



Finance Committee

Finance Committee Meeting Minutes
Monday, November 9, 2009 @ 5:00 pm
Larkin Hall at the Provincetown Center for Coastal Studies
Called to Order: 5:00 pm

Membership:

P	E	U	Name	
<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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Frederic Biddle	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Philip Gaudiano	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Gabrielle Hanna	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Daniel Hoort	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	David McChesney	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Erik Yingling, Alternate	<input checked="" type="checkbox"/> Voting
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Oliver Kamm, Alternate	<input type="checkbox"/> Voting

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

These minutes are in brief format. This meeting was filmed and is available on DVD at the Provincetown Television office.

Also Present:	
Michele Couture, BoS Chair	Sharon Lynn, Town Manager
David Bedard, BoS Vice Chair	David Gardner, Asst. Town Mgr.
Austin Knight, BoS	Alix Heilala, Finance Director
Elaine Anderson, BoS	

Order of Business:
1. To review the Finance Committee's drafts of proposed Debt Management and Cash Reserves policies.
2. To consider any other business that may legally come before the Finance Committee.

Ms. Couture and Mr. Coen called their respective boards to order. Ms. Couture and Ms. Lynn made some brief introductory remarks. Mr. Coen gave a verbal summary of his transmittal memo to the Board of Selectmen. *(Copies of the memo and the draft policies are attached)*. Open discussion of the policies ensued.

Debt Management Policy

Ms. Couture questioned whether the use of the phrase “the Town will” in the policies was too restrictive. Mr. Coen suggested that policies set out goals for the Town and should be written strongly. He also pointed out that some of the policies say “the Town will endeavor” or “may” where appropriate. After some discussion, the Board agreed to stick with the existing language.

Ms. Couture also suggested that the language “Review and Amendments” section of the policy may confuse the respective roles of the Board of Selectmen and the Finance Committee in setting policy. Mr. Coen agreed to change the language to make the roles clearer in both policies.

Cash Reserves Policies

Ms. Anderson and Mr. Bedard found the language describing the legal limits for contributions to stabilization funds and limits on stabilization fund balances confusing and, perhaps, contradictory. Mr. Coen agreed to double check the accuracy of the statements and to revise them as necessary.

Mr. Bedard also suggested that, since we are allowed to have multiple stabilization funds, the references to stabilization funds should be in the plural.

Ms. Couture found the statement “The Town will not use the Stabilization Fund as a source of funding for the annual operating budget” to be too restrictive. Ms. Anderson suggested adding the phrase “except as a last resort”. There was general agreement on this change.

Mr. Coen suggested striking the “Enterprise Fund Emergency Reserves” section from the policy and putting it into a separate policy document. Enterprise funds operate under different rules from general government and use different terminology. Other enterprise fund specific financial policies should also be into the document, e.g. user fees and charges policy, retained earnings policy, etc. There was general agreement on making this change also.

At the end of the meeting there was some discussion about how to proceed. Mr. Coen recommended that, given the extent of the changes to be made, he should revise the documents and that the boards should have a follow-up meeting to finalize the policies, possibly on the 23rd.

Mr. Coen also read an excerpt from the 1990 Charter Revision Summary that emphasizes the need for the Board of Selectmen to have written policies.

“This commission has spent considerable amount of time pondering the state of your local government. Consequently, we believe that the following observations may be of some value.

Ideally, the board of selectmen should be concerned with the development of policies, and the town manager with the carrying out of those policies. Realistically, it is impossible to draw a clear line between the two roles, but under any circumstances, the line will only be so clear as the policies adopted by the board of selectmen. A town manager who has no policy to guide him must deal with a problem using only his best judgement. If the board of selectmen have a different view of the problem, and overrule the town manager under the guise of enunciating their policy, then conflict may result. Such conflicts would not be as frequent or as sharp if the board of selectmen would adopt written policies.”

