid making principal payments.

The City budget shall also support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing.

References:

M.G.L. c.44, §31

Achieving a Structurally Balanced Budget, Government Finance Officers Association Best Practice, February 2012

C-2 Submission of Budget and Budget Message

Background:

Two important principles of public budgeting are clarity and publicity. The GFOA considers this as the greatest importance for an explanation to be included as a part of the legislative discussion, explaining the key issues of importance included in the document. It is equally important to distribute this information to the general public to give them a greater understanding of the issues confronting the community.

Policy:

In consultation with the City Auditor, Treasurer and departments, the Mayor shall prepare revenue projections for the upcoming fiscal year and gather budget requests from all City departments. The Mayor shall prepare a proposed budget incorporating all City revenues, including enterprise funds, for submission in an electronic format to the City Council for review and consideration. The Mayor shall provide written documentation of budget assumptions and shall include a 10-year history of free cash certification, stabilization fund balance, and overlay surplus.

The Mayor's budget proposal shall provide a complete financial plan of all general and enterprise funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents. The budget message from the Mayor shall explain the proposed budget for all City agencies in fiscal terms and in terms of work programs. It shall outline the proposed financial policies for the City for the ensuing fiscal year, describe the important features of the budget, indicate any major differences from the current fiscal year in financial policies, expenditures, and revenues, together with the reason(s) for such changes, summarize the City's debt position, and include such other material as the Mayor deems desirable or the City Council may reasonably require.

The City shall work toward the implementation of a budget document that meets the high standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

C-3 Revenue and Expenditure Forecast

Background:

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast(s). Long term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow staff, the Mayor, and the City Council to test various "what-if" scenarios and examine the fiscal impact on future budgets.

Policy:

Each year the City shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five- year Capital Improvement Program. The forecast shall include 3 to 5 years of historic data for trend analysis purposes.

The forecast shall be used as a budget tool to enable City officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; and, 2) identify the resources needed to maintain required enterprise fund operations and 3) estimate the impact on rate payers.

Procedure:

The City Auditor, in cooperation with other departments, will review fiscal assumptions every year when the forecast is updated and will input data that is timely and accurate in preparation of the forecast. The forecast and the associated assumptions shall be made available to the Mayor and theCity Council, and the public no later than upon submission of the Capital Improvement Plan.

References:

User's Guide and Assumptions (Five Year Financial Forecast FY2019-FY2023), Edward J. Collins, Jr. Center for Public Management at UMass Boston.

Revenue and Expenditure Forecasting, MA DOR Division of Local Services Best Practice.

Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association Best Practice, February 2014.

Financial Management Assessment, Standard and Poor's, June 2006.

C-4 Position Control/Vacancies

Background:

The largest segment of a City's budget is its personnel costs. Failure to accurately monitor the approved personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

Policy:

The City shall maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the City intends to have during that budget period.

D. RESERVE POLICY

D-1 Creating and Maintaining Reserves

Background:

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus. A review of the public finance literature generally reveals five reasons local governments create and maintain reserves:

a. **Operational Needs** –These are contingency reserves which are typically appropriated as part of the annual budget. The purpose is to meet unexpected increases in department operational costs such as legal fees, major equipment repairs and snow removal.

b. **Catastrophic or Emergency Expenditures** – These are contingency reserves which provide emergency funds for use in a major calamity such as a hurricane, blizzard, uninsured loss or damage to a capital asset.

c. **Maintenance of Assets** – These are restricted reserves used to replenish the continuing depreciation or replacement of buildings and equipment. The City is required to show the depreciation of certain fixed assets.

d. **Liquidity or Cash Flow**: These are unrestricted reserves used to reduce the need for short-term borrowing, generate investment income and to maintain a strong credit rating.

e. **Unfunded Liabilities**: These are restricted reserves used to fund an unfunded liability that has been incurred during the current or prior years, but which does not have to be paid until a future year, and for which adequate reserves have not been set aside. These liabilities may not be apparent in typical financial records in a way that makes their impact easy to assess. This type of liability accumulates gradually over time and may go unnoticed until it has created severe financial problems. Unfunded liabilities are predominantly pension obligations and postemployment benefits.

The overall level of Financial Reserves is critical to maintaining the City’s credit rating and ensuring sufficient funds to manage unanticipated needs. The City of Woburn’s unrestricted reserves include: Free Cash, Water & Sewer Enterprise Fund, Stabilization Funds and Overlay Surplus. The City also has restricted reserves in its Other Post-Employment Benefits (OPEB) and Pension Trust Funds.

