

Massachusetts Select Board Association (MSA) Newly Elected Select Board Training

Municipal Finance & Budgeting 101
June 9, 2023

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With grateful acknowledgment to:

Pamela Dukeman, Asst. TA/Finance Director, Westwood Sandy Pooler, Town Manager, Arlington

Discussion Topics

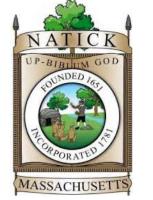
- Welcome and Introductions
- General Government Structure
- Local Government Roles and Responsibilities
- Budget Basics
 - Building Blocks
 - Timeline
- Other Financial Tools
- Takeaways and Resources

Welcome and Introductions





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MASSACHUSETTS











Hubbardston

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Welcome and Introductions

About me:

- Athol Town Manager since 2014; over 29 years public sector experience
- Rural Policy Advisory Commission; STAM chairman

About you:

- About 100 registrants from 78 communities (record turnout for this event)
- Alphabetically representing Acton to Wilmington
- Geographically covering all four corners of the state (and the islands) from Mount Washington to Newbury and from Oak Bluffs to Williamstown
- Population ranging from 160 in Mount Washington to 62,000 in Plymouth and a median population of 10,121 which is about the same as Littleton
- Annual budgets from \$877,000 in Mount Washington to more than \$260M in Lexington
- Outlier: city of Lynn with Plan B form of governance and over 100,000 residents

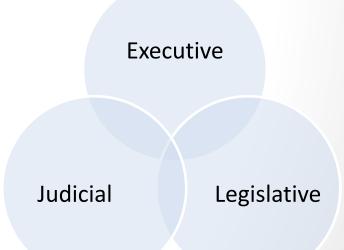
General Government Structure

U.S. Constitution and Massachusetts Constitution

- "Checks and Balances" Three co-equal branches of government
 - Executive (President; Governor)
 - Legislative (U.S. Congress; Great and General Court bicameral)
 - Judicial (Supreme Court and federal court system; SJC and state court system)

How do municipalities fit in this structure?

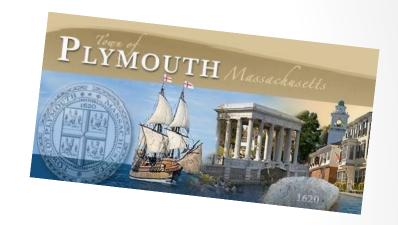
- Two branches of government (except Boston)
 - Executive (Mayor; Select Boards)
 - Subject to governing Charter, Special Act or SB discretion to delegate certain responsibilities to Town Manager or Administrator under MGL c. 41, sec. 23A
 - Legislative (Open or Representative Town Meeting)
 - All funding just like state and federal government must be raised by the legislative branch



Check your Charter

Town of Plymouth Charter – Chapter 3

- Section 2 Select Board: General Powers and Duties
 - 3-2-1 The Select Board shall be the chief executive body of the town. It shall serve as the goal setting, long-range planning and policy-making body of the town. It shall make recommendations on major courses of action to the representative town meeting. It shall adopt policy directives and guidelines which the officers, boards, committees, commissions and employees of the town shall implement.



If no Charter check bylaws or statute

MGL c. 40, sec. 23A: A town may by vote or by-law authorize and empower the selectmen to appoint an executive secretary or town administrator . . . [who] shall act by and for the selectmen in any matter which they may assign . . . relating to the administration of the affairs of the town. . .

Local Government Roles & Responsibilities

Generally Speaking ...

Select Board

- Serves as the Chief Executive Officer for the community
- Provides policy direction for town departments
- May appoint a Town Manager or Administrator to manage day-to-day operations
- Provides oversight of Town Manager; may supervise departments in smaller communities
- Offers "guard rails" to ensure community standards are embraced by town government

Finance (Advisory) Committees

- May have appointing authority separate from SB (e.g. Town Moderator)
- Serves as a non-elected advisory board on municipal financial matters
- May take lead role in budget development or presentment to Town Meeting (check your Charter)
- Can be a strong and (presumptively) apolitical voice in budget process

Local Government Roles & Responsibilities

Generally Speaking ...

