

Section V

Appendix

APPENDIX

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APPENDIX: Budget Process

Budget Process

The Town of Concord operates under state statutes in general; under the Town Charter as amended, which established the present Select Board-Town Manager form of government; and under various Town bylaws. The legislative body of Concord is an open Town Meeting, in which all voters registered in Concord are permitted to participate. Town Meeting has the sole authority to appropriate funds for the operating budget and capital projects, except for specific instances where statutes or regulations do not require appropriation. Any amendments to appropriations adopted at a Town Meeting require subsequent approval at either a regular Town Meeting or Special Town Meeting. Only the Town Meeting can authorize the transfer of funds between appropriation accounts within the Town Government budget (Article 6, Line Items 1-39 on the 2019 Annual Town Meeting Warrant). Nevertheless, if there happens to be need for an “extraordinary or unforeseen” expenditure, the Finance Committee can authorize additions to appropriation accounts by transferring funds from the appropriated Reserve Fund (Article 6, Line Item 32, proposed at \$225,000).

For the Concord Public Schools budget, state law gives the School Committee the power to authorize transfers within the appropriation total voted by Town Meeting. The regional high schools both are separate political jurisdictions of the Commonwealth that can assess member municipalities but do not have separate taxing powers. The regional school committees have power to authorize transfers within their adopted budgets.

Under the Town Charter and Town bylaws, the Town Manager is required to submit a proposed budget to the Select Board. The Select Board in turn is required to transmit to the Finance Committee a copy of the Town Manager’s Proposed Budget, together with its recommendations. Finally, the Finance Committee must make budget recommendations to Town Meeting.

Like prior budgets, this budget has been developed based upon projected assumptions of available revenue. The budget is based upon a budget ceiling or levy limit of revenue derived from local property taxes in accordance with Proposition 2½. Added to these revenues are projections for state aid; miscellaneous revenues, such as fees, permits, and interest earned; and available funds, such as free cash and special revenues. This levy limit may be increased if the Town Meeting adopts a budget requiring an override and the override amount is approved by a majority of voters at the polls.

While the projection of available revenues creates a budget ceiling for the Town, an expenditure floor is created by calculating certain fixed or semi-fixed costs such as debt payments, employee benefits, and various assessments. These costs subtracted from projected revenues leave remaining funds that are available for discretionary spending, such as education, public safety, infrastructure maintenance, and community services.

For the past several fiscal years, this budget development framework has been altered to meet expected fiscal reductions. Departments have been instructed to provide budget requests that level fund non-personnel related line items. These requests were then further adjusted to meet revenue estimates while avoiding major service or personnel reductions.

Budget Schedule

Beginning in September each fiscal year, the key boards and committees discuss budget issues and provide policy guidance to the Town and School staff at a series of working meetings. The Finance Committee issues its budget guidelines to the Select Board and School Committees by November 30th. With input from these groups, the Town Manager submits the recommended budget to the Select Board at least 90 days prior to the beginning of the Annual Town Meeting, which begins this year on Monday, April 8, 2019.

In late February 2019, the Finance Committee holds public hearings on the Town Manager’s recommended budget and on the recommended School budgets. Prior to the first public hearing, all Concord households are mailed a copy of the Town Warrant containing all the financial and non-financial articles to be considered by Town Meeting. A Report from the Finance Committee is mailed to every Concord household prior to the first session of Town Meeting, with specific recommendations and background information. The precise timing of the process varies somewhat from year-to-year. Shown on the following pages are a chart of the budget schedule and a calendar of important dates for developing and acting on the budget.

APPENDIX: Budget Calendar

July	August	Sept	October	Nov	Dec	January	Feb	March	April	May	June
	Establish goals; hold planning meeting										
		Depts develop operating & CIP budget requests									
			Depts present budget requests; Finance Comm presents budget guidelines								
					Warrant is open						
					Town Manager reviews budgets & submits them to the Board of Selectmen						
					Departments develop & submit Enterprise Fund budgets to Town Manager						
						Finance Comm holds hearings & completes final recommendations on Town Govt. & School budgets & all articles					
						Town Mgr reviews, publishes & holds hearing on Enterprise Fund budgets					
									Town Meeting discusses & adopts Town Govt., Schools, & capital budgets		
July	August	Sept	October	Nov	Dec	January	Feb	March	April	May	June

APPENDIX: Budget Process

FY20 Budget Calendar

This calendar describes the steps leading to adoption of the budget for those accounts overseen by the Town Manager under the jurisdiction of the Select Board and requiring appropriation by the Town Meeting. The School Superintendent and School Committees carry out similar steps.

2018

August 1	Capital Improvement Program (FY20-24) Instructions issued
August 31	Capital Improvement Program (FY20-24) Requests due
September 14	Budget Instructions issued to all departments, boards and committees
September 20	Joint Meeting on FY20 fiscal and budgetary plan
October 12	FY20 General Fund Operating Budget Requests due
October 29 – November 9	FY20 General Fund Operating and FY20-24 Capital Budget Requests review: meetings with Town Department Heads and Budget Review Team
November 5	Classification Report submitted by Board of Assessors to Board of Selectmen (Re: setting the FY19 property tax rate or rates)
November 12	Public Hearing ("Classification Hearing"), proposed property tax rates for FY19 (based on FY19 appropriations voted at April 2018 Town Meeting)
November 29	Finance Committee votes Budget Guidelines and issues by November 30 to Selectmen and School Committees
December 1 (Saturday)	Selectmen/Committees Coordination Meeting; planning session for 2019 Annual Town Meeting
December 1	Warrant opened for 2019 Annual Town Meeting
December 7	Preliminary FY20 General Fund Operating Budget and FY20-24 Capital Budget recommendations compiled by Budget Review Team for Town Manager's review and adjustment
December 17	Presentation of Preliminary FY20 General Fund Operating and FY20-24 Capital Budget recommendations by Town Manager to the Select Board

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APPENDIX: Budget Process

2019

January 3	Warrant for Town Meeting closes at 4:00 PM
January 8	90 days prior to the Annual Town Meeting, the Town Manager's Proposed Budget for FY20 (General Fund operations and proposed appropriations) is set and submitted to Select Board. (Also, no later than this date, the Superintendent of Schools submits budgets for Concord Public Schools and Concord-Carlisle Regional High School to the respective School Committees.) Through February, these committees and Finance Committee will conduct a review
January 11	Completed PowerPoint Narratives for General Fund Departments due
January 17	Presentation of FY20 General Fund Budget to Finance Committee
January 31	Public Hearings advertised (for FY20 General Fund operations)
February 1	Town Manager's Proposed FY20 General Fund Budget is published
February 8	Proposed FY20 Enterprise Budget Requests due
February 11	Finance Committee's Public Hearing on Town Manager's General Fund operating and capital budget proposals for FY20 and other non-school and non-CPA financial articles on the Town Meeting Warrant
February 25	Finance Committee's Public Hearing on Education budget proposals for FY20 (Concord Public Schools, Concord-Carlisle Regional High School, and Minuteman Career and Technical High School) and Community Preservation Act Article
February 25 – March 1	Enterprise Budget Requests review: Meetings with Enterprise Directors and Budget Review Team
March 8	Town Manager's Proposed FY20 Enterprise Budget published
March 11	Public Hearing on Enterprise Fund budgets and articles
March 14	Finance Committee completes its recommendations for Town Meeting
March 18	Finance Committee Report to printer
March 29	Finance Committee Report mailed (10 days prior to Town Meeting)
April 8	Town Meeting begins

APPENDIX: Finance Committee's Budget Guidelines

Town of Concord

Finance Committee
22 Monument Square
P.O. Box 535
Concord, Massachusetts 01742

Date: November 30, 2018

To: Concord Select Board
Concord Public School Committee
Concord-Carlisle Regional School Committee
Mr. Christopher Whelan, Town Manager
Dr. Laurie Hunter, Superintendent of Schools

From: Tom Tarpey, Chair, Concord Finance Committee
Dean Banfield, Vice-Chair, and Chair, Guidelines Subcommittee

Re: FY 2020 Final Budget Guideline

As required by Town bylaws, the Finance Committee has approved a Budget Guideline for the fiscal year beginning July 1, 2019 (FY 2020). The Guideline was adopted with full consideration of the operating budget needs identified by each of the three primary budgeting entities, funding recommendations and requests for non-operating budgets, assumptions regarding non-property tax-revenues, employment of unused property tax levy limit capacity, and ultimately the net impact to taxpayers.

In establishing the Guidelines, the Finance Committee also aims to maintain operating cost increases within a range chosen to meet the goal of financial sustainability over the long term. These goals include: 1. keeping increases from depleting excess levy limit capacity to the extent that general overrides are required; 2. Maintenance of Free Cash reserve; 3. Maintenance of the highest attainable bond rating; 4. Avoidance of burdening taxpayers are burdened beyond what typical expectations of income growth can accommodate.

The Finance Committee Guideline directs \$2,921,000 of incremental funds to the operating budgets, a 3.58% increase over FY 2019 General Fund operating budget levels (see FY 2020 Operating Budget Guidelines and Total Budget Plan, page 3). The Finance Committee is proposing a total FY20 General Fund Budget spending plan of \$110,451,861, which would be an increase of 3.76% over the adopted FY19 budget. To support this budget, the Finance Committee will be recommending the allocation of funds from available reserves as follows:

- \$1,000,000 from Free Cash, for Property Tax Relief; and
- \$36,000 from Emergency Services Stabilization Fund, for the School Resource Officer.

The overall increase in the tax bill to existing taxpayers for FY 2020 is projected to be 3.29%, exclusive of Exempt Debt (a total of 3.79% inclusive of exempt debt). This guideline projects a tax levy totaling \$95,608,792, and an unused levy limit of \$3,446,962 (which is 3.74% under the projected levy limit). The Finance Committee believes that retaining a modest unused levy

APPENDIX: Finance Committee's Budget Guidelines

capacity is important for the town's ability to maintain flexibility to deal with future infrastructure needs as well as unanticipated expenses.