The City of Woburn has established the following Reserve Policies and target dates for financial reserves:

Current Reserve Policy: is 15 % of the General Fund annual budget. To meet the 15% target, free cash will be combined with the stabilization fund.

Current Water & Sewer Enterprise Unrestricted Net Assets Policy: Target for this reserve is to be 5-10% of the Water & Sewer Enterprise Budget.

Uses: Legally restricted to water and sewer system purposes.

D-2 Reserve: Free Cash

Background:

The Division of Local Service's *Municipal Finance Glossary (May 2008)* defines Free Cash as follows:

> *Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.*

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures).

DLS recommends that a municipality strive to generate free cash in an amount equal to 3-to-5% of its annual budget.

Policy:

The City of Woburn will not use free cash to fund the operating budget. Free Cash is considered a non-recurring source of funds, and should only be used for non-recurring purposes, including replenishing reserves.

The City will endeavor to maintain a target minimum balance of free cash equal to 10% of the annual general fund budget. Amounts in excess of this 10% target will be available for capital or other one-time expenses, while the target amount will be left unspent from year to year.

Free cash shall not be depleted in any year, so that the following year's calculation will begin with a positive balance. Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs.

Free Cash may be used for certain one-time expenditures, such as major capital projects, emergencies, other unanticipated expenditures, or to replenish other reserves.

References:

Free Cash, MA DOR Division of Local Services Best Practice.

Appropriate Level of Unrestricted Fund Balance in the General Fund, Government Finance Officers Association Best Practice, September 2015.

Reserve Policies, MA DOR Division of Local Services Best Practice.

Statutory Reference: MGL Chapter 59 §23

D-3 Reserve: Stabilization Fund

Background:

The Stabilization Fund is the City's main reserve fund designed to provide financial stability for the City, while improving the City's credit worthiness and flexibility. The provisions of this fund are dictated by Massachusetts General Law (MGL), Chapter 40, Section 5B. The Stabilization Fund may be appropriated for any lawful purpose upon recommendation by the Mayor and a two-thirds (2/3) vote by the City Council. Free Cash reserves are the remaining, unrestricted funds from operations of the previous fiscal year; these include unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in budget line-items Free Cash may also include adjustments for deficits in any other funds of the City. A stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose.

Under State law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed 10% of the prior year's tax levy. Generally, a majority vote of a City Council is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund.

D-3a General Stabilization Policy:

The City shall maintain a General Stabilization Fund of 5-7% of the annual general fund budget for the purpose of extraordinary or unforeseen expenditures. The City will endeavor to leave this balance unspent, except in the event of an emergency or extraordinary or unforeseen events. If it is necessary to draw down from the General Stabilization Fund, the City will ensure that it is restored through the appropriation of revenues such as free cash and/or one-time revenues.

D-3b Capital Stabilization Policy:

The City shall maintain a special purpose Capital Stabilization Fund that shall serve as a funding source for the City's capital improvement plan, including any associated debt service. The City shall have a goal to maintain a Capital Stabilization Fund equal to 3% of the annual budget. Each year, as pay as you go capital is expended from the Fund, the City shall replenish the fund to the targeted policy goal. The City will establish a Capital Stabilization Fund in FY2018 after free cash has been certified.

References:

Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.
Statutory Reference: MGL Chapter 40 § 5B

D-4 Use of Free Cash and Stabilization Funds

For purposes of this policy, the following are deemed to be appropriate uses of Free Cash:

a) Appropriated Reserve – an amount to provide for extraordinary or unforeseen expenditures.

b) Stabilization Fund – to fund or replenish the Stabilization Fund.

c) Capital Improvement Program – to fund capital projects that would otherwise incur borrowing costs associated with the issuance of debt.

d) Special Use – to augment the trust funds related to benefits and unfunded liabilities related to employee benefits such as OPEB.

e) Extraordinary Deficits – to fund any potential deficits that would otherwise be carried over to the following fiscal year.

f) Emergency Appropriations – to allow for fiscal flexibility.

D-5 Reserve: Pension Trust Fund

Background:

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the City's retirement system, which does not include teachers, as their pensions are funded by the State. The City is a member of the Woburn City Retirement System and pays an annual pension assessment to the System. The Woburn City Retirement System has established, as of December 31, 2016, a funding schedule to fully-fund this liability by 2036.

