



# Finance Committee

Finance Committee Meeting Minutes  
Monday, August 10, 2009 @ 5:00 pm  
Larkin Hall at the Provincetown Center for Coastal Studies  
Called to Order: 5:05 pm

## Membership:

<b>P</b>	<b>E</b>	<b>U</b>	<b>Name</b>	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Thomas Coen, Chair	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ann Maguire, Vice Chair	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Virginia Ross	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Thomas Thurston	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Frederic Biddle	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Philip Gaudiano	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Gabrielle Hanna	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Daniel Hoort	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	David McChesney	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Erik Yingling, Alternate	<input type="checkbox"/> Voting
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Oliver Kamm, Alternate	<input checked="" type="checkbox"/> Voting

(Note: **P** = Present **E** = Excused **U** = Unexcused)

This meeting was filmed and is available on DVD at the Provincetown Television office.

<b>Also Present:</b>	Mary-Jo Avellar, Selectman
Sharon Lynn, Town Manager	Austin Knight, Selectman
Alix Heilala, Finance Director	Elaine Anderson, Seletman
David Gardner, Asst. Town Mgr.	David Bedard, Selectman
Michelle Couture, Chair, BoS	Dr. Beth Singer, Supt. Of Schools
	Vernon Porter, BoS Secretary

<b>Order of Business:</b>
<b>Joint Meeting with the Board of Selectmen</b>
1. To meet the new Superintendent of Schools.
2. To conduct a preliminary discussion about the FY11 budget

process.

3. To consider any other business that may legally come before the Finance Committee

*(The Chair of the Board of Selectmen called the meeting to order at 5:00 pm. Mr. Coen called the Committee out of recess.)*

### **Introduction of the new Superintendent of Schools**

Chair Couture introduced the new Superintendent of Schools, Dr. Beth Singer. Ms. Singer gave a brief summary of her background and discussed some of the projects that she is already working on with the Town Manager. Ms. Lynn said that she and the Superintendent have discussed areas of the school budget where the Town and the School can work together to save money. Ms Singer recognizes the importance of meeting with the Board of Selectmen and the Finance Committee on a regular basis.

Selectmen Anderson asked about the issue of school regionalization. Ms. Singer is well aware of the state's goal to consolidate the 227 school districts down to 30. She intends to get very involved in the issue.

Mr. Coen raised the issue of getting the schools involved in the five year fiscal planning process. All agreed that this is very important.

### **Recommendations for the FY11 Budget Process**

*(Prior to the meeting, Mr. Coen distributed the attached document to the Board of Selectmen, the Town Manager, the Assistant Town Manager and the Finance Director).*

Ms. Couture opened the meeting by talking about the importance of developing a five year fiscal policy plan. Ms. Lynn added that she and the Finance Director have reviewed the Committee's recommendations and are comfortable with the timeline. Mr. Coen emphasized the importance of having a plan that addresses the Town's long-term structural deficit.

General discussion ensued, including feedback on the Committee's recommendations.

Ms. Couture – We've developed a good working relationship the past couple of years. We want to go to Town Meeting with everyone on the same page. We can't continue with business as usual. We've cleaned up a lot of bad practices. We look forward to this being the year that we go to Town Meeting with a clear picture of where we all are going, and have a handle on everything and good financial practices.

Mr. Knight – I would like to have a joint work session with the Board of Selectmen and Finance Committee on the adoption Chapter 32B, Section 18 (Medicare for retirees), including representatives from Blue Cross/Blue Shield, the State, and anyone else who needs to be there.

Ms. Couture – There are a lot of good discussions that we need to have before we get to the budgets. One of the things we need to work on is the non-union employee positions that have not had an increase in years.

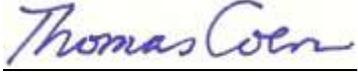
Mr. Bedard – The FinCom report was very proactive.

Ms. Anderson – I agree that your report was well put together, and as David said very proactive. And I like your policy questions on page 8.

Mr. Coen – September is the timeline for working on the five year forecast in order to have the guidelines for the department heads ready sometime in November, before the detailed budget development gets under way.

Ms. Couture wrapped up by saying the Board of Selectmen looks forward to the five year fiscal plan and Capital Improvements Plan.