Several overriding factors and concerns were considered by the Finance Committee at the outset of the guidelines process:

- The Finance Committee is very aware of the cumulative impact of operating budget increases and the related rise in property tax assessments on Concord taxpayers. Income levels of individual taxpayers vary greatly. Continued property tax increases are particularly likely to cause a hardship for taxpayers on fixed and/or low incomes. There remains an overall concern that even moderate tax increases when sustained for a number of years could have an impact on the makeup of Concord's population.
- The U. S. economic outlook has been healthy according to the key economic indicators, but has recently showed signs of weakness. The most critical indicator is Gross Domestic Product (GDP), which measures the nation's productive output. The GDP growth rate is expected to fall back to the ideal range of 2 to 3 percent. There are signs of uncertainty in the Massachusetts economy, but Concord continues to see by increases in building permits and some local excise taxes. However, there is potentially a large projected gap in the Massachusetts state budget and, despite assurances to the contrary, there exists concern about the level at which local aid to cities and towns will be funded by the State. Further, there is much uncertainty on the national level especially regarding the recently enacted Tax Reform legislation and its impact on the economy.
- Growth in Concord's assessed real estate valuations between FY 2018 and FY 2019 saw an overall increase of 4.92% (based on the FY 2019 Tax Rate Analysis report of the Concord Board of Assessors). Residential valuations, representing 91.88% of total valuation, increased 5.33%. Market valuation changes were not consistent across the housing stock; thus, some taxpayers will experience larger increases while others will see reductions.
- New residential development in Concord impacts population growth as well as the mix and demand for town government and school services. Historically, new development has played an important role in providing additional income to the town. The exact timing and impact of currently contemplated projects is not completely measurable at this time. New Growth, which adds additional tax revenue to the Town, is conservatively projected to add \$1,100,000 to the tax rolls in FY 2020.
- Long-term employee costs due to contractual pay increases and obligations for pensions and Other Post Employment Benefits (OPEB) will have an impact on budgets and will remain a principal obligation requiring careful management of contractual negotiations and additions to the roster of employees.

Based on information provided to date, the Finance Committee anticipates the Town Government and the Concord Public Schools (CPS) **will not** be able to prepare FY 2020 budgets that maintain core services and meet critical operating priorities within the recommended Budget Guideline. However, the Concord-Carlisle Regional School District (CCRS) will submit a

APPENDIX: Finance Committee's Budget Guidelines

budget that does comply with the Guideline. The Finance Committee is hopeful that the Town Government and the Concord Public Schools (CPS) will be able to review its requests, and make budgetary adjustments or employ more creative service delivery methods in order to be able to provide current service levels within the approved Guideline.

The Finance Committee will continue, as always, to monitor the economic climate as well as the assumptions incorporated in its calculation of funds available for the FY 2020 Operating Budgets. We will continue to work collaboratively with budget authorities to monitor these factors and provide additional responses or recommendations that may be warranted as the FY 2020 budget finalization proceeds, leading up to Town Meeting in April 2019.

FY20 Operating Budget Guidelines & Total Budget Plan						
Budget Year				Guideline		Percent
	FY2017	FY2018	FY2019	Increase	FY2020	Increase
Town	\$ 22,014,013	\$ 23,064,013	\$ 24,228,513	\$ 1,071,000	\$ 25,299,513	4.42%
CPS	\$ 35,660,111	\$ 36,810,111	\$ 38,246,895	\$ 1,000,000	\$ 39,246,895	2.61%
CCRS* ^D	\$ 17,035,005	\$ 17,935,005	\$ 19,146,874	\$ 850,000	\$ 19,996,874	4.44%
sub-total: Guidelines	\$ 74,709,129	\$ 77,809,129	\$ 81,622,282	\$ 2,921,000	\$ 84,543,282	3.58%
Other Accounts	\$ 14,816,197	\$ 16,958,762	\$ 16,865,734		\$ 17,770,201	
Non-Appropriated	\$ 1,048,210	\$ 1,272,676	\$ 1,055,094		\$ 1,268,481	
Excluded Debt Service	\$ 7,676,046	\$ 7,168,991	\$ 6,905,383		\$ 6,869,897	
sub-total: Non-Guidelines	\$ 23,540,453	\$ 25,400,429	\$ 24,826,211		\$ 25,908,579	4.36%
Total: Budget Plan	\$ 98,249,582	\$ 103,209,558	\$ 106,448,493		\$ 110,451,861	3.76%

* Note that the CCRSD figure includes OPEB, health insurance and pension payments within the CCRSD Operating Budget, which for the Town Government & CPS are included in "other accounts" and not within the Guidelines Budget. This difference reflects the fact that the CCRSD is a separate governmental entity, and therefore direct comparisons are not advisable.

Over the three most recent fiscal years (FY 2017, FY 2018 and FY 2019), the average annual increase in the total operating budget has been 3.40%. During this period the most significant factor driving the budget increases has been salaries. Other factors also driving increases include contributions for unfunded liabilities for OPEB ("Other Post-Employment Benefits", the town's share of retiree health insurance), and increases in debt expense driven primarily by construction of the new high school. For both CPS and CCRSD, special education continues to be a major cost factor that can be unpredictable, but both systems continue to build in-district capacity which helps mitigate the most costly solution of out placement.

Key Assumptions of FY 2020 Operating Budget Guideline

- **Town Government:** Funding of Town salary adjustments remains a key priority as the Town is increasingly faced with competition for many key employees from both other municipalities and the private sector. The staffing of the second ambulance in West Concord (8:00am-8:00pm) begins its sixth year as of July 1, 2019. As the mitigation fund created in

APPENDIX: Finance Committee's Budget Guidelines

connection with the Concord Mews development to help defray the staffing cost of this service has been drawn down, the Town Operating Budget has assumed this additional cost. The Town's intention was to staff the second ambulance 24/7 by FY 2019, however, this did not happen. This remains a high priority for inclusion in the FY20 budget, but is highly unlikely to fit within the constraints of the FY20 Guideline. The Town's budget, at a minimum, will need to incorporate recent Town Meeting actions including funding Sustainability Initiatives, a new School Resource Officer position approved under Article 9 of the 2018 Special Town Meeting, as well as the operational costs associated with the purchase and acquisition of the Gerow property and beach at White Pond. The Town Manager has proposed other funding priorities, such as the ambulance mentioned above, additional park maintenance staff, additional IT support for the Library and Public Safety, and various other spending in response to service requests.

- **Concord Public Schools (CPS) and Concord-Carlisle High School (CCRSD):** Budget requests at both CPS and CCRSD represent smaller percentage increases than last year's requested increases. Both districts benefitted during the budgeting process from a full review and zero-based budget development. Once again, contractual salary obligations represent the largest component of both budgets. At both CPS and CCRSD, contract terms with the Teacher's Union in both districts have been negotiated previously. Increases are reflected in the FY 2019 Budget, but a new contract is due to be negotiated with CPS teachers for FY 2020. Fully funding the OPEB ARC at CCRSD remains a significant challenge for the FY 2020 budget. More importantly, regular drawdowns from the Excess and Deficiency account (the District's equivalent of Free Cash) have drawn the attention of bond rating agencies and put the District at risk of a bond rating drop.
- **Minuteman Vocational High School:** The budget plan for FY 2020 estimates Concord's assessed share of the Minuteman High School budget at \$772,162, plus an additional amount of \$300,603 in Exempt Debt Service for the new school facility. As Concord continues to send more students, and some towns have withdrawn from the Minuteman District, this amount has increased from \$599,179 in FY 2018 and \$595,792 in FY2019 to this year's estimate.
- **The Group Insurance Account,** covering employee and retiree health insurance costs for Town government and CPS employees is projected to increase significantly this coming year after remaining fairly constant since 2012. This large increase is due to a higher than expected Loss-Claims Ratio, the rapidly increasing cost of prescription medication and lack of available Fund Balance to mitigate the rate increase. As of June 1, 2018, the Town included in its health insurance offerings, a High Deductible Plan with Health Savings Account. The premium on these plans are 18 to 21% less than the current offerings, which results in savings to both the Town and to employees, as well as a likely decrease in the overall OPEB Liability. (see FY 2020 Operating Budget Guidelines & Total Budget Plan, page 14, line 1)
- This year the **increase** in Concord's contribution to the **OPEB** is \$80,850, based upon the most recent Actuarial Valuation (6/30/17, as the current valuation was not available at the time this memorandum was drafted). The Town's funding level meets its Annual Required Contribution (ARC) (see discussion under **On-going Issues** below). The CCRSD has an OPEB Trust Fund separate from the Town and it is funding close to its ARC on an annual basis. This year will be another challenging year for CCRSD and its OPEB commitment. The Finance

APPENDIX: Finance Committee's Budget Guidelines

Committee is supportive of CCRSD's commitments to fund the annual ARC and took this into account when setting the Guideline this year.

- **State Aid** is anticipated to remain stable and reimbursement is generally expected to be similar to what was received as a result of the FY 2019 budget (FY 2020 Operating Budget Guidelines & Total Budget Plan, page 11, lines 10 - 19).
- **Circuit Breaker Reimbursement** from the State for high cost Special Education student placement is subject to appropriation by the State legislature annually and the ability of the State budget to continue to meet this funding goal is an important element in our long-term fiscal forecasting. The Circuit Breaker reimbursement percent is 72% for FY19. There is no reason to expect the State to increase the reimbursement rate in FY20, and based upon current enrollment, that equates to an estimated 68% reimbursement rate. FY20 estimates based on a 68% reimbursement rate are: CCRSD: \$850,000; and CPS: \$800,000.
- The **Tax Levy** in FY 2020 on new growth (new construction and renovations/additions expected to be in place by June 30, 2019, as valued by the Board of Assessors and added to the tax roll for FY 2020) is reasonably projected to be \$1,100,000, which is below the record levels of \$1,412,859 for FY 2017 and \$1,321,330 for FY18. While there is significant development either under review or under consideration at this time, it is not likely that it will result in New Growth in an amount higher than currently being projected.
- The FY 2020 guideline assumes \$0 in funding from the **High School Debt Stabilization Fund** created by the Town to help offset Concord's share of the levy for excluded debt of CCRSD, as the balance in this fund was fully expended in FY19
- Current Unused Levy Capacity for FY 2020 is anticipated to decrease by \$568,716 to \$3,446,962 (see Levy Limit Calculation, page 18) if the operating budget guidelines are adopted by the Town. Any part, or all, of the Unused Levy Capacity may be levied in FY 2020 or future years without a town-wide ballot.