Next Meeting:	Monday, November 23, 2009 @ 3:30 pm
Adjourn:	5:50 pm
Minutes by:	Thomas Coen

Approved by  on December 8, 2009
Thomas Coen, Chair



Finance Committee

Memo

To: Provincetown Board of Selectmen
From: Thomas Coen, Chair, Provincetown Finance Committee
CC: Finance Committee, Town Manager, Finance Director
Date: November 4, 2009
RE: Draft Debt Management & Cash Reserves Policies

Ladies and Gentlemen of the Board of Selectmen

At our joint meeting on August 10th, the Finance Committee recommended that the Town develop and adopt written financial management policies, specifically focusing on debt management and cash reserves policies.

Development of financial management policies is a very pressing issue among finance committees across the State, including our neighbors on the Cape. A breakout session at the recent Association of Town Finance Committees annual meeting on this topic was lively and packed. Given the financial uncertainty that we are all facing, it is critical that towns have formal policies to protect their financial stability.

Over the last several weeks, the Committee compiled sample policies from other towns in Massachusetts, along with guidance from the Department of Revenue (DOR) and the Government Financial Officers Association. Working closely with the Town Manager and Finance Director, we were able to “cherry pick” the best examples and compile them into draft policies that we believe are appropriate for Provincetown, and that are consistent with the DOR’s guidelines. This approach allowed us to benefit from other towns’ best practice and greatly sped up the process.

Attached you will find draft copies of the policies for your consideration. The Finance Committee looks forward to your comments and suggestions on how to improve these draft policies before we make a formal recommendation to you for adoption.

Respectfully submitted,

Thomas Coen, Chair
Provincetown Finance Committee



Town of Provincetown Draft Debt Management Policy

Policy Goals

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. Properly managed debt preserves our credit rating, provides flexibility in current and future operating budgets, and provides us with long-term assets that maintain or improve our quality of life. To provide for the appropriate issuance and responsible use of debt, the Board of Selectmen of the Town of Provincetown has adopted the following debt management policies.

Use of Debt Financing

- The Town will issue long-term debt only for objects or purposes authorized by state law.
- The Town will not use the proceeds of long-term debt to fund current, ongoing operations.
- The Town may issue short-term debt to finance current operating expenditures only in the event of an extreme financial emergency.
- The Town will confine long-term borrowing to capital improvements and projects that cost at least \$30,000; cannot be financed from current revenues; and have a useful life of at least five years, or will prolong the useful life of a capital asset by at least five years.
- The Town will authorize no new long-term debt without a clear identification of its financing sources.
- On all debt-financed projects, the Town will, to the extent possible, use available funds to reduce the amount of borrowing.
- The Town will fund the remaining balance through a Proposition 2 ½ debt exclusion, not out of General Fund revenues.

- Where possible, the Town will use special assessment, revenues or other self supporting bonds, instead of general obligation bonds.
- To the extent practicable, the Town will set user fees to cover the capital costs of enterprise type services or activities - whether purchased on a pay-as-you-go basis or through debt financing - to avoid imposing a burden on the property tax levy.

Structure and Term of Debt

- When the Town finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- Except for major buildings; water and sewer projects; and land acquisition, the Town will limit bond maturities to no more than ten years.
- The Town will authorize all debt service to have level or declining annual principal payments unless there is a more financially advantageous schedule.
- The Town will attempt to maintain a long-term debt schedule so that at least 50% of outstanding principal will be paid within 10 years.
- The Town will retire bond anticipation debt within six months after completion of the project, unless it is financially advantageous to do otherwise.

Debt Limits

- The Town will limit its total debt service, including debt exclusions and self supporting debt, to 10 percent of gross revenues.
- The Town will limit total general obligation debt to a maximum of 2.5% of the total assessed value of property in the Town.
- The Town's Finance Director and Treasurer will calculate debt limits established by law and policy at least once each year and whenever otherwise requested or appropriate.