Policy:

In accordance with state law, PERAC regulations and government accounting standards, the City shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the City Retirement Board.

References:

M.G.L. c.32

D-6 Reserve: Other Post-Employment Benefits Trust Fund

Background:

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Policy:

While there is currently no legal requirement to fund OPEB, the City recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations. The City will endeavor to appropriate a minimum of $500,000 per year from a mix of ongoing and one-time revenues, overlay surplus, free cash, and unexpended health insurance budget into the irrevocable trust established under MGL c. 32B, §20.

In order to determine the funding schedule, the City shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement. Careful consideration shall be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment.

The City shall accept GASB 43 and 45 and establish and maintain an OPEB advisory board to monitor and oversee investments on the fund. The City recognizes that the adoption of a funding schedule is, by law, the responsibility of the OPEB advisory board.

References:

Statement No. 43, Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, April 2004.

Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2004.

GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.

OPEB Trust, City of Woburn, approved by Mayor and City Council, March 6, 2014

D-7 Reserve: Allowance for Abatements and Exemptions and Overlay Reserve

Background:

State law requires municipalities to annually set aside an amount of money to cover tax abatements and tax exemptions. This amount is determined by the Board of Assessors.

Policy:

The Board of Assessors, in consultation with the Mayor, shall determine the amount of funding to be set aside as overlay reserve each fiscal year. When the use of the reserve is requested by the Mayor, the Board of Assessors will vote to release funds to the Overlay Reserve Surplus account, which may be used to fund OPEB liability. The Assessors will review annually and make conservative recommendations for the availability of transferable funds to the Mayor. Once declared, surpluses may be used for any legal purpose.

Reference:

MGL Chapter 59 § 25, 70A

E. CAPITAL IMPROVEMENTS

Background:

Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sound manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment.

Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

References:

Financial Management Assessment, Standard and Poor's, June 2006

E-1 Capital Improvement Plan Budget

Policy:

The City of Woburn shall maintain a five-year Capital Improvement Program developed and annually updated by the Mayor. The Mayor shall present a capital plan annually to the City Council for their approval that includes expenditures for new construction, improvements or renovations of existing City buildings and infrastructure and for major purchases of equipment.

The City will prepare a multi-year Capital Improvements Program (CIP) working with individual departments and agencies and prioritize these projects based on a Capital Needs Assessment. The CIP will include projections for the upcoming fiscal years and will be updated at least biennially, or sooner if there are significant changes to the scope and/or cost of projects. Future operations and maintenance costs associated with capital improvement projects will be developed and identified as part of the project submission.

Reference:

City of Woburn 5 Year Capital Improvement Plan, Edward J. Collins, Jr. Center for Public Management/UMass Boston

E-2 Capital Improvement Financing

Background:

For the purpose of these policies, the following definitions shall apply:

- Current Year Net Revenue - Gross general fund revenues, less debt exclusions and available funds (e.g., free cash, stabilization, Community Preservation, ambulance fees and overlay surplus).
- Net Capital Investment - Gross costs from local debt, less Proposition 2 ½ debt exclusion amounts, plus the cost of capital leases, direct capital expenses (e.g., pay-as-you-go capital) funded from capital stabilization fund and the general fund, and other local amounts approved as part of the capital budget.
- Capital Investment as a Percent of Current Year Net Revenue – The Net Capital Investment divided by the Current Year Net Revenue. (For FY2017, Net Capital Investment was about 4% of the City's Current Year Net Revenues, excluding enterprise funds.)

Policy:

The City's capital improvement program shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, Federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.

- Net Capital Investment as % of Current Year Net Revenues – Effective in FY2021, the annual Net Capital Investment target is no less than 5% of Current Year Net Revenue.

- Local Funding – The first source of capital investment shall be the Capital Stabilization Fund. Even when a significant balance exists in this account, the City will be cautious about the amount of borrowing to be done with the capital stabilization fund as the funding source. The City will then use modest amounts from the capital stabilization or other reserves such as free cash above target levels to fund pay-as-you go capital needs in order to meet the 5% Net Capital Investment target above. In the event that annual deposits into the capital stabilization fund change significantly, the City will revisit this capital funding policy.