Free Cash Requirements

Based on FY 2018 financial results compared to the budget, including Town revenues, State Aid and unexpended appropriations, the Finance Committee estimates a Free Cash balance of approximately \$11.6M, representing, 11.25% of the prior year's budget. Should this amount be certified by the Department of Revenue, it will exceed policy guideline by approximately \$1.3M; however, the FY 2020 Budget does assume a \$1M draw on Free Cash to reduce the Tax Rate. This draw would reduce Free Cash to approximately \$10.6M, or 10.27%, or approximately \$300,000 higher than the policy guidelines. The may recommend that this amount be set aside in a Stabilization Fund to help offset a future middle school construction project. To ensure ongoing financial flexibility and the importance of maintaining the Town's Aaa "Triple-A" Bond Rating, the Finance Committee has in recent years recommended maintaining Free Cash reserves at a 10% level. Amounts in excess of this target have been used for transfer to debt stabilization funds and/ or for special appropriation, in the recent past.

APPENDIX: Finance Committee's Budget Guidelines

Property Tax Impact

The impact of the FY 2020 Operating Budget Guideline on the Property Tax Levy is projected at a 5.09 % increase, with an estimated 3.79% increase to Existing Taxpayers, and a 1.30% increase coming from New Growth (see Property Tax Data, page 19). The components of the increase are as follows:

FY2020 Preliminary Guideline			
	Percent	Amount	Description
Base	3.29%	\$ 2,790,322	(FY20 Base - FY20 New Growth) - FY19 Base
Debt Exclusion	0.50%	\$ 426,883	FY20 Debt Exclusion - FY19 Debt Exclusion
	3.79%	\$ 3,217,205	Change in Tax Levy coming from Existing Taxpayer
New Growth	1.30%	\$ 1,100,000	FY20 New Growth
	5.09%	\$ 4,317,205	Change in Total Tax Levy

Based on the current FY 2019 median single family residential home assessed value of \$881,550 and the tax rate for FY 2019 of \$14.19 per thousand, the FY 2019 median tax bill is projected to increase by about \$521, to \$12,509. (\$59.07 per each \$100,000 of assessed value).

The estimated tax bill impact will continue to evolve as more information is received about projected revenues and New Growth, and as the final FY2020 budgets are developed. The Finance Committee intends, over the next several months, to review all assumptions and recommendations driving the estimated impact of the tax levy on taxpayers for FY2020, the results of which will be included in the *Report of the Finance Committee* to be issued prior to the first session of the Annual Town Meeting on April 8, 2019.

On-going Issues:

Need for Substantial Capital Expenditure

At the time of issuance of these Guidelines, two large projects are on the horizon: construction of a Concord Middle School and Site Reconstruction of the Keyes Road Campus. In addition, the need for additional and renovated municipal office space, and renovations at both the Walden Street Public Safety Complex and the West Concord Fire Station will be detailed in the upcoming Municipal Facilities Study. The timetable for commencement of any and all of these projects is yet unclear; however, the Finance Committee would like residents to be cognizant of these upcoming funding requests.

Controlling future tax increases:

APPENDIX: Finance Committee's Budget Guidelines

The Finance Committee remains concerned with the annual rate at which taxes continue to increase. Specifically, the Finance Committee believes that the current rate of increase is not likely sustainable and over time could cause significant dislocation and adversely affect the current levels of economic diversity within the Town. Although future tax increases will also be driven in part by increases in Town government and School expenses, evolving economic conditions, population changes and increasing demand for services, the major concern of the Finance Committee continues to be the rate at which salaries are contractually obligated to increase over the next few years (see discussion of Contractually mandated salary increases below).

The Finance Committee maintains a Five-Year Forecast Model and uses this model to simulate the impact of various assumptions on both the current Guideline recommendations and future Tax Levy increases. The Finance Committee has been increasingly concerned about whether the continued increases in Real Estate Taxes, which exceed increases in personal income, property values or the Consumer Price Index, are sustainable over the longer term for a diverse population, especially for those on fixed incomes or who are less affluent. The Town works hard to maintain a conservative approach to budgeting and has benefited in recent years from revenues that have exceeded expectations. The increase on Existing Taxpayers has risen steadily from 2.5% in FY2014, to 3.2% for FY2015, to 3.5% in FY2016. In FY2017, the increase dropped to 1.62% and then back up to 2.78% in FY2018, and up again 2.56% in FY2019. The Finance Committee projects the increase for FY2020 to Existing Taxpayers to be 3.79%, including a 0.5% increase for Exempt Debt Service, should the approved Guideline be accepted, which is unknown at the time of issuance of this memorandum.

Minuteman Vocational High School:

The FY2020 Budget for Minuteman Vocational High School is based upon the newly configured membership and inclusion of the first part of the debt service associated with the new 628-student school building, currently under construction with an anticipated opening of Fall 2019. In FY2020, the highly successful Academy Model continues, whereby rigorous academic courses will be paired with robust technical/ vocational courses organized around a career theme.

The annual cost to Concord, apart from a new facility, has increased significantly as our rolling 4-year average, on which our annual assessment is based, has increased from 15.75 in FY19 to 19 in FY20. Concord's Assessed Share of the FY2020 Minuteman Budget is estimated at \$772,162 for Operations plus an additional amount of \$300,603 for Exempt Debt Service, for a total Assessment of \$1,072,765.

Pension and OPEB:

An ongoing challenge for the Town is the financing of unfunded future liabilities for the employer share of pensions and retiree health insurance.

OPEB

APPENDIX: Finance Committee's Budget Guidelines

CPS employees and Retirees, began in FY2012 with a budgeted allocation of \$150,000 toward an OPEB Trust Fund created by the 2009 Town Meeting and with planned annual incremental funding increases of \$250,000 in order to reach the Annual Required Contribution (ARC). The base funding amount for FY2020 is \$1,697,850, an increase of \$80,850. This amount approximately represents the required ARC, as measured by the most recent actuarial analysis of the Town's future liability. This budgeted amount will be contributed to the Town's OPEB Trust Fund, which also covers the future liability for Concord Public School retirees. Changes to Actuarial Assumptions, including future increases in medical costs and decreases in the discount rate at which this level can be expected to generate a Trust Fund that will grow at a rate needed to support future liabilities, may require adjustments to future annual contribution.

CCRSB has more recently established an OPEB Trust Fund. The District did not fund its OPEB liability at the ARC in FY 2019, and is not anticipated to do so again in FY 2020. Taking steps to reach full annual funding at the ARC level is strongly encouraged by the Finance Committee. Having both entities fully funding the required OPEB ARC would represent a significant commitment and one that illustrates the strong and effective financial leadership of the Town and the Regional School District.

Pensions

The Town's most recent Pension System Actuarial Valuation effective January 1, 2018 reports a funded ratio of **87%** with an approved funding schedule designed to reach 100% funding by 2029, one year earlier based upon a slight change in actuarial assumptions, while keeping the annual budget impact at a manageable 3% annual rate of increase for the employer share financed from the General Fund. The Committee notes that the Town's Pension Fund supports Town employees, as well as the non-teaching staff of CPS and CCRSD. The Employer share of teacher pensions is paid by the State government, as part of the annual state budget.

Debt Obligations and repayment:

The Town needs to remain aware of the ongoing burden its existing and planned debt issuances will have on future tax levels and rates (see "Unfunded Long-term Liabilities and Outstanding Bonded Debt", page 25). This includes the bonded debt associated with the new Concord-Carlisle High School building, for which \$32,500,000 of bonded debt was issued in the spring of 2014, \$30,000,000 of bonded debt was issued in the spring of 2015 and a final \$2.5 million of long-term bonds were issued in the spring of 2016. The resulting property tax impact of this \$92.5 million project is consistent with the financing plan impact presented to the Town at the November 2011 Special Town Meeting. Utilization of Concord's High School Debt Stabilization Fund helped to offset the impact of this debt to Concord taxpayers through FY19; however, this fund has been fully exhausted, and there will be no offset in FY20. The annual financing cost for CCRSD debt repayment will represent approximately 3.7% of the Concord FY20 median tax bill, with the debt fully repaid by 2038.

Contractually mandated salary increases:

APPENDIX: Finance Committee's Budget Guidelines

Salaries represent well over half of the Town's and School's budgets, and contractually mandated increases have had a negative impact on the ability of these entities to address many of the issues and other needs they have identified. This is particularly acute at CPS, where salary costs alone represent nearly 80% of operating expenses and where recent contracts have included salary and benefit increases substantially above National and Regional cost of living increases. As a result of the contract executed in 2016 at CPS, significant increases were seen in FY2019. Contract talks are just getting underway for the next 3-year agreement, and therefore the impacts are unknown. Maintaining a reasonable level of escalation will be important in establishing long term fiscal sustainability.

The Finance Committee appreciates the high level of cooperation and collaboration provided by the Town Manager, the Superintendent of Schools and their respective staffs in the development of the Guideline Recommendation. While the recommended Guideline does not fully fund the requested budgets, the Finance Committee is hopeful that each entity will work diligently and creatively toward compliance. Moving forward, the Finance Committee encourages the Town Government, School Administration, Select Board and School Committees to continue to demonstrate fiscal discipline and to work creatively in controlling costs and developing budgets that are sustainable and continue to meet the needs of the town's citizens.

APPENDIX: Community Profile

TOWN OF CONCORD

COMMUNITY PROFILE

An excerpt from the Official Statement dated June 6, 2018

HISTORY

Purchased from the local Indians and founded in 1635, Concord was the first interior, non-tidewater town in Massachusetts Bay Colony. Though the origin of its name is unknown, one theory is that it derived from the peaceful manner in which the colonists and Indians reached agreement on its purchase and settlement. In fact, relations between the colonists and Indians during the 1600's were such that Concord was largely spared any hostile Indian actions during King Philip's War, which began in 1675. By 1775 Concord had evolved from a frontier town into a prosperous regional center with a mixed society, including small yeoman farmers, affluent gentry, and immigrants from Italy and Norway. In 1775 the town was witness to the famous Battle of Concord, which, along with the Lexington skirmish preceding it, ushered in the Revolutionary War for Independence. In the 19th century Concord became the leader of American literature and philosophy. Louisa May Alcott, Bronson Alcott, Ralph Waldo Emerson, Henry David Thoreau, and Nathaniel Hawthorne, among others, all lived in Concord.

As the 20th century progressed Concord evolved into primarily a suburban, residential community, with a mix of non-residential activities. The community has focused on preserving its rich Colonial and literary history as a means of promoting tourism and diversity in its economy. Diversity of population is also a major community focus. Concord is a part of the Boston Metropolitan Statistical Area, and a member of the Metropolitan Area Planning Council.