Next Meeting:	Wednesday, August 24, 2009 @ 4:00 pm
Adjourn:	5:57 pm
Minutes by:	Thomas Coen, with the assistance of Mr. Porter's transcription

Approved by  on September 15, 2009  
Thomas Coen, Chair



## Finance Committee

# Memo

**To:** Provincetown Board of Selectmen

**From:** Thomas Coen, Provincetown Finance Committee Chair

**CC:** Finance Committee, Town Manager, Finance Director

**Date:** August 6, 2009

**Re:** Recommendations for the FY2011 Budget Process & Financial Management Policies

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### **Ladies and Gentlemen of the Board of Selectmen,**

During the Finance Committee's FY2010 budget "post-mortem" discussions, a number of ideas were floated to improve and streamline the FY2011 process and related financial management policies. The Finance Committee is pleased to submit these recommendations for your review in the attached document.

The first section of the document addresses the budget process and the development of budget policy guidelines. Our key recommendation, on which we believe there is already widespread agreement, is the development of a five-year revenue and expenditure forecast that will drive budget policy discussions.

We are also recommending several additional steps early in the budget process that will result in better coordination, and will streamline the development and review of department budgets.

Another important objective is to identify and resolve, if possible, disagreements about budget policy between the Board of Selectmen and the Finance Committee sooner, rather than later, in the budget process.

In the second section of the document we address the need to formalize several key financial management policies relating to reserve funds and debt management. These policies have implications for both day-to-day operations and budget policy.

We would like to emphasize that we are not making specific policy recommendations. We are trying to identify best practices, as recommended by various professional organizations, and to suggest questions that need to be discussed and debated in order to develop policies that are specific to Provincetown.

The Finance Committee is committed to moving the discussion on these recommendations forward in a positive way. We would be pleased to participate in any forum, including a preparatory workgroup, to facilitate the process.

We hope that you find these recommendations helpful and we look forward to our meeting on August 10th.

Sincerely,

A handwritten signature in blue ink that reads "Thomas Coen". The signature is written in a cursive, flowing style.

Thomas Coen, Provincetown Finance Committee Chair

## Budget Process & Guidelines

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On its website the Department of Revenue, Division of Local Services, outlines the importance of a multi-year revenue and expenditure forecast to the budget process as follows:

*“A financial forecast, or multi-year revenue and expenditure forecast, is a useful management and policy making tool that allows a municipality to evaluate the impact of various government decisions over time. Since policy choices often affect the town’s financial condition for years to come, it is beneficial to analyze the associated fiscal impacts over a multiyear period. For example,*

- What is the impact of a multi-year collective bargaining agreement?*
- What is the impact of financing a new school and what impact will the debt service have on the tax rate?*
- How much will a proposed development add to the tax levy and what are the associated added service costs?*
- What is the impact of moving solid waste disposal to a full cost recovery basis over the next three years?*

*Financial forecasting provides an effective approach to evaluating these and other policy choices being considered by a municipality.*

*A forecast can also serve as an early warning system to detect a future gap between revenues and expenditures. While it cannot insulate a community from all forms of fiscal surprises, analyzing its financial picture in this type of comprehensive and structured manner will reduce the risk of overlooking key information. Detecting problems early gives management more time to consider corrective action. Assuming that the forecast is done with spreadsheet software, it is a simple matter to hold all the other components of the forecast constant and isolate the impact of various policy solutions on the bottom line.”*

The Committee has discussed the importance of having a five-year forecast several times over the last couple of years with the Board of Selectmen, the Town Manager and the Finance Director. Given the fact that we are now facing the prospect of an ongoing, structural budget deficit we believe more firmly than ever that we need to begin the FY2011 budget process with such a forecast.

Having the forecast in hand will allow us to make the difficult decisions up front and to work out our disagreements (or to agree to disagree) early in the budget cycle. It should also result in a much clearer set of guidelines for the Town departments as they develop their detailed budgets. In turn, this should streamline the departmental budget reviews and reduce the huge commitment of time required of everyone involved.

## **Budget Process**

Assuming that we are in agreement on the need to have a five-year forecast in place early, here is the budget process and timeline that we suggest:

1. LATE SEPTEMBER / EARLY OCTOBER: Review the five-year revenue and expense forecast, including all assumptions made. Agree on the most likely scenario as a starting point for budget planning.
2. OCTOBER: Review and/or establish key financial management policies. (*See Financial Management policies section for further discussion of this topic*).
3. OCTOBER: Assuming that the FY11 forecast is out of balance, discuss and agree strategies for bringing it into balance, including possible budget/service cuts, revenue raising strategies, and the use of reserves.
4. NOVEMBER: Establish budget guidelines for the department heads. (*See below for a more detailed discussion of this topic*).
5. ONGOING: Continue to revise the five-year forecast as assumptions or facts on the ground change. Revise policies, guidelines and strategies accordingly.
6. DECEMBER: Proceed with the normal departmental budget process, including the development of a five-year capital improvements budget.
7. JANUARY 4: At handover of the budget to the Board of Selectmen, meet jointly to revise strategies if necessary.
8. FEBRUARY 1: At handover of the budget to the Finance Committee, meet jointly to revise strategies if necessary.
9. MARCH 1: Prior to the close of the warrant, meet jointly to resolve any remaining disagreements.