Protection of Bond Rating

- The Town will maintain good communications with bond rating agencies, bond counsel, banks, financial advisors and others involved in debt issuance and management.
- The Town will follow a policy of full disclosure on every financial report and bond prospectus.
- The Town will limit annual increases in debt service to a level that will not materially jeopardize the Town's credit rating.
- The Town will attempt to limit bond sales in any calendar year to \$10,000,000 in order to maintain bank qualifications and thereby receive lower interest rates on bonded debt.

Capital Project Closeout

- The Town will endeavor to closeout all capital projects within six months of completion.
- For those previously authorized bonded projects with residual balances, the Town Manager will propose the reallocation of any balances for other capital projects in conformance with MGL Chapter 44, Section 20.
- For those previously authorized projects funded with available revenue (tax levy or reserves), that have residual balances in excess of \$5,000, the Town Manager will propose the reallocation of these balances for other future capital projects in conformance with MGL Chapter 44, Section 33B.
- For those previously authorized projects funded with available revenue (tax levy or reserves), with residual balances of less than \$5,000, the Finance Director is authorized to close these balances to the appropriate fund surplus.

Annual Reporting

- The Town's annual Town Report; the Town Manager's Budget Request; the Town Manager's Five Year Fiscal Policy Plan; and the Finance Committee's report to the Annual Town Meeting will include comprehensive summaries of the debt obligations of the Town.

Review and Amendments to this Policy

- The Board of Selectmen and the Finance Committee will review this policy periodically, and amend it as appropriate.
- Amendments to this policy document will require a majority vote of the Board of Selectmen and a majority vote of the Finance Committee.

Recommended by the Finance Committee on _____ by a vote of _____

Adopted by the Board of Selectmen on _____ by a vote of _____

Revision History	
Date Adopted	Summary of Changes
November 9, 2009	Initial version.



Town of Provincetown Draft Cash Reserves Policies

The financial health of the Town of Provincetown is of paramount importance to its residents who receive essential services; to its bondholders who provide funding for long-term Town projects; to its vendors who provide services and equipment to the Town; and to its current and retired employees. These policies on cash reserves are designed to protect the community from sudden and unexpected changes in revenues or expenses.

Stabilization Fund Policy

A stabilization fund is a fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances cannot exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money to or from the stabilization fund.

- The Town will endeavor to maintain in the Stabilization Fund a minimum amount equal to five percent (5%) of general fund operating revenues.
- In accordance with MGL Ch. 40 §5B - Stabilization Fund, transfers into the Stabilization Fund will require a two-thirds (2/3s) vote of Town Meeting.
- The Town will not use the Stabilization Fund as a source of funding for the annual operating budget.
- The Town may make withdrawals from the Stabilization Fund for adopted Capital Improvement Projects, provided that they cannot be funded using other available sources; and that such Capital Improvements will be paid for in cash; and that such withdrawals will not bring the balance of the fund below the 5% target.
- The Town may make withdrawals from the Stabilization Fund that will reduce the balance of the fund below the 5% target only in response to extraordinary and unforeseen financial obligations that *pose an immediate threat to the Town's financial stability*, and that cannot be funded in cash using other available sources.

- In accordance with MGL Ch. 40 §5B - Stabilization Fund, withdrawals from the Stabilization Fund will require a two-thirds (2/3s) vote of Town Meeting.
- In the event of a fiscal emergency requiring an immediate withdrawal from the Stabilization Fund, the Town will call an Emergency Town Meeting as quickly as allowed by the Town Charter.
- If and when the Town draws monies from the Stabilization Fund that would reduce the balance of the fund below the 5% target, the Town must also present a plan for replenishing the fund.
- In accordance with MGL Ch. 40 §5B - Stabilization Fund, interest earned on Stabilization Fund balances will be retained in the Stabilization Fund.

General Fund Reserve Fund Policy

To respond to extraordinary and unforeseen financial obligations, the Town has established an annual budget reserve in accordance with the provisions of Massachusetts General Law, Chapter 40, §6. The amount set aside annually within the budget of a town cannot exceed five percent of the tax levy for the preceding year. Only the Finance Committee can approve transfers from the fund.