- Debt-Financing/Borrowing -
  - The term of borrowing for a capital project shall not exceed its estimated useful life.
  - The City will attempt to maintain a long-term debt schedule such that at least 65% of its outstanding principal will be paid within ten years.
  - The City will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source.
  - For any capital item of $100,000 or less potentially funded by debt, the true cost of borrowing, including but not limited to debt service, legal services, and staff time shall be determined and made public prior to debt authorization.
  - The impact of level debt service versus level principal/declining debt on total project cost and on the City's operating budget shall be analyzed before borrowing is authorized.
  - The City shall fund Water and Sewer capital projects, with available funds or bonding from the Water and Sewer Enterprise Fund.

E-3 Capital Improvement Planning Process

Background:

Long Range Capital Planning will be based upon the City's planning process.

Policy:

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The City will initially rely on internally-generated funds and/or grants and contributions from other governmental agencies to finance its capital needs. Capital projects will be prioritized with higher priority given to maintaining overall standards of safety, functionality and to protecting existing capital investments in infrastructure while incurring the lowest life-cycle cost.

The Mayor shall prepare an annual capital plan and submit it as part of the Annual Budget process. To qualify as a capital expenditure, a proposed purchase or project must have a useful life of five years or more, and must exceed $10,000 in cost, be purchased or undertaken at intervals not less than three years, and have a useful life of at least three years. All Departments, Boards, Commissions, and Committees shall, by January 30 of each year, submit to the Mayor information concerning all anticipated Capital Projects and Purchases requiring City Council action.

Additional policies are identified below:

- The Mayor will coordinate development of the capital improvement budget with development of the operating budget.
- Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts, as appropriate.
- Federal, State, or private grants or loans shall be used to finance only those capital improvements that are consistent with the City's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.
- All assets shall be maintained at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.
- Capital projects shall be prioritized based upon criteria establish by the City.
- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to Mayor and City Council for appropriation.

- Except as required by an emergency, all approved capital projects must be part of the annual adopted Capital Improvement Plan.

Policy:

To meet the annual policy deadline, the calendar for development of the capital improvement plan is as follows:

- The Mayor shall provide directions and a capital improvement request forms to Officers, Boards, Commissions, Committees, Department Directors, and other involved staff on or about December of each year.
- Department Directors and other involved staff shall return request forms to the Mayor on or about January 31 of each year.
- The Mayor shall meet with Department Directors and other involved regarding their capital budget during the Departments' budget development meetings.

F. DEBT MANAGEMENT

F-1 Introduction

The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the City of Woburn. This policy reinforces the commitment of the City and its officials to manage the City's financial affairs so as to minimize risks, avoid conflicts of interest and ensure transparency while still meeting the City's capital needs. A debt management policy signals to the public and the rating agencies that the City of Woburn approaches the financing of capital needs in a deliberate manner and fulfills the requirements of Chapter 44 of the Commonwealth of Massachusetts General Laws regarding the adoption of a debt management policy.

The City shall comply with legal requirements for notice and for public meetings related to debt issuance. All notices shall be posted in the customary and required posting locations including, as required, local newspapers, bulletin boards, and websites. All costs associated with each debt issue as well as, when applicable, a debt service schedule outlining the rate of retirement, shall be clearly presented and disclosed to the citizens, City Council, and other stakeholders in a timely manner.

F-2 Financing Purposes

The City of Woburn will consider term financing for the acquisition, replacement, and/or expansion of physical assets, and to refinance existing debt. Short-term issues may be used to finance certain projects and equipment and to support operational borrowing. However, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and effective management of the budgeted expenditures.

While the pay-as-you-go means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely practical, given the size and timing of projects to meet the City's ongoing needs. However, the inclusion of a robust cash component in capital projects will be pursued whenever possible, provided fund balance and reserve policies are not compromised.

All debt will be issued and managed in accordance with Chapter 44 of the Massachusetts General Laws, and any other applicable state laws.

The primary borrowing purposes are summarized below:

F-2a Long-Term Capital Improvements

Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt. Debt service is limited to that portion of a project that is not reimbursable by State, Federal or local grants.

The Financial Team, working with City Departments within the context of the CIP and the City's Five-Year Financial Outlook, oversees and coordinates the timing, processing, and marketing of the City's borrowing and capital funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with the limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

The City will analyze market conditions prior to debt issuance to determine the most advantageous terms. Debt financing schedules will be constructed to repay debt within a period not to exceed the expected useful life of the asset, and will attempt to repay debt using a level principal repayment structure. The City will maintain the flexibility to structure debt as it chooses in accordance with state law with the goal of paying off 65% of the principal amount of debt within ten years.