These recommendations would supplement the legal requirements of the budget process as defined in the Town charter and by-laws but are in no way intended to supersede them.

## **Budget Policy Guidelines**

According to the Massachusetts Department of Revenue Division of Local Services “A Guide to Financial Management for Town Officials”:

*“...the selectmen and finance committee should jointly develop budgetary guidelines for departmental requests. These guidelines should provide parameters to department heads that will help them prepare budgets that are compatible with the town’s financial goals.”*

It also goes on to say:

*“The selectmen, in cooperation with the finance committee, should also establish policy priorities and provide leadership in the constant debate between the needs of municipal departments (for sufficient resources to deliver public services) and the needs of the taxpayers (to receive adequate services at a cost they can afford).”*

Here is an initial list of questions we believe need to be discussed and debated in order to establish budget policy guidelines:

- Which municipal services are essential to the health and safety of the public, e.g. Police, Fire, waste disposal and road maintenance?
- What other municipal services or functions are mandated by Federal or State government, e.g. education, property assessment, Town Clerk?
- Which services can be funded by user fees? Are the fees sufficient to cover the cost of providing the service? Is an enterprise fund appropriate?
- What services are desirable but non-essential?
- Which services can/should be regionalized?
- Do we want to adopt the local option room and meals taxes? Should the proceeds go into the general fund? Be dedicated to capital improvements? Or both.
- When is it appropriate to make the continuance of a service dependent on a Proposition 2 ½ operating override?
- When is it appropriate to go for a general operating override versus targeting specific services?

- Is it an option to present the voters at Town Meeting with an unbalanced budget that depends on an operating override to fund it?
- Is it an option to go for one large operating override that will fund the operating budget for multiple years versus presenting the voters with numerous smaller ones?
- How do we determine the affordability of government? Is there a limit to what the taxpayers can afford to pay?
- How can we restructure municipal services and costs to bring them in line with our projected revenues, i.e. close the structural deficit?
- Can we increase our revenues and improve services without raising property taxes? What role does technology play?
- What are our long term policy goals? Can they be supported by our budget policy?

## Financial Management Policies

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According to Standard & Poor's October 22, 2006 Provincetown Bond Rating report:

*"The town's practices are considered to be standard under Standard & Poor's Financial Management Assessment, indicating that the finance department maintains adequate policies in most, but not all key areas...The town currently lacks policies regarding debt management and reserve levels, but management plans to introduce a policy to maintain a certain amount in the town's stabilization fund, possibly dictating a 5% level."*

The Town does not currently have formal, written, debt management and reserve policies in place. The Finance Committee believes that formalizing these policies will not only help guide day-to-day financial decisions, but will assist in establishing sound budget strategies.

It should be noted that policies are guidelines, not rigid proscriptions to be followed blindly. Policies are meant to be reviewed and updated on a regular basis as circumstances change.

In the sections that follow, each of these policies are addressed by providing a definition and some best practice guidelines, followed by a list of questions that need to be answered and debated in order to define what the Town's policies should be. The Committee is also gathering examples from other towns in the Commonwealth to serve as reference points and possible models.

**A note on reserves:** There are three types of reserves: free cash, the reserve fund, and stabilization funds. Each has a somewhat different purpose and restrictions on its use, but it is important that the policies complement one another.

## Finance Committee Reserve Fund

The Massachusetts Association of Finance Committees' "2006 Finance Committee Handbook" provides this definition and guidance:

"The law (Chapter 40 s 6 M.G.L.) allows towns to appropriate money — either at the annual or special town meeting — into a reserve fund "to provide for extraordinary or unforeseen expenditures."

DOR has expressed its opinion that reserve fund transfers are appropriate:

- to provide for urgent or unforeseen expenditures that could not have been anticipated before town meeting; and/or;
- to allow immediate expenditures of funds in the event of an emergency ( threat to public safety or health) when the delay of having to call a special town meeting could be potentially harmful.

In either case, the finance committee must approve all proposed transfers from a reserve fund. It is also understood that a reserve fund should not be to reverse a vote of town meeting or as a "backdoor" means of increasing the budget.

Finance committees should adopt their own reserve fund guidelines to supplement the state statute, and should help other town officials gain a better understanding of appropriate uses of a reserve fund.