Town Manager / Town Administrator

- Prepares initial budget document based upon SB priorities and operational knowledge of various department functions
- Engages collaborative staff effort to prepare key inputs to budget process (e.g. revenue projections; trends analysis; forecasting; expense targets)
- Serves as team leader for staff and as facilitator for policy input from Select Boards and Finance Committees; coordinates with school administration / districts

Finance Team / Department Heads

- Town Accountant; Treasurer; Collector; Assessor
 - Role specific inputs to budget; ideally in team / collaborative format
- Department Heads
 - Department specific budget preparation; they are the subject-matter experts



Financial Roles for Select Boards

Policy Leadership in Budget Development

- Participate in budget development and presentation to the community
- Review budget requests and understand Finance Committee positions
- Monitor financial performance (e.g. awareness of expenditures; bond rating; debt position)

Establish Written Financial Policies

- Select Board should adopt formal financial policies to guide financial decision making of the town
- Engage participatory input from Town Manager, finance staff and Finance Advisory Committee as allies to ensure responsible implementation

Debt Approval

Select Board approves and signs bonds when the community authorizes and issues debt

Proposition 2 ½

• Only the Select Board can place a Proposition 2 ½ override or debt exemption question on the ballot

Allocation of Property Tax Between Commercial/Residential

 Select Board sets the tax shift, or classification of taxes among commercial and residential properties.

FINANCIAL POLICIES

- Key resource to keep all parties on track
- Vital best practice; invaluable to bond rating





EXISTING BUDGET

- If it aint broke valid "starting point" for many smaller towns
- Time and effort needed to get to granular understanding in more complex environments

REVENUE PROJECTIONS / FORECASTS

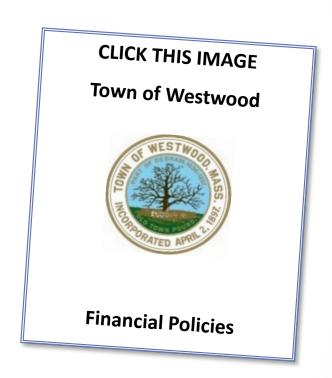
- Property Tax (tax levy, new growth, debt exclusions)
- State Aid (UGGA, Chapter 70, Reg'l School Transpo, Rural Districts, SOA, etc.)
- Local Receipts (excise tax, departmental fees/receipts)
- Other / Reserves . . . but think twice

EXPENSE PROJECTIONS / FORECASTS

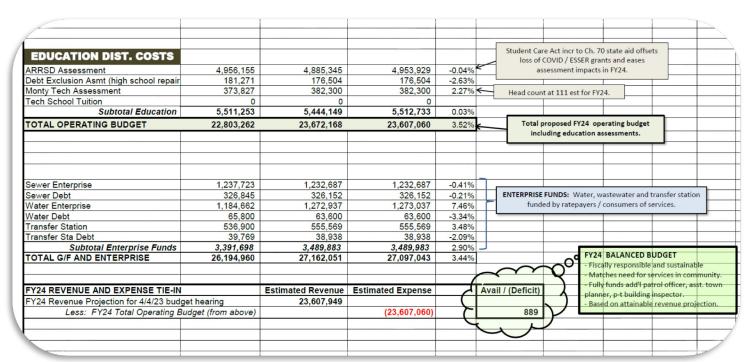
- Operating budgets
- Capital program
- Fixed costs
- Debt service

FINANCIAL POLICIES

- Vital to bond rating
- Go to resource to keep all parties on track – categories should include:
 - Reserves
 - Capital planning
 - Free cash
 - Debt policies
 - Cash management
 - Stabilization funds
 - OPEB



- EXISTING BUDGET
 - IF IT AINT BROKE . . .
 - Valid "starting point" for most smaller towns
 - Time and effort needed to get to granular understanding in more complex environments