F-2b Refinancing /Refunding of Existing Debt

The Mayor, working with the Financial Team, will periodically evaluate the City's existing debt and execute refinancing when economically beneficial, legally permissible and prudent. A refinancing may include the issuance of bonds to refund existing debt or the issuance of bonds in order to refund other obligations. Net present value savings over the course of the refunding must be at least 3% (of refunded principal) for consideration.

F-2c Cash Flow Borrowing

It is understood that expenditure cycles do not always follow the revenue cycle and that short-term debt may be necessary to meet cash flow requirements. Anticipation notes may include:

- Revenue Anticipation Notes (RANs) issued with the anticipation that non-tax revenue will be received.

F-2d Short-Term Borrowing for Capital Needs

The City may from time to time issue short-term debt that serves as interim financing pending the issuance of long-term debt to finance a completed capital project. This approach is particularly applicable in cases where a project depends upon a combination of reimbursable grant funding such notes may include:

- Bond Anticipation Notes (BANs), a short term-interest-bearing note issued in advance of a future long-term bond issue.
- Grant Anticipation Notes (GANs), issued for capital projects that are dependent upon reimbursable grant funding from an outside entity, such as the Commonwealth or Federal governments.

F-2e Capital Leases

The City may enter into a capital lease agreement for the purchase of capital equipment and vehicles so long as the lease period does not extend beyond the useful life of the purchase.

F-2f State Revolving Fund

For projects that are directly related to wastewater and drinking water infrastructure/ construction/improvement or rehabilitation, the City may opt to borrow funding directly from the Massachusetts Water Pollution Abatement Trust (MWPAT) revolving fund program and/or the Massachusetts Water Resources Authority (MWRA).

F-3 Financing Processes

The City shall employ a financial advisor and bond counsel to review and advise on all matters related to debt authorization and debt issuance. Should a capital project, infrastructure improvement, or capital equipment need require seeking an authorization to borrow funds, the benefitting party must provide comprehensive documentation to the Financial Team outlining the scope of the project, the cost of the project, the cash flow projection to complete the project, and any expected Federal, State or local grant awards or other funding sources.

a) All loan authorizations should be authored by bond counsel or, at a minimum, reviewed by bond counsel prior to submission to the City Council for approval.
b) Unless market conditions are extremely unfavorable, the City will endeavor to sell all municipal bond and note issues by competitive bid. The competitive bid process guarantees the City adequate exposure in the market and reasonable expectation that interest terms and rates are competitive.
c) The City seeks to maintain the highest possible credit rating that can be achieved for debt instruments to attract quality investors and reduce interest costs. To enhance creditworthiness, the City is committed to prudent financial management and systematic capital and long-term financial planning.
d) The City will maintain good communications with bond rating agencies about its financial condition. The City will adhere to a policy of full disclosure on every financial report and bond prospectus (official statement).
e) Long-term debt service for the water and sewer enterprise fund shall be included in the respective funds' annual budgets. The city will periodically review and adjust rates for each enterprise to ensure sufficient capacity for annual debt service payments.
f) Debt maturity is dictated by the limits set forth in MGL Chapter 44 as prescribed by Statutory Authority, Purpose and Maximum Term. The City shall endeavor to retire/refund debt whenever it is financially feasible, legally permissible and advantageous for the City.
g) The City will monitor all municipal borrowings on a regular basis to insure compliance with federal tax reform legislation and arbitrage limitations, but not less than every six months.

F-4 Debt Capacity

The decision whether to assume new tax-supported general obligation debt (total general obligation debt less any enterprise-related, revenue supported general obligation debt) shall be based on the direct cost and benefit of the proposed project, the current conditions in the bond market and the City's ability to afford new debt. The City will apply several indicators to determine the appropriateness of assuming tax-supported general obligation debt. These affordability indicators shall include:

a) Outstanding debt as a percentage of per capita income;
b) Amount of debt per capita
c) Outstanding debt as a percentage of full property EQV.
d) Overall net debt as % of full value
e) Annual debt service as a percentage of the adopted General Fund operating budget.
f) Percent of debt, including the prospective debt issuance, to be amortized within 10 years.

In addition, enterprise fund indebtedness may not exceed 25% of the total assessed valuation of all real and personal property in the City for any given fiscal year, so long as the enterprise fund can support its debt service.

Before assuming more tax-supported general obligation debt than it retires each year, the City of Woburn shall conduct an objective analysis regarding the City's ability to assume and support additional debt service payments.