GEOGRAPHY

The Town of Concord in Middlesex County in eastern Massachusetts is located approximately 17 miles northwest of Boston, 34 miles northeast of Worcester, and 215 miles northeast of New York City. It is bordered by the towns of Maynard and Acton on the west, Carlisle on the north, Bedford and Lincoln on the east and southeast, and Sudbury and Wayland on the south. Of Concord's 25.89 square miles of gentle hills, valleys, fields, and ponds 24.92 square miles are land area. Concord is situated at the confluence of the Assabet and Sudbury Rivers, which join to flow northeast as the Concord River.

TRANSPORTATION AND ACCESS

Access to Concord is excellent, with east-west Route 2 traversing the town, and Route 128/95 (circumferential to Boston) just to the east, Interstate 90 (the Massachusetts Turnpike) several miles to the south, Interstate 93 several miles to the northeast, and Interstate 495 several miles to the west. In addition, there is regular commuter rail service from Boston to both Concord and West Concord, along with freight rail service. The Massachusetts Bay Transportation Authority (MBTA), of which Concord is a member community, provides a para-transit bus service for the elderly and disabled, while Yankee Lines provides bus service (1 trip daily) to Boston. Hanscom Field, a joint civil-military airport, is located in neighboring Bedford, and provides limited commercial air services.

FORM OF GOVERNMENT

Local legislative decisions are made by an open Town Meeting consisting of registered voters. Participation in Town Meeting, and volunteerism, are relatively high. Subject to town meeting decisions, and pursuant to the Town Charter adopted in 1956, the Town Manager handles the daily affairs of the Town of Concord and of the Municipal Light Plant. Matters of policy are referred first to the Town's five-member Select Board. Select Board members are elected at-large and serve three-year staggered terms. The Concord Municipal Light Plant is managed by a five-person board appointed by the Town Manager for staggered three-year terms. The Water/Sewer Division is part of the Public Works Commission managed by a five-person Board of Commissioners appointed by the Town Manager for staggered three-year terms. Local property taxes are assessed by a board of five assessors appointed for staggered three-year terms by the Town Manager with the approval of the Select Board.

APPENDIX: Community Profile

GOVERNMENT SERVICES

Concord provides a broad range of general governmental services, including police and fire protection; disposal of garbage and rubbish; water and sewer, including a secondary treatment plant; electricity; public works; parks and recreation; a community center; libraries; and a land conservation program. The Concord Housing Authority provides low-income and elderly housing.

EDUCATION

Concord's school system consists of the Concord Public Schools, grades kindergarten through 8, and the Concord-Carlisle Regional High School, grades 9 through 12. Concord contributes about 73% of the enrollment in the regional high school. Total enrollment is over 3,400, and has been slightly increasing since 1998. Technical education at the high school level is provided by the Minuteman Regional Vocational Technical School District, located in Lexington. Additionally, a number of fine private schools operate in Concord: Nashoba Brooks School, Concord Academy, the Fenn School, and the Middlesex School.

POPULATION

Although the 2010 Federal Census population figure for Concord is 17,668 (which includes the inmate population at MCI – Concord), a more representative number of residents is calculated by the January 2011 local census that shows a population of 15,627 (not including the prison population). The number of housing units in the Town has increased by 9% from 2000 to 2010, while the Town's population has increased. In addition, the average household size decreased from 2.62 persons per household in 2000 to 2.46 in 2010. Approximately 46% of the town's population in 2010 was between 25 and 54 years of age, with the largest age category being 45-54 years of age. From 2000 to 2010, the median age has increased 11% from 42.2 to 46.9, due in part to the expansion in residential nursing homes and assisted living facilities in the town.

HOUSING

Within Concord's 26 square miles of territory are approximately 16,000 acres—over 90%—of residentially zoned land, and 600 acres of commercially zoned land. About 45% of the land is developed; approximately 32% of the land is permanently protected open space in the form of private conservation land, trust land, and municipal, state, and federal park lands, and conservation and agricultural lands. Approximately 5,000 acres—about 28% of the land—have not been developed or permanently protected; the majority of these acres are zoned for one- and two-acre residential development. Approximately 35 acres of commercially zoned land remain undeveloped.

Concord's housing stock is in excellent condition. Over half of the housing units have been built since 1950. Those constructed before 1950 are well maintained due to the affluence of the owners, the high value of housing and land, and the increasing turnover rate. Concord has a low homeowner vacancy rate of approximately 0.9%, and a rental vacancy rate of 9.3%, which also factors into overall maintenance of the of housing stock condition. The rate of residential development in Concord has been relatively stable since the mid-1970s. From 1990 to the present, new residential construction activity has averaged from 25 to 30 units per year. With fewer developable lots available, an increasing number of these new houses are a result of the tear-down of existing homes. As of January 1, 2018 the average household single-family home assessed value was \$1,065,176, while the median assessed value was \$991,550.

APPENDIX: Community Profile

ECONOMIC DEVELOPMENT

Concord has long recognized the importance of balanced community development. In 1928, the Town adopted one of the first zoning bylaws in the United States, which included districts for residential, business, and industrial uses. Since that time the Town has continued to adopt or expand zoning and comprehensive planning designed to provide an optimum mix of residential and non-residential uses. In addition, the Town has invested considerable capital in providing infrastructure to serve its industrial areas. From 1990 to 2000, the number of firms in Concord reporting to the Massachusetts Department of Employment and Training increased approximately 22%, from 779 to 948. In 2006, there were 929 firms with an average monthly employment of 12,723 and an average weekly wage of \$1,119.

The major employers in Concord¹, excluding the Town itself, are:

Name	Nature of Business	Number of Employees
Emerson Hospital	Healthcare	1,731
300-310 Baker Avenue	Technology	1,050
Newbury Court	Healthcare	290
Middlesex School	Education	197
Care One of Concord	Healthcare	166
Concord Academy	Education	165
Harvard Vanguard Medical	Healthcare	162
Nashoba Brooks	Education	83
Hamilton, Brook, Smith & Reynolds	Professional Services	75
Fenn School	Education	73

¹As of March 15, 2018.

INCOME AND EMPLOYMENT

Concord's population is relatively affluent. Median family income was \$138,661, and per capita income was \$67,846 compared to \$83,371 and \$35,051, respectively, for the state as a whole. According to the state Department of Revenue's Division of Local Services in 2017, the labor force living in Concord equaled 8,662 persons, of which 8,399 were employed and 263 or 3.0% were unemployed, as compared to the unemployment rate of 3.8% for the state.

APPENDIX: Financial Policies

TOWN OF CONCORD

FINANCIAL POLICIES

1. Annual Budgets

A. *General Fund Budget*

1. It is Town policy that the Town Manager shall direct the preparation of the General Fund budget that takes into account the Finance Committee guideline.
2. It is Town policy that the Town Manager shall submit a budget detailing estimated revenues and expenditures for the ensuing fiscal year to the Select Board at least 90 days before the Annual Town Meeting, per Concord Town Charter, Section 16, Estimate of Expenditures.

B. *Enterprise Budgets*

1. It is Town policy that the Town Manager shall direct the preparation of budgets for the Enterprise Funds and certain Revolving Funds that ensure that these funds operate in a fiscally self-sustaining manner with respect to operating expenses, capital expenses, and long-term liabilities.

2. Revenue Assessment

A. *Full and Fair Cash Value*

1. It is Town policy that the Assessing Division assesses real estate and personal property at its full and fair cash value per M.G.L. 59 § 2A. To accurately assess real estate property values, the Assessing Division inspects all properties on a 5-year cycle or at a pace of approximately 1,200 properties per year.

B. *Calculation of Tax Rate*

1. It is Town policy that the Board of Assessors calculates a tax rate by dividing the total taxable property value as determined on January 1st of a given year, plus the value of any new taxable construction (“New Growth”) occurring before June 30th, by the tax levy as appropriated by Town Meeting in the spring of that year.
2. In the Fall, the Board of Assessors shall make a recommendation to the Select Board in a Classification Hearing for the adoption of the following four tax rate-related factors: the residential factor, open space discount, residential exemption, and small commercial exemption.
3. With the adoption of these factors, the Assessing Division shall submit this information to the Bureau of Local Assessment, which certifies the tax rate.

APPENDIX: Financial Policies

3. Revenue Collection

A. *Property Taxes*

1. *Collection of Property Tax*

- a. It is Town policy to issue bills for real estate and personal property taxes on a quarterly basis in order to optimize cash flow. Interest shall be charged at a rate of 14 percent per annum for any unpaid balances after the respective due dates. Demand notices shall be mailed by May 31st on any balances outstanding after May 1st. A demand fee of \$10.00, as well as 14% interest, shall be included on the demand bills in accordance with state statute. If the outstanding balance is less than \$10, the demand fee is not charged.

2. *Application of Tax Payments*

- a. It is Town policy to assure the correct application of taxpayers' payments to their accounts on a timely basis. Receipts that are subject to interest, demands and other costs shall be applied based on the following order: interest, demand or other fees, utility liens, betterment assessments, real estate or personal property tax due.

3. *Tax Abatements and Exemption*

- a. The Town policy is to assure the correct application of taxpayers' abatements and exemptions to their accounts on a timely basis. As approved by the Board of Assessors or directed by the Appellate Tax Board, the Assessing Division grants abatements for real estate and personal property tax. The Board of Assessors may grant exemptions to qualifying veterans, the blind, surviving spouses, elderly and others along with those applying for tax deferrals that meet the statutory requirements as of July 1st.
- b. The Assessing Division enters all abatements and exemptions into the financial service software. As a result of this process, a *Notice and Certificate of Abatement Document* is created, signed by the Board of Assessors, and mailed to the taxpayer and provided to the Treasurer/Collector Division as evidence of the reduction in accounts receivable.

4. *Property Tax Refunds*

- a. It is Town Policy that the Treasurer/Collector Division is responsible for taxpayer refunds. Refunds for real estate and personal property are processed after May 1st (last tax due date) of any given year to assure all taxes due for the fiscal year have been paid. All precautions must be taken to assure the correct party receives the refund. Refunds shall be processed within 30 days (of the posting of the abatements/exemptions) for credit balances caused by the abatement/exemption.

5. *Refunds on Overpayments Due to Abatements*

- a. It is Town policy to assure the accurate calculation and the subsequent distribution of taxpayers' abatements to the proper party on a timely basis.

6. *Special Situations*

- a. It is the policy of the Town to bill, collect and record in an accurate and timely manner all of the special situations in accordance with Massachusetts General Law.

7. *Property Tax Payment Delinquency*

- a. It is Town policy is to collect all property taxes owed. Property taxes that are owed and not paid on time shall result in the taxpayer being charged penalties and interest, and may result in a tax taking and ultimately in a foreclosure.