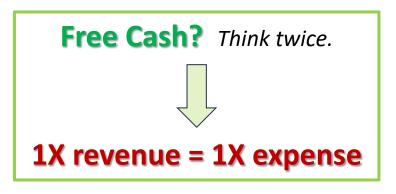


REVENUE PROJECTIONS / FORECASTS

- Property Tax (tax levy, new growth, debt exclusions)
 - Proposition 2 ½ (PY levy + 2.5% + NG = new levy limit)
- State Aid (UGGA, Ch. 70, SOA, CB, Reg'l Tx, etc.)
- Local Receipts (excise tax, departmental fees/receipts)
 - Utilize historical trends to inform future performance; apply "real world" scenarios (e.g. cannabis; meals; rooms)
 - Be reasonably conservative in revenue projections to ensure smooth sailing

Other / Reserves

- Stabilization
- Free cash
- Miscellaneous
- Proposition 2 ½ (later)



EXPENSE PROJECTIONS / FORECASTS

- Departmental requests and new programs or services
- Preventive maintenance; projects outside of capital planning scope
- Applicable to all enterprise fund budgets as well

 Coordinate with local school department, regional district and technical school districts



Budget Basics - Expenses

"BIG FOUR" AND MORE











HEALTH INSURANCE



RETIREMENT ASSESSMENT



OPEB LIABILITY



CAPITAL PLANNING





Ready? Go! Budget Timeline

July

- Begin new fiscal year
- Close books from prior year

August

Accountant prior FY report

October – December

- Conduct audit of prior fiscal year
- State reporting requirements (e.g. Departments of Revenue, Education)
- Free cash certified
- Tax rate hearing; set tax rate
- Issue budget message to departments

January - June

- Conduct budget meetings with departments
- Develop initial budget with finance team
- Update revenue and expense projections
- Obtain insurance and other assessments
- Coordinate with school admin / districts
- Hand-off balanced budget to Select Board and Finance Committee for hearings
- Reach consensus budget recommendation
- Gain approval from Annual Town Meeting



Other Tools – Proposition 2 ½

- Enacted in 1980, Proposition 2 ½
 fundamentally changed the municipal
 budgeting process:
 - Before Proposition 2 ½, municipalities decided how much their service provision would cost, and then taxed accordingly:
 - Expense Driven Budgeting
 - After Proposition 2 ½, municipalities were forced to manage their costs and service levels based on the amount of revenue available under the levy limit:
 - Revenue Driven Budgeting

Proposition 2 ½ Formula

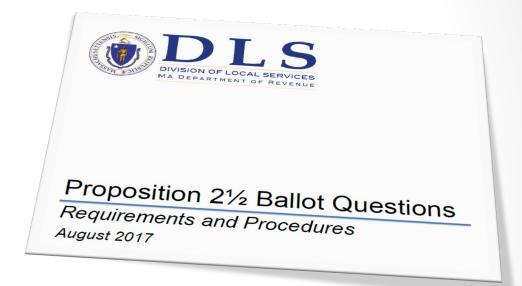
Sum equals new levy limit	\$ <u>51,500,000</u>
Add new growth (Assessor)	+\$250,000
(e.g. add 2.5% p/y levy)	\$51,250,000
Add 2.5% p/y levy	+\$1,250,000
Prior year tax levy	\$50,000,000

^{*}avg tax growth 3.5%+/-

What is Proposition 2 1/22 Levy Building Blocks

Other Tools – Overrides & Exclusions

- An override is a <u>permanent</u> increase in the property tax levy:
 - Must receive majority vote at ballot box
 - Must receive appropriation from Town Meeting
 - Only the Select Board can vote to place a ballot question (even if Town Meeting approves an appropriation)
 - Cannot exceed 2.5 percent of the community's full and fair cash value (known as the levy ceiling)
- A debt exclusion is a <u>temporary</u> increase in taxing authority above the levy limit:
 - Does not increase levy limit
 - Must be for capital project
 - Town Meeting must still authorize borrowing
- A capital exclusion is a <u>one year</u> increase in taxing authority to fund an appropriation for a capital expenditure.