It is also important that finance committees have a balanced approach in evaluating reserve fund transfers. For example, if budget reductions were made in a community despite legitimate warnings that there might be trouble meeting all fiscal obligations, the finance committee may expect to see an increase in reserve fund requests. It is the committee's responsibility to keep the town's best interests in mind when deciding which reserve fund transfer requests, if any, to approve."

The amount set aside annually within the budget of a town cannot exceed five percent of the tax levy for the preceding year. The finance committee can authorize transfers

from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require a budget transfer to be approved by town meeting.

Policy questions to be answered:

- What is the practical definition of "extraordinary or unforeseen" expenditures?
- Who else should review and approve requests for transfers from the Reserve Fund before they come to the Finance Committee – the Finance Director? The Town Manager?
- What is the appropriate amount, as a percentage of the tax levy, to hold in the Reserve Fund? (*The FY10 percentage is approximately .22%, or less than ¼ of one percent of the FY09 tax levy.*)

## Free Cash

The Massachusetts Association of Finance Committees' "2006 Finance Committee Handbook" provides the following definition and guidance on the use of free cash:

*"Free cash is also referred to as an unappropriated fund balance, and is a factor in every budget cycle. The Department of Revenue certifies amounts of "free cash" resulting from closing the financial books as of June 30, the end of the fiscal year. Generally, the calculation incorporates:*

- *surplus revenue: revenue collections in excess of estimated revenues;*
- *budget turn backs: unexpended appropriations;*
- *prior year's free cash: the fund balance from last June 30 that had not been appropriated for the current year's budget; and*
- *outstanding property taxes: taxes collected from prior years.*

*A town's free cash, or "budgetary fund balance," is the amount of funds that are unrestricted and available for appropriation. While towns may appropriate free cash to balance the budget for the coming fiscal year, an ample free cash balance provides towns with financial flexibility. Town meeting may appropriate from free cash during a given fiscal year to meet unexpected expenses or to fund a needed capital project. Depleting free cash, particularly to balance annual budgets, may suggest that a community will face tighter financial times without such funds to supplement annual revenues.*

*This drawdown on reserves might also have a negative impact on the town's credit rating."*

Policy questions to be answered:

- What are the appropriate uses of free cash?
  - Fund the current year operating budget? Under what circumstances?
  - Fund the acquisition/replacement of capital equipment? What are the guidelines?
  - Reduce the property tax rate for the next fiscal year? Under what circumstances?
  - Increase the Stabilization Fund?
  - Increase the Reserve Fund for the current fiscal year? Under what circumstances?
- Do the above uses need to be prioritized?

### **Stabilization Fund(s)**

The Massachusetts Association of Finance Committees' "2006 Finance Committee Handbook" provides this definition:

"Some communities maintain a more formal "rainy day" fund called the stabilization fund. Analogous to a bank account, town meeting can appropriate or "make deposits" into this fund for use at some future time. A stabilization fund can be used for any legitimate municipal purpose. While a simple majority of town meeting is needed to appropriate to the stabilization fund, a two-thirds majority is necessary to appropriate from this fund. Legislation passed on July 31, 2003 (Chapter 40s5B M.G.L.) allows the creation of multiple stabilization funds for specified purposes (See Department of Revenue IGR No.04-201)."

Policy questions to be answered:

- What is the purpose of our current stabilization fund?
  - To buffer the Town from an economic downturn?
  - To fund capital projects?
  - To fund the current year operating budget versus cutting expenses?
  - To fund next year's operating budget? Under what circumstances and to what extent?
- What is the target size of the stabilization fund as a percent of the operating budget or a specific dollar amount?
- How will we meet that target?
- How do we replenish the fund after we make a withdrawal?
- Do we need more than one stabilization fund? For example, one for a "rainy day", another for capital improvements?

## Debt Management

The Government Finance Officers Association (GFOA) “Recommended Practice for Debt Management Policy” provides this high level guidance:

*“Debt management policies are written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.*

*Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.”*

Policy questions to be answered:

- When to appropriate from available funds versus borrowing (based on dollar amount)?
- When to fund via a Proposition 2 ½ capital exclusion?
- When to fund via a Proposition 2 ½ debt exclusion?
- When to use short-term borrowing versus long-term bonding?
- Limit long-term debt service to a percentage of gross revenues?
- How to track our debt ratios (similar to what the bond rating agencies due)?
- Use of debt proceeds to fund ongoing operations?
- How to handle residual balances from previously authorized bonded projects? Reallocate to other capital projects?
- How to handle residual balances from previously authorized projects that were funded with available revenue? Reallocate to other projects? Close to the appropriate fund balance?
- Link term of debt to the expected useful life of the capital project?
- Maintaining ongoing communication with bond rating agencies? Full disclosure policy?