APPENDIX: Financial Policies

A. Motor Vehicle Excise Tax

1. It is Town policy to optimize the Town's cash flow by mailing each motor vehicle commitment within 15 days of receipt of the *Assessors Warrant to the Treasurer/Collector* for each commitment from the Registry of Motor Vehicles (RMV).
2. The RMV maintains all records on motor vehicles and values. Several times over the course of the year, the RMV provides an electronic record to the Town Assessor, which documents the total value of the specific commitment and contains all of the information for billing to specific motor vehicle owners/accounts.
3. The first major motor vehicle excise (MVX) commitment of each calendar year, which is the largest commitment, will be mailed within 21 days of receipt of the commitment file from the RMV. All subsequent commitments are to be mailed within two weeks of receipt of the file from the RMV.
4. The Town currently has a contract with a Deputy Collector which provides that this vendor is responsible for MVX bill printing and mailing, delinquent payment processing, collection at warrant and reporting. The Town is responsible to assure that the commitment is accurate, for review and approval of abatements; for refunds and the overall monitoring of the process and for the reconciliation of the MVX receivable.
5. Bills are due and payable in full within 30 days of issue. Demand notices will be mailed within 15 days of the due date of the excise bill.
6. A \$10.00 demand fee will be included along with interest on the unpaid balance of the bill. Payments not paid at demand are subject to:
 - o Warrant fee of \$10.00 and notice fee of \$12.00
 - o If not paid, then final warrant fee of \$17.00 and
 - o If not paid, then Registry of Motor Vehicle fee of \$20.00.

4. Other Revenues

A. State Aid

1. It is Town Policy to budget conservatively in anticipation of the receipt of State Aid. Under M.G.L. 58 § 25A, the Commissioner of Revenue is required to provide an estimate of local aid to municipalities. Likewise, under M.G.L. 59 § 21, the Commissioner of Revenue is required to provide the Town with advance estimates of state assessments and charges and the Assessing Division is required to use these figures in determining the local property tax rate.

B. State and Federal Grants

1. It is Town policy that, with the approval of the Town Manager, Departments may apply for Federal and State grants to support Town initiatives or projects. All grant contracts must be approved and signed by the Town Manager. A copy of the grant documents must be provided to the Accounting Division. Departments shall comply with all of the requirements presented in the grant.
2. The source of the grant funding determines whether a grant is a state or federal grant.
3. It is Town policy that all procurement associated with State and Federal grants comply with State and Local laws and regulations.

APPENDIX: Financial Policies

5. Operating Expenditures

A. *Accounts Payables*

1. It is Town policy that the Accounting Division shall assure the timely payment of all original invoices and vouchers submitted and approved by authorized Town employees. In order to accomplish this, vendors are paid weekly.
2. It is Town policy that vendor invoices are only paid after verification of available funds for said purpose and upon evidence of compliance with procurement requirements established by State law, Town Bylaws and Administrative Policies and Procedures.

B. *Payroll*

1. It is Town policy that Town and Concord Public School employees shall be accurately compensated in a timely fashion for their work.

6. Cash Management

A. *Departmental Receipts*

1. It is Town policy that the Town Treasurer shall have the fiduciary duty for the collection, management, and disbursement of cash.
2. It is Town policy that the department that collects cash, checks and credit card payments for services performed be responsible for safeguarding the collection and remittance of receipts until this money is turned over to the Treasurer/Collector Division. All cash received shall be turned over to the Treasurer/Collector Division; and no money shall be retained for petty cash or for making change.
3. It is Town policy that the department shall turn over these receipts to the Treasurer/Collector Division at least weekly or when total receipts are greater than \$2,000 and/or cash is greater than \$100. Exceptions to this turnover policy can be made by the Town Treasurer. The department shall separately send a copy of the turnover sheet to the Accounting Division.
4. Upon receipt of a departmental turnover, the Treasurer/Collector Division shall verify the amounts of the turnover. Within a period of one business day, the Treasurer/Collector Division shall post the receipt and deposit the collected money into a Town bank account. The Accounting Division will then post the receipts to the General Ledger.

B. *Cash Disbursements*

1. It is Town policy that warrants shall be processed on a weekly basis and payroll payments shall be processed on a bi-weekly basis. Warrants shall be duly signed and approved by the Town Accountant and the Select Board. The Treasurer/Collector or her designee shall be responsible for the disbursement and mailing of all vendor checks and shall assure that all Town checks are delivered only to the designated vendor.

C. *Emergency Disbursements (Special Warrants)*

1. It is Town policy that only in extenuating circumstances will the Treasurer/Collector Division be allowed to issue a disbursement outside of the normal weekly warrant process. Following the issuance of a check by the Town Accountant, the Town Manger must approve the release of funds in advance of Select Board approval.

APPENDIX: Financial Policies

D. Petty Cash Administration

1. It is Town policy that Petty Cash accounts shall be authorized by the Treasurer for departments that need a small amount of cash to make payments required at the time of service or to manage cash change transactions. Petty cash can only be replenished by submittal of all documentation and receipts through the warrant process for review by the Accounting Division.

E. Tailings (Uncashed Checks)

1. It is Town policy to identify and research all Uncashed Checks (Tailings) as a part of the timely reconciliation of all bank accounts. If after 60 days from the date of issuance of a check and the check has not been cashed, either a letter shall be sent to the known address for the check recipient or a notice shall be posted on the Town website. If there is no response within 60 days, for checks that are \$100 or more and are not cashed, a notice shall be advertised in a local newspaper. After one year of the newspaper notice, funds from these unclaimed checks may be credited to the Town's General Fund.

F. Reconciliation of Cash

1. It is Town policy that the Treasurer/Collector Division and the Accounting Division reconcile all cash accounts as recorded in the Treasurer's Cashbook and as recorded on the General Ledger on a monthly basis. The Treasurer/Collector Division and the Accounting Division shall provide monthly reports documenting the reconciliation to the Finance Director.

7. Reserves

A. General Fund

1. It is Town policy to maintain Free Cash, the General Fund's unassigned fund balance as certified by the Massachusetts Department of Revenue (DOR), at a level between 5% and 10% of the ensuing General Fund Budget with the following stipulations:
 - a. Free Cash shall be used only to the extent that it can be replenished within a one-year period.
 - b. Free Cash can be used to provide relief to Town taxpayers by allocating a portion of Free Cash that is not more than 1% of the ensuing General Fund Budget to reduce the tax levy, if that allocation is expected to be replenished in the ensuing year.
 - c. If Free Cash falls below 5% of the ensuing General Fund Budget, Town Manager and the Finance Director shall develop a plan to bring Free Cash back up to the 5% level.
 - d. If Free Cash rises above 10% of the ensuing General Fund Budget, the Town Manager shall consider recommending using the excess Free Cash in the following ways:
 - i. Appropriate a portion of the excess Free Cash for a special non-recurring expenditure that would include a capital item that would otherwise be eligible to be funded through borrowing, and
 - ii. Appropriate a portion of the excess Free Cash to a General Fund Stabilization Fund.

APPENDIX: Financial Policies

A. *Enterprise and Revolving Funds*

1. It is Town policy to maintain unrestricted fund balance for its enterprise and revolving funds at a minimum level that would provide adequate resources to sustain operations through unexpected and unfavorable financial events. These financial events could result in an unexpected expenditure outlay or revenue loss.
2. For the enterprise funds, unrestricted fund balance is categorized into two groups: depreciation funds and undesignated funds. The purpose of depreciation funds should be to allocate resources for the maintenance of capital assets. By setting aside annual depreciation expense using a half-year, straight-line convention, depreciation funds monetarily recognize the gradual wear of capital assets.
3. Undesignated funds are the additional funds need to sustain operations through unexpected and unfavorable financial events. Insurance policies (Refer to the Risk Mitigation section) cover the Town for events related to property damage and liability claims. Since enterprise funds rely on fees for services to fund operations, loss of expected revenue from the customer base may have an impact on the enterprise. Since some enterprises (Light Fund, Water Fund, and Sewer Fund) have a stable customer base, there is not the need for a large minimum undesignated fund balance. Other enterprises (Beede Fund) are dependent on a market-driven customer base, and there is the need for a larger minimum undesignated fund balance to sustain operations if market conditions change.
4. According, it is Town policy to maintain a minimum undesignated fund balance for the enterprise funds as follows:
 - a. Light Fund: Two months of annual operating revenue,
 - b. Water Fund: Two months of annual operating revenue,
 - c. Sewer Fund: Two months of annual operating revenue, and
 - d. Beede Fund: Six months of annual operating revenue.
5. For the two revolving funds (Solid Waste Revolving Fund and Recreation Revolving Fund), which do have a market-driven customer base but have flexibility in adjusting operations more rapidly because they do not have capital assets to maintain, it should be the Town's policy to maintain a minimum fund balance as follows:
 - a. Solid Waste Revolving Fund: Two months of annual operating revenue, and
 - b. Recreation Revolving Fund: Two months of annual operating revenue.
6. If an undesignated fund balance for an enterprise or revolving fund falls below these minimum levels, the Town Management should develop a plan to bring the respective fund balance up to the minimum levels.
7. It should be noted that these defined levels of fund balance are minimums and a greater amount is permitted in order for the enterprise or revolving fund to accumulate resources for an anticipated future event.

A. *Stabilization Funds*

1. It is Town policy that stabilization funds can be created to set aside funds to be used for a specific purpose at some later date.

APPENDIX: Financial Policies

D. *Encumbrances*

1. It is Town policy that a Department Head may request at the end of the fiscal year that the Town Manager set aside available funds from the department's General Fund appropriated account to be used for a specific purpose at some later date. Encumbered funds shall not be used for operating expenses in future years. Once these encumbered funds are approved and established, the Department Head may use these funds for the stated purpose in subsequent fiscal years.

E. *Reserve Fund*

1. It is Town policy that the Town Manager, with the certification as to fund balance by the Town Accountant, can make a request to the Finance Committee for a transfer from the General Fund Reserve Fund to another appropriated account in the event that the account incurs an expenditure which is extraordinary or unforeseen, per M.G.L. 40 § 6. The Finance Committee shall have the sole authority to approve such a transfer.