GREAT MATERIAL FROM MASS DOR / DLS https://www.mass.gov/service-details/proposition-2-12-and-tax-rate-process

Other Tools – Forecasting

What is a forecast?

"A financial forecast is a fiscal management tool that presents <u>estimated</u> information based on <u>past</u>, <u>current</u>, <u>and projected</u> financial conditions."



"Use statistical <u>data</u> as well as the accumulated <u>judgment</u> of individuals inside and perhaps outside the organization."

- Government Finance Officers Association

Other Tools – Forecasting

What to forecast?

- Revenues
- Expenses
- Fund Balances
 - Water, Wastewater, Solid Waste

• Why forecast?

- Ensure fiscal sustainability
- Analyze impact of choices
- Understand trends
- Achieve structural balance

PUT SIMPLY

Recurring Revenue = Recurring Expense 1X Revenue = 1X Expense

REVENUE AND EXPENDITURE FORECASTING January 2020



A forecast of projected revenues and expenditures is a useful management and policymaking tool that enables a municipality to evaluate the impact of various government decisions over time. Since policy decisions often affect financial conditions for years to come, it is beneficial to analyze their associated fiscal impacts over a multiyear period, as in the following examples:

- What is the impact of a multiyear collective bargaining agreement?
- What is the impact of financing a new school, and how will its debt service affect the tax rate?
- How much will a proposed development add to the tax levy, and what will be its added service costs?
- What is the impact of moving solid waste disposal to a full cost recovery basis over the next three years?
- What is the impact of various health insurance cost savings options?

Financial forecasting provides an effective approach to evaluating these and other policy choices under consideration by a municipality.

MassDOR – DLS forecasting and other templates: https://www.mass.gov/info-details/municipal-finance-tools-and-templates

Other Tools – Data Data Data

- MassDOR Division of Local Services
 - Greatly expanded menu of tools to delve into your community and statewide performance (links below illustrative and active)



https://www.mass.gov/info-details/trends-in-local-receipts

https://www.mass.gov/info-details/massachusetts-average-single-family-tax#fy2023-

GO HERE

FOR MUNICIPAL DATA ANALYTICS LANDING PAGE

https://www.mass.gov/info-details/municipal-financial-self-assessment

https://www.mass.gov/info-details/free-cash-use

https://www.mass.gov/info-details/municipal-databank-data-analytics

Other Topics in Brief (very brief!)

Reserves

- Budget Reserve Fund: ≤ 3% of prior year levy (may be under Finance Committee authority to transfer)
- **Stabilization** Fund: accumulates interest (under Town Meeting authority to expend with 2/3 vote required)
- Overlay: hedge against abatement requests and ATB appeals (Assessors may recommend release as a potential revenue source)

Free Cash

- Surplus from prior fiscal year(s) from
 - Revenues that exceed projections
 - Unexpended appropriations (department turnbacks)
 - Unanticipated general fund receipts
- Must be certified by MassDOR annually

USES OF FREE CASH

- Operating budget (think twice!)
- Capital projects
- Emergency reserves

1X REVENUE = 1X EXPENSE



Other Topics in Brief (very brief!)