G. ENTERPRISE FUND MANAGEMENT

G-1 Self Sufficiency and Rates

Background:

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

Policy:

Enterprise funds (Water and Sewer) should be fully self-sufficient operationally, including capital needs and debt service, with user charges and fees set to recover all costs associated with the activities of these funds, including capital expenditures. All costs, both direct and indirect, shall be reviewed on an annual basis to ensure proper allocation of costs between the General Fund and Enterprise Fund.

Rates and fees for enterprise services shall be set at a level to provide for self- supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants.

Changes in the rates and/or rate structure shall be carefully analyzed prior to recommendation and implementation in order to ascertain the short and long- term impact on rate payers.

References:

MGL, Chap 44, Sec 53F1/2

Enterprise Funds, MA DOR Division of Local Services Best Practice

H. GIFTS AND GRANTS

Background:

DLS recommends analyzing current and future impact of grants on operating budget, capital improvement program, and debt management. The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

H-1 Grant Administration

Policy:

The City shall consistently seek to maximize the benefits of grants while minimizing their risks. Prior to acceptance of a grant award, the City shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. The City shall ensure that it appropriately administers grants after their acceptance, as inappropriate administration can result in the failure to meet all grant requirements, potentially resulting in the need to return some or all of the resources to the provider.

H-2 Impact on Operating Budget

Policy:

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the City's cost for providing that benefit.

In all cases where some costs are not covered (e.g., personnel-related benefit costs or indirect costs), those costs should be clearly disclosed prior to the determination to accept the grant. With such disclosure, a proposed plan to cover such unreimbursed costs shall also be presented at the same time for concurrent approval.

H-3 Impact on Capital Improvement Program and Debt Management

Policy:

When grants are accepted for capital purposes, the City shall include in its capital improvement program any share of costs associated with the grant and project the City's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the City's revenue /expenditure forecast.

References:

Administering Grants Effectively, Government Finance Officers Association Best Practice, May 2013.

H-4 Gift Administration

All gifts shall be evaluated for suitability and consistency with City policies. Gifts with values greater than $500 shall be formally accepted by the City Council after review and recommendation by the Mayor, or as otherwise allowed by ordinance or by-law. Gifts of funds are governed by MGL Ch. 44, §53A. Gifts of tangible property are governed by MGL Ch. 44, §53A½.

I. RISK MANAGEMENT POLICIES

I-1 Risk Management Program

Background:

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

Policy:

The City's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the City is exposed to on a regular basis. If a City Board or Commission wishes to add item(s) to the City's insurance policy, said Board or Commission shall cover the costs to be incurred.

The City shall develop and maintain a risk management program to protect the City against the financial consequences of accidental loss of property, liability and personal injury to the extent possible through effective prevention and loss control policies and practices.

References:

Creating a Comprehensive Risk Management Program, Government Finance Officers Association Best Practice, March 2009.

J. PROCUREMENT AND PURCHASING POLICIES

J-1 Procurement and Purchasing Policy

Background:

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B, and other related regulations. The State Inspector General's office has oversight of public purchasing laws and has published a comprehensive guide to Chapter 30B requirements.

Policy:

The City shall follow the guidance contained in the Inspector General's "*The Chapter 30B Manual: Procuring Supplies, Services and Real Property*" in order to comply with the requirements of M.G.L. Ch. 30B. To supplement this guidance, the City Purchasing Agent will develop a concise directive on purchasing procedures for department heads or others involved in City purchasing or procurement.

K. INVESTMENT POLICIES

K-1 Investment Policy

Background:

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

Policy:

The Treasurer/Collector is responsible for investing City funds and will make all decisions regarding their management. The Treasurer/Collector shall invest City funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer/Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer/Collector will submit a report of investments on an annual basis to the Mayor and the City Council.

References:

*Investment Polic*y, City of Woburn, approved by Mayor and City Council, May 8, 2014.

M.G.L. c. 44, §54   M.G.L. c. 44, §55   M.G.L. c. 44, §55A   M.G.L. c. 44, §55B

Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

Creating an Investment Policy, Government Finance Officers Association Best Practice, October 2010.

Financial Management Assessment, Standard and Poor's, June 2006.

K-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations

Background:

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

Policy:

The Treasurer/Collector shall review post-issuance compliance procedures every six months and implement revisions or updates as deemed appropriate, in consultation with bond counsel or Financial Advisor.