7. Investments

A. *Investments of Treasury Funds*

1. It is Town policy that the Town Treasurer may invest Treasury Funds as follows:
 - a. Massachusetts State Pooled Fund (in unlimited amounts and the pool is liquid) – The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the direction of State Treasurer.
 - b. Commercial Bank Deposits or Certificates of Deposit, which are fully collateralized through a third party agreement (in unlimited amounts for up to three-year maturity).
 - c. Massachusetts list of Legal Investments, per M.G.L. 167 § 15A as updated each July 1st.
 - d. Other financial instruments as defined in M.G.L. 44 § 55.

B. *Investments of Trust Funds*

1. It is Town policy that the Town Treasurer may invest Trustee Funds as specified in the investment policy established by the Trustees of Town Donations, the entity that has fiduciary duty over these funds.

C. *Diversification*

1. Diversification shall be interpreted in two ways: in terms of maturity, as well as instrument type and issuer. The diversification concept shall include prohibition against over-concentration of maturities as well as concentration in a specific institution.
2. It is Town policy that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies and state pools (e.g., MMDT), no more than 10 percent of the Town's investments shall be invested in a single financial institution.

APPENDIX: Financial Policies

A. *Ethics*

1. It is Town policy that the Town Treasurer (and other Finance Department staff) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.
2. It is Town policy that the Town Treasurer shall not make a deposit in any bank, trust company or banking company that he/she is associated with as an officer or employee, or has been associated with as an officer or employee for any time during the three years immediately preceding the date of any such deposit.

B. *Relationship with Financial Institutions*

1. It is Town policy that financial institutions shall be selected first and foremost with regard to the safety of the Town assets.
2. It is Town policy that the Town shall only select brokers who are recognized, reputable dealers. The Town Treasurer shall require any brokerage houses and broker/dealers wishing to do business with the municipality to supply the following information to the treasurer:
 - a. Audited financial statements,
 - b. Proof of National Association of Security Dealers certification,
 - c. A statement that the dealer has read the municipality's investment policy and will comply with it, and
 - d. Proof of credit worthiness (minimum standards of at least five years in operation and a minimum capital of \$10 million).

9. Capital Expenditures

A. *Capital Assets*

1. It is Town policy that capital items are defined as assets such as structures, land, and equipment (including related plans, designs, and studies), which have a life expectancy of at least 2 years and a cost of at least \$10,000.
2. It is Town policy that in compliance with GASB #34, capital assets (other than land) are depreciable and should follow straight-line depreciation schedules in accordance with the Massachusetts Department of Revenue's useful life schedules.

B. *Capital Funding Target Level (General Fund – within the levy limit)*

1. It is Town policy that a target of 7% to 8% of the total budget net of the excluded debt levy be allocated for capital financing. Of the 7% to 8%, no more than 5% shall be for debt service within the levy limit. Capital Outlay from the Town Departments and the Concord Public Schools shall be at least 2% to 3% of the annual budget (not including excluded debt).

APPENDIX: Financial Policies

A. *Five-Year Capital Improvement Program (CIP)*

1. It is Town policy that the Town shall maintain and annually update a 5-year Capital Improvement Program to identify current and future capital needs. The CIP shall allocate resources to fund new needed capital projects and fund the repair and replacement of existing capital assets in effort to maintain the Town's physical infrastructure and avoid deferring maintenance for future years.

10. Debt

A. *Debt Structure*

1. It is Town policy that capital items that can be funded through borrowing include infrastructure, facilities, vehicles, equipment, and land, which have (1) an estimated cost of \$100,000 or more and (2) a useful life of at least 5 years.
2. It is Town policy that all borrowing whether tax-supported by the General Fund or revenue-supported by the Enterprise Funds shall be issued as General Obligation (GO) bonds, having the Town's pledge of full faith and credit for repayment.
3. It is Town policy that tax-supported borrowing can be used for the sustainability, improvement, or expansion of the Town's significant capital assets with debt service is paid for by the General Fund.
4. It is Town policy that the maximum level of indebtedness shall not exceed 5% of the equalized valuation of the Town per M.G.L. 44 § 10.
5. It is Town policy that the Town shall develop a 5-year debt capacity analysis inclusive of CPS, with estimated project costs updated annually.
6. It is Town policy that for tax-supported borrowing within the levy limit, the Town's goal is to structure the Town's debt in the following way:
 - a. The repayment schedule is at an accelerated pace in which of 60% of the principal is repaid within 5 years and 90% is repaid within 10 years. This goal reduces the cost of interest expense and frees up debt capacity for future borrowing.
 - b. The annual amount of debt services is approximately 5% of the annual General Fund expenditures net of excluded debt service. The purpose of this goal is to allocate sufficient funds for the Town's capital needs and prevent operating needs from "crowding out" the proper investment in capital.
7. It is Town policy that revenue-supported borrowing shall be reserved for capital assets associated with expansion of service. Debt service is paid through user fees and rates earned by the specific Enterprise Fund.
8. It is Town policy that excluded debt shall be used for capital items that cannot be funded through the debt plan within the levy (e.g., new schools construction, facility expansion, land acquisition, etc.). For all excluded debt proposals, the impact on property tax shall be calculated prior to the presentation at Town Meeting.
9. It is Town policy that the retirement structure of a specific bond shall not be greater than the useful life of the underlying capital assets.
10. It is Town policy that borrowing shall not be used for operating expenses or to fund other long-term liabilities such as pension or other post-employment benefit obligations.

APPENDIX: Financial Policies

A. *Debt Authorization*

1. It is Town policy that the Town shall publish a notice of the Town Meeting warrant article for a borrowing at least 7 days prior to an Annual Town Meeting and at least 14 days prior to a Special Town Meeting, per M.G.L. 44 § 10.
2. It is Town policy that all borrowing authorizations require a two-thirds majority vote by Town Meeting per M.G.L. 44 § 7. For borrowing authorizations outside the levy limit, Town Meeting must approve the borrowing by a two-thirds majority and the Town must approve it by a majority vote in a community-wide referendum per M.G.L. 44 § 8.

B. *Debt Issuance*

1. It is Town policy that the Town should retain a financial advisor and bond counsel for financial and legal guidance for debt issuance. Prior to the issuance of a bond, the Town shall provide an Official Statement containing legally required disclosure information pertaining to the financial and economic position of the Town (17 CFR § 240.15c2-12).
2. It is Town policy that with the guidance of Bond Counsel, the Town shall award the winning bond bid to the bidder with the lowest True Interest Cost (TIC).
3. It is Town policy that the Town shall spend the bond proceeds in a timely manner to avoid IRS arbitrage penalties. The Finance Department as well as the particular departments shall monitor the use of bond proceeds to ensure compliance with arbitrage regulations.

11. Other Liabilities

A. *Pension*

1. It is Town policy to allocate resources to fully fund the Town's portion of the Concord Contributory Retirement System by 2030. In order to do so, the Town shall contribute to the pension fund its share of the Annual Required Contribution (ARC) payment as determined by a biennial actuarial valuation report, certified by the Public Employee Retirement Administration Commission (PERAC), and reviewed by Contributory Retirement Board. This contribution may consist of (1) a General Fund appropriation increasing at a 3% annual growth rate, (2) the use the Town Pension Reserve Fund to supplement the required General Fund allocation as necessary, and (3) the full funding of the ARC associated with the Town's enterprise operations.
2. It is Town policy that management and investment of the pension fund are the responsibility of the Concord Contributory Retirement Board.

B. *OPEB*

1. It is Town policy to allocate resources to fully fund the Town's portion of Other Post-Employment Benefits (OPEB) by 2039. In order to do so, the Town shall contribute to the OPEB Trust Fund its share of the Net OPEB Obligation (NOO) as determined by an actuarial valuation report. This contribution may consist of (1) a General Fund appropriation increasing by \$250,000 annually until the General Fund's portion of the NOO is fully funded, and (2) the full funding of the NOO associated with the Town's enterprise operations.
2. Funds invested and reinvested in the OPEB Trust Fund by the Town Treasurer shall be consistent with the prudent investor rule established under M.G.L. 203C.

APPENDIX: Financial Policies

12. Accounting and Financial Reporting

A. *Financial Reporting*

1. It is Town policy that the Town's accounting practices shall conform to Generally Accepted Accounting Principles (GAAP) as set forth by the Government Accounting Standards Board (GASB), the Uniform Municipal Accounting System (UMAS), and the Massachusetts Department of Revenue (DOR) Informational Guideline Releases.
2. It is Town policy that a certified public accounting firm shall conduct an independent annual audit of the Town financial records. There are four types of opinions provided by the auditor of the independent annual audit: Unqualified Opinion (Clean Opinion), Qualified Opinion, Adverse Opinion, and Disclaimer of Opinion. It is Town policy that Town government shall maintain its financial records so that the auditor can render a Clean Opinion, the opinion in which the Town financial records have been maintained in accordance to GAAP. An opinion rendered by an auditor that is not a clean opinion shall be reviewed by the Finance Department and corrections shall be made in the next fiscal year.
3. It is Town policy that the Finance Department shall take steps to address Management Letter items (e.g., items that the independent auditor sees deficiencies) during the subsequent fiscal year.
4. It is Town policy that a completed audit by the Town shall be submitted to the Division of Local Services, per State law.
5. It is Town policy that whenever the total annual federal grants to the Town and CPS total more than the level that triggers a single audit, the Town is required to comply with the Single Audit Act for Audits of States, Local Governments, and Non-Profit Organizations.
6. It is Town policy to have a Financial Audit Advisory Committee (FAAC) to assist the Select Board, Town and Concord Public School financial management officials in the organization, implementation and review of the annual examination of financial reporting and control procedures and in the continuous review and improvement of fiscal accountability matters.

B. *Reconciling Accounts*

1. It is Town policy that the Treasurer/Collector Division and the Accounting Division shall reconcile all cash accounts as recorded in the Treasurer's Cashbook and as recorded on the General Ledger on a monthly basis. The Treasurer/Collector Division and the Accounting Division shall provide monthly reports documenting the reconciliation to the Finance Director.
2. It is Town policy that the Treasurer Collector Division shall reconcile all receivable accounts on a monthly basis. The reconciliation shall show each receivable account by levy year for property and excise taxes and total balances for betterment, tax title, and lien accounts. A separate report shall be provided for any other receivables. Deferred revenue accounts for all funds shall be reconciled to the receivable accounts on a monthly basis.
3. It is Town policy that the Accounting Division shall reconcile the General Ledger accounts as follows:
 - a. Payable and payroll withholding accounts shall be checked periodically and not less than semiannually to determine that the balances are properly clearing.
 - b. Budgeted expenditure accounts shall be reviewed monthly to identify any unusual activity or predict potential budget shortages.