- The Town will endeavor to fund the Reserve Fund at a minimum level equal to ½ percent (.5%) of the prior year's net General Fund revenue, preferably from free cash.
- The Finance Committee will only consider requests for transfers from the Reserve Fund in response to extraordinary and unforeseen financial obligations that must be responded to immediately, and that cannot be deferred until the next scheduled Town Meeting.
- The Finance Committee will not consider any request that is contrary to a decision of Town Meeting.
- Prior to submitting a request for a transfer from the Reserve Fund, the Finance Director will endeavor to identify other available funding sources.
- The Town Manager and the Finance Director must approve all requests for transfers from the Reserve Fund, in writing, before the Finance Committee will consider them.
- The Finance Committee will turn back any unexpended balance at the end of the fiscal year to be included in the calculation of the next fiscal year's free cash.

Enterprise Fund Emergency Reserves

Emergency reserves, like the General Fund Reserve Fund (MGL 40, §5A or §6), is an appropriation available to meet unanticipated spending needs that may arise during the course of the year and require immediate action.

- The Town will endeavor to fund the Enterprise Fund's Emergency Reserves at a minimum level equal to ½ percent (.5%) of the prior year's net Enterprise Fund revenue, preferably from retained receipts.

Note for discussion: *The ½ percent target is probably inadequate by a factor of at least 5, possibly 10. Based on FY10's projected revenues, the FY11 emergency reserves would only be \$8,868 for Water and \$13,969 for Wastewater. Case example: the July 4th sewer failure.*

- Following the same guidelines set forth in the General Fund Reserve Fund, the reserve may be transferred by the Finance Committee rather than having to wait for the next scheduled Town Meeting.
- At the close of the fiscal year, any remaining balances in the emergency reserves will close to the Enterprise Fund balance.

Free Cash Policy

Free cash is a revenue source which results from the calculation, as of July 1, of a community's remaining, unrestricted funds from 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. Free cash is offset by property tax receivables and certain deficits, and as a result, can be a negative number.

Cities and towns generally use free cash to support current year operations or as a revenue source for the ensuing year's budget. However, until a balance sheet for the prior year is submitted by Town's auditor and free cash is certified by the Department of Revenue's Director of Accounts, it is not available for use.

- The Town will endeavor to generate annually a certified Free Cash balance equal to at least five percent (5%) general fund operating revenues.
- The Town will avoid relying on Free Cash to fund on-going operating expenses.
- During the current fiscal year, the Town will use Free Cash in excess of the 5% target for non-recurring emergency expenditures; the Town's adopted Capital

Improvements Program that will be paid for in cash; or appropriate it to the Stabilization Fund.

- At the Annual Town Meeting, the Town will appropriate all, or a substantial portion, of remaining available Free Cash to the Stabilization Fund; the Town's adopted Capital Improvements Program that will be paid for in cash in the ensuing year; or to the ensuing year's Reserve Fund.

One Time Revenues Policy

By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

- The Town will use one-time revenues for the Town's Capital Improvements Program that will be paid for in cash; additions to Stabilization Fund; or as legally restricted to a specific purpose.

Overlay Reserve Fund Policy

Per the requirements of MGL Chapter 59, Section 25, the Overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation.

- The Board of Selectmen will, at the conclusion of each fiscal year, require the Board of Assessors to submit an update of the Overlay reserve for each fiscal year, including, but not limited to, the current balances, amounts of potential abatements, and any transfers between accounts.
- If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Board of Selectmen will request the Board of Assessors to declare those balances surplus, for use in the Town's Capital Improvement Plan (CIP) or for any other one-time expense.

Review and Amendments to these Policies

- The Board of Selectmen and the Finance Committee will review these policies periodically, and amend them as appropriate.
- Amendments to these policies will require a majority vote of the Board of Selectmen and a majority vote of the Finance Committee.

Recommended by the Finance Committee on _____ by a vote of _____

Adopted by the Board of Selectmen on _____ by a vote of _____

Revision History	
Date Adopted	Summary of Changes
November 9, 2009	Initial version.