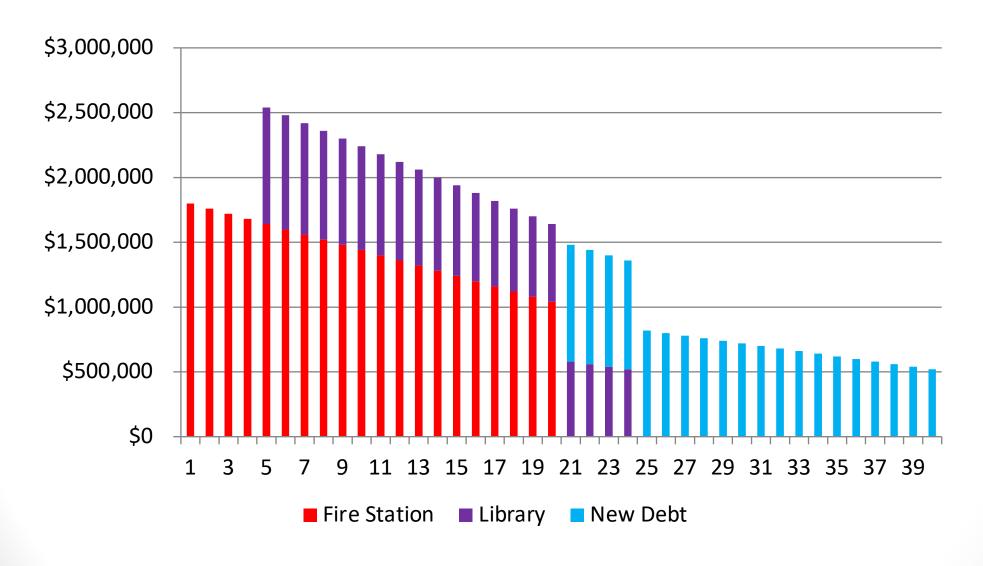
Debt (terminology)

- Bond: long-term debt obligation (two to 30 years typically)
- BAN: bond anticipation note (one year or less for cash flow prior to bond issuance)
- **Debt service:** combined annual interest and principal payments
- Bond rating: credit rating issued primarily by Moody's, Standard & Poor's or Fitch

Debt (generally)

- 2/3 vote by Town Meeting to authorize
- MGL c. 44, sec. 7 and 8 lists projects eligible for debt issuance
- How much?
 - Legal limit under Proposition 2 ½ = five (5%) percent of community's EQV
 - Practical limit is what can the Town and its taxpayers afford
- Terms are typically up to 30 years but based upon useful life
- Can be level payment or level principal
- Consider "layering" debt as long-term strategy (e.g. issue new debt as older projects are paid off)

Other topics – Layering Bonds



Other Topics in Brief (very brief!)

- Tax Rate Tax Classification Hearing
- Select Board holds public hearing to "set" tax rate
 - Held after Assessors complete and report valuations to MassDOR
 - Assessors will outline the calculated tax rate options (which is just a mathematical formula)
 - SB does <u>not</u> set the rate but does make policy votes on:
 - Whether to have a single or split tax rate (residential / CIP)
 - Whether to allow certain classification exemptions
 - Open space discount
 - Residential exemption
 - Small commercial exemption
- Select Board policy decisions determine the final rate which then must be approved by MassDOR (see link below for a detailed explanation)

https://www.mass.gov/doc/chapter-4-propertytax-classification/download

Takeaways

- Match recurring revenue to recurring expenses
- Use 1X revenue for 1X expenses
- Utilize the skills of your professional staff and engage with the Finance Committee
- Ensure communication with the school district or administration throughout budget development – NO SURPRISES!
- Review spending reports; ask questions of your staff if in doubt
- Serve as a policy leader and as a resource to support your Town Manager and department staff
- Recognize that Select Board members can be extremely effective ambassadors and educators to the community that elected you
- There is no perfect formula for BALANCING the many competing interests; use your best judgment on how the budget can advance the community's priorities

Acknowledgments and resources

Thank you for use of your materials and expertise:

- Pamela Dukeman, Asst. Town Administrator / Finance Director, Town of Westwood
- Sandy Pooler, Town Manager, Town of Arlington

MassDOR's Website is a treasure trove of information – use it

- https://www.mass.gov/orgs/division-of-local-services
- https://Municipal Finance Training and Resource Center | Mass.gov
- Training Videos are concise and informative:
 - https://www.youtube.com/c/MassachusettsDivisionofLocalServices/playlists

Mass. Municipal Association also has great information on its Website

- Link to PDF of Handbook for Selectmen (Chapter 5 municipal finance)
 - https://bit.ly/30cqVRP
- Link for MassDOR DLS issue dedicated to new local officials
 - https://www.mma.org/dls-publishes-issue-dedicated-to-new-local-officials/

Thank you!

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