APPENDIX: Financial Policies

- a. Revenue and expenditure accounts shall be reconciled to the control accounts. This is performed automatically by the financial system but should be periodically checked to assure that there are no system errors.
- b. All funds should be checked to be sure they are in balance.
- c. Interfund transfers and receivable/payable accounts shall be reconciled where applicable.
- d. Appropriation balances shall be reconciled to the tax recap and Town meeting votes.
- e. All accounts shall be reviewed analytically from time to time for reasonableness and to identify unusual activity.

A. *Monitoring Accounts*

1. It is Town policy that all expenditure budgets be reviewed on a monthly basis by department heads. The official record of expenditures is the Town's General Ledger as maintained by the Accounting Division and department heads or authorized employees must submit documentation to support any journal entry if an expenditure account on the General Ledger needs adjustment.
2. It is Town policy that all revenue transactions be reviewed on a monthly basis by department heads. The official record of revenues is the Town's General Ledger as maintained by the Accounting Division, and department heads or authorized employees must submit documentation to support any journal entry if a revenue account on the General Ledger needs adjustment.

B. *Year-End Closing*

1. It is Town policy that the Accounting Division shall complete the year-end closing process once the auditors have finished their field work and have given the Town approval to generate year-end financial statements and to submit documentation for Free Cash certification.

C. *Regulatory Reporting*

1. *Free Cash Certification (Balance Sheet)*: It is Town Policy to file appropriate documentation with Massachusetts Department of Revenue's (DOR) Bureau of Account for the certification of Free Cash after the close of each fiscal year. Certified Free Cash is available for appropriation at the subsequent Town Meeting. Please refer to *Section 7. Reserve Funds* for the Free Cash Policy.
2. *Schedule A*: It is Town policy that the Accounting Division files *Schedule A*, the year-end statement of revenues and other financing sources, expenditures and other financing uses, changes in fund balances, certain balance sheet and other information with the DOR, by annual deadline of November 30th.
3. *Tax Recapitulation Sheet*: It is Town policy that the Finance Administration Division, Assessing Division and Accounting Division work collectively to complete the Department of Revenue's *Tax Rate Recapitulation* form, a four-page form that assembles all information necessary to calculate tax rates for the municipality, by the end of November. Once the tax rate has been approved by DOR, the Accounting Division shall record a journal entry for the final overlay account (allowance for abatements and exemptions).

CPA Reporting: It is Town policy that the Town completes and submits to the DOR three Community Preservation Act (CPA) reports annually: the CP-1 Form (Community-

APPENDIX: Financial Policies

1. Preservation Act Surcharge Report), the CP-2 Form (The Community Preservation Fund Report), and the CP-3 Database (The Online Community Preservation Projects Report).
5. *Cash and Receivable Reconciliation*: It is Town policy that the Accounting Division and the Treasurer/Collector Division submit an end-of year cash and receivable reconciliation to DOR.
6. *Snow and Ice Reporting*: It is Town policy that the Accounting Division submits a snow and ice report signed by the Town Manager and the Finance Committee to the DOR by deadline of September 30th. This report is a statement of snow and ice expenditures and financing sources for the previous winter.
7. *1099 Reporting*: It is Town policy that the Accounting Division shall issue *1099 Forms* by January 31st. The Accounting Division shall submit a 1099 file to both the IRS and the State. A 1099-MISC is issued for each person the Town has paid at least \$600 for rents, services, prizes and awards, or other income payments during the calendar year. A 1099-INT is issued for each person to whom the Town has paid \$10 or more of interest during (from tax abatement refunds, 53-G refunds, etc.) for the calendar year.
8. *Annual Provider Information Form*: It is Town policy that the Accounting Division is responsible for generating this report and submitting this report to the State by August 1st. Massachusetts General Laws Chapter 62C § 47A requires that cities and towns report certain information on vendors. The Town is required to list all persons who furnished goods, services, or real estate space for \$5,000 or more during the preceding fiscal year under contracts or agreements. The listing shall contain the name, address, and social security or federal identification number. The Department of Revenue further requires that the Town submit the Tax ID number of all providers of goods and services to the Town.
9. *Fixed Asset Reporting*: It is Town policy that the Accounting Division is responsible for fixed asset reporting. A capital asset is defined as having a value of \$10,000 or more and useful life is 2 years or more. GASB 34 requires the Town to account for capitalized infrastructure associated with Government Activities.

13. Risk Mitigation

A. Financial Risk

1. It is Town Policy that the Town will contract with an independent auditing firm to examine the Town's financial statements, render an opinion, and provide a management letter. The Financial Audit Advisory Committee has the charge for reviewing the audited financial statements and management letter.

B. Property Risk

1. It is Town policy that that the Town shall contract for sufficient insurance coverage to protect Town property in the case of an unforeseen catastrophe or damage to Town property. Property Risk mitigation is the responsibility of the Town Manager's Office and policies and procedures for property risk mitigation are established by that department.

APPENDIX: Financial Policies

A. *Information Risk*

1. It is Town policy that the Town shall provide safeguards against cyber threats. Information risk mitigation is the responsibility of the Information Technology Department and policies and procedures for information risk mitigation are established by that department.

D. *Professional Liability Risk*

1. It is Town policy that the Town shall contract for sufficient professional liability insurance coverage to protect Town officials and members of Town boards and committees for decisions made during official duty.

14. Procurement

A. *Procurement*

1. It is Town policy that the purchase of goods, services, and construction activities are obtained at the best value. Best value is defined as the lowest price for purchases that have similar quality and a combination of lowest price and highest quality for other purchases. This policy is implemented through compliance with State procurement statutes and Town regulations that promote competition in the award of contracts: competition is ensured by requiring that the Town conduct a sealed bid or proposal process for items over a certain dollar threshold and by allowing the Town to participate in federal, state and regional competitively-bid purchasing agreements.

B. *Chief Procurement Officer and Delegation of Authority*

1. As set forth in Section 9F of the Town Charter, the Town Manager shall be responsible for the procurement of all supplies, materials and equipment and for the award of all contracts. Town Manager shall be appointed as the Chief Procurement Officer of the Town. Most of these duties and powers shall be delegated to the Finance Director and the School Finance Officer as allowed by M.G.L. 30B § 19 and specified in APP #36. The Town Manager shall alone retain the sole authority to award and execute contracts.

C. *Purchase Orders*

1. It is Town policy that purchase orders shall be used for all purchases of \$1,000 or more, unless otherwise exempted.

D. *Authorization*

1. *Purchase Orders between \$1,000 and \$4,999:* These purchases must follow the applicable State statutes and Town regulations and be approved by the appropriate Division Manager, Department Head, and Budget & Purchasing Director.
2. *Purchase Orders between \$5,000 and \$34,999:* These purchases must follow the applicable State statutes and Town regulations and be approved by the appropriate Division Manager, Department Head, Budget & Purchasing Director and Finance Director.
3. *Purchase Orders of \$35,000 or more:* These purchases must follow the applicable State statutes and Town regulations and be approved by the appropriate Division Manager, Department Head, Budget & Purchasing Director, Finance Director and Town Manager.

APPENDIX: Financial Policies

A. *Statutory and Regulatory Compliance*

1. *Goods & Services:* For the procurement of goods and services, the Town shall follow the Uniform Procurement Act, M.G.L. 30B.
2. *Building Design:* For building design, the Town shall follow the Designer Selection Law, M.G.L. Chapter 7 §§ 38 A½ - O.
3. *Building Construction and Repair:* For building construction and repair, the Town shall follow M.G.L. 149 §§ 44 A-M.
4. *Public Works Construction:* For roads, bridges, water and sewer systems, and other public works construction, the Town shall follow M.G.L. 30 § 39M.

Fund Descriptions

Governmental Funds

Most Town functions are financed through what are called *governmental funds*. There are **four** types of governmental funds maintained by the Town: the General Fund, Enterprise Funds, Special Revenue Funds, and the Capital Projects Fund. The Town Meeting appropriates the General Fund, the Swim & Fitness Center Enterprise Fund, Stabilization Funds, and the Community Preservation Act Fund, in accordance with state law requirements. The Capital Projects Fund accounts for projects funded by issuance of tax-supported debt obligations ("bonds"). All other funds are not appropriated by Town Meeting but are expended under the direction of the Town Manager in accordance with state laws and the Town Charter..

General Fund: The General Fund is the major operating fund of the Town government, and it accounts for the majority of Town operations. The General Fund is supported by revenues from real estate and personal property taxes, state and federal aid, excise taxes, investment income, fines and forfeitures, and fees and charges. Most of the Town's departments, including the schools, are supported in whole or in part by the General Fund.

Enterprise Funds: The Town maintains four Enterprise Funds: the Sewer Fund, the Water Fund, the Beede Swim & Fitness Center Fund, and the Light Fund (Concord Municipal Light Plant). In addition, the Solid Waste Disposal Fund, which technically is a Special Revenue Fund, is operated as an Enterprise Fund but does not include any capital improvement activity. An enterprise operation is a business-type activity that is supported primarily by charges for services. Funds raised from charges are dedicated to the specific purpose of the enterprise operation and cannot be diverted to other unrelated uses. The concept of an enterprise operation also includes the maintenance of the capital facilities of the business. That is, fees for services are charged to recover not only the operating costs of the activity but also the "using up" (depreciation) of the capital assets supporting the service.

Budgeting and financial reporting for enterprise operations utilizes terms and concepts that differ significantly from those utilized for the General Fund . The purpose of enterprise financial reporting is to measure with reasonable accuracy and consistency the net income derived from operations, and then to measure the availability and use of capital acquisition and construction financing. The presentation of the enterprise budgets utilizes budgetary terms and reporting structure found in the audited financial statements. As such, the key measures are *Net Income* and *Capital Resource Availability*.

Special Revenue Funds: The Town maintains several Special Revenue Funds, which are used to account for those types of revenues that are legally restricted to being spent for a specific purpose (except expendable trusts, or major capital projects). These revenues must be accounted for separately from the General Fund for a variety of reasons. Special Revenue Funds include the following types of funds:

1. **Revolving Funds:** Revolving Funds allow the Town to raise revenues from a specific service, and use those revenues to support the service without appropriation. Revolving Funds are established by state statute or local bylaw, and may require re-authorization each year at Town Meeting. The Town maintains a number of Revolving Funds, such as the Cemetery Fund, the Parking Fund and the Recreation Fund.

2. **Receipts Reserved for Appropriation:** These receipts are special revenues that are restricted to a specific use, but also require annual appropriation by Town Meeting, The Road Repair Fund is a "Receipts Reserved" Fund

APPENDIX: Fund Descriptions

3. **School Grants:** These grants account for several specially-financed education programs under grants received from the federal or state governments, including professional development, SPED early childhood development, drug-free school programs, and certain capital improvements.

4. **Other Intergovernmental Funds:** These funds account for several grants or monies received by the Town from the federal or state governments, including a variety of community policing grants, Chapter 90 highway monies, state election grants, state library aid, and various Council on Aging programs, such as “meals-on-wheels.”

5. **Other Special Revenue Funds:** These funds account for miscellaneous special revenues often involving private donations for a specific purpose, such as the Arts & Technology Education Fund, departmental gifts for police and fire, various Council on Aging programs, and Planning Board gifts from developers for infrastructure improvements related to proposed projects.

Capital Projects Fund: The Capital Projects Fund is used to account for monies expended for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by trust funds. The Town’s Capital Projects Fund is funded primarily by the receipt of bond proceeds resulting from the Town’s issuance of bonds for specific project grants, but may also be derived from private sources, grants, or transfers from other Town funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. Fiduciary Funds include expendable trusts, non-expendable trusts, and agency funds.

1. **Expendable Trusts:** Expendable Trusts are used to account for monies received by the Town in a trustee capacity where both the principal and the earnings of the fund may be expended.

2. **Non-expendable Trusts:** These trusts are used to account for funds where the principal must, by law or covenant, remain intact (that is, cannot be expended). Income earned on the non-expendable trust principal may be expended in accordance with the conditions of the trust. An example is the Cemetery Perpetual Care Fund.

3. **Agency Funds:** Agency Funds are used to account for funds that are custodial in nature, collected and expensed on behalf of other units of government, such as sales taxes and other fees collected on behalf of and transmitted to the state government.

Basis of Accounting & Basis of Budgeting

Basis of Accounting

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The accrual basis of accounting is utilized by non-expendable trust funds. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Basis of Budgeting

An annual budget is adopted by the Town Meeting for the Town's General Fund. Town Meeting approval is also required for certain special revenue funds and for capital projects funded from borrowing authorizations. The Town's General Fund annual budget is adopted on a statutory basis that differs in some respects from generally accepted accounting principals (GAAP). The major differences between the budgetary basis and GAAP accounting basis are:

1. Budgeted revenues are recorded when cash is received (budgetary basis), as opposed to when susceptible to accrual (GAAP). The property tax levy is recorded as a receivable when levied but then is fully reserved until collected.
2. Encumbrances are treated as expenditures in the year the commitment is made. Certain appropriations, voted by Town Meeting apart from the main budget articles, are referred to as "Special Articles" and under state law are a continuing authorization until the purposes for which the appropriation was initially made have been certified as completed.. Special Articles are treated as budgetary expenditures in the year of authorization or the ensuing fiscal year as specified in the vote.

APPENDIX: Glossary

A GLOSSARY OF TERMS COMMONLY USED IN MUNICIPAL FINANCE

Abatement: A complete or partial cancellation of a levy imposed by a governmental unit; applicable to tax levies and special assessments.

Accrual Basis: In the context of accounting, practice in which expenses and income are accounted for as they are earned or incurred, whether or not they have been received or paid.

Actuarial Accrued Liability (AAL): Generally represents the portion of the present value of fully projected benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Value of Assets (AVA): The value of a pension plan investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smoothes the effects of short-term volatility in the market value of assets.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.

Appropriation: An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the time when it may be expended. Only a vote of Town Meeting or the School Committee can authorize money appropriated for one purpose to be used for another. Any amount which is appropriated may be encumbered. Any part of the general appropriation not spent or encumbered by June 30 automatically reverts to surplus. A specific or particular appropriation is carried forward from year to year until spent for the designated purpose or transferred by Town Meeting vote to another account.

Assessed Valuation: The value placed upon a particular property by the local Board of Assessors for the purpose of apportioning the Town's tax levy among individual property owners equitably and in accordance with the legal requirement that property be assessed at "full and fair cash value," certified periodically by the Commonwealth's Commissioner of Revenue (no less frequently than once every three years).

Audit: Work done by accountants in examining financial reports, reviewing compliance with applicable laws and regulations, reviewing efficiency and economy of operations, and reviewing effectiveness in achieving program results. A basic audit examines only the financial reports and legal compliance. An outside Certified Public Accountant (CPA) audit is directed primarily toward the expression of an opinion as to the fairness of the financial statements and submission of a management letter. An auditor must be independent of the executive branch of government. A state auditor, private CPA, or public accountant, or elected auditor meets this test.

Balance Sheet: A statement which discloses the assets, liabilities, reserves, and equities of a fund or government unit at a specified date.

Balanced Budget: A plan of financial operation in which the estimate of proposed expenditures for a given period is less than or equal to the proposed means of financing these expenditures (from various sources of funds or revenues).

APPENDIX: Glossary

Budget: A plan of financial operation embodying an estimate of proposed expenditures for a given period (usually a 12-month period referred to as the Fiscal Year, or FY) and the proposed means of financing them. A budget may be preliminary (the financial plan presented to the Town Meeting) or final (the plan approved by that body).

Capital Budget: A plan of proposed capital outlays, and the means of financing them for the current fiscal period. It is usually a part of the current budget but may also be a multi-year plan.

Capital Improvement: A major, non-recurring expenditure involving one of the following:

- a. Real Property - Includes the purchase or lease of land, existing buildings and appurtenant structures, and fixtures attached to land and buildings.
- b. Equipment - Includes the replacement or addition of major items of equipment with a life expectancy of at least two years and a cost of at least \$5,000. Similar items can be bundled together.
- c. Projects - Include activities such as the following:
 1. Construction of new buildings or facilities (including architectural, engineering, and related fees).
 2. Improvements or major repairs (costing \$5,000 or more) of existing buildings or facilities, aside from routine maintenance.
 3. Studies or other activities (costing \$5,000 or more) that either relate to future "brick and mortar" projects, or are a part of a multi-year program of infrastructure improvements.
 4. An annual sum available for routine building improvements, renovations, or repairs.

Cherry Sheet: An annual statement received from the Massachusetts Department of Revenue (DOR) detailing estimated receipts for the next fiscal year from the various state aid accounts, and estimated state and county government charges payable by the Town, and included by the local Assessors in setting the tax rate. The actual receipts and charges may vary from the estimates.

Classification: The division of property valuations by type of property. There are five classes: Residential, Open Space, Commercial, Industrial, and Personal. The Selectmen may set as many as three different tax rates (within limits set forth in state law): for residences, for business and personal, and for open space.

Cooling Degree Days: Are a measure of how much (in degrees), and for how long (in days), outside air temperature was *higher* than a specific base temperature. They are used for calculations relating to the energy consumption required to *cool* buildings

Debt Service: Payment of interest and principal related to long term debt.

Depreciation: A non-cash expense (also known as non-cash charge) that provides a source of available funds. Amount allocated during the period to amortize the cost of acquiring long-term assets over the useful life of the assets. This is an accounting expense not a real expense that demands cash.

Encumbrance: Obligations such as purchase orders, contracts, or salary commitments that are chargeable to an appropriation, and for which a part of the appropriation is reserved.

APPENDIX: Glossary

Enterprise Fund: A fiscal entity with a self-balancing set of accounts that is utilized to account for a governmental service when it is the intent to recover the total cost of service, including depreciation, primarily through user charges imposed on the consumers of the service. Examples in Concord include: electricity provided by the Concord Municipal Light Plant, and Water and Sewer services provided by the Department of Public Works.

Equalized Valuation (EQV): The value of all property as determined by the Commissioner of Revenue biennially, using a standard of "full and fair value"; also referred to as EQV.

Expenditure: The spending of money by the Town for the programs or projects within the approved budget.

Fiscal Year (FY): A 12-month period, commencing July 1 and ending June 30, to which the annual budget applies, and at the end of which a governmental unit determines its financial position and the results of its operations. The number of the fiscal year is that of the calendar year in which it ends; FY2016 is the fiscal year which ends June 30, 2016.

Free Cash: Free cash refers to the amount of Fund Balance that is available for appropriation. It is certified each July 1 by the state. Because of the stringent way that the state makes these calculations, Free Cash more closely represents Cash (actual dollars held) than does Fund Balance, which includes a variety of receivables (i.e., cash due).

Fund: An accounting entity with a self-balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Fund Balance: The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to the stockholders equity account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as "accounts receivable" may be taxes receivable and uncollected (see **Free Cash**).

General Fund: The fund into which the general (non-earmarked) revenues of the Town are deposited, and from which money is appropriated to pay expenses.

General Obligation Bonds: Bonds issued by the Town that are backed by the full faith and credit of its taxing authority.

Governmental Funds: Funds used to organize and separate the finances of various Town activities and objectives. Governmental Fund categories include: the General Fund; Enterprise Funds; Special Revenue Funds; and the Capital Projects Fund.

Heating Degree Days: Are a measure of how much (in degrees), and for how long (in days), outside air temperature was *lower* than a specific "*base temperature*" (or "*balance point*"). They are used for calculations relating to the energy consumption required to *heat* buildings.

Kilowatt-hour (kWh): Kilowatt-hour is an energy unit (symbol kWh). One kilowatt-hour is defined as the energy consumed by power consumption of 1kW during 1 hour. The Town of Concord uses kWh to measure electric output for facilities.

APPENDIX: Glossary

Land Fund: A fund established by Town bylaw in FY1986 to which may be added an annual appropriation, gifts, and grants. The use of the fund is restricted to the acquisition of land, debt service on designated land purchases, and related costs, such as legal and appraisal fees.

Massachusetts School Building Authority (MSBA): A quasi-independent government authority created to reform the process of funding capital improvement projects in the Commonwealth's public schools.

Net OPEB Obligation (NOO): The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. (GASB 45 only)

Other Post-Employment Benefits (OPEB): Post-employment benefits that an employee will begin to receive at the start of retirement. This does not include pension benefits paid to the retired employee. Other post-employment benefits that a retiree can be compensated for are life insurance premiums, healthcare premiums and deferred-compensation arrangements

Overlay: The amount raised from the property tax levy in excess of appropriations and other charges. It cannot exceed 5 percent of the levy, and is used to cover abatements and exemptions granted locally or on appeal.

Overlay Surplus: The unused portions of **overlay** accounts from previous years; at the end of each fiscal year, this amount is computed from information provided by the Board of Assessors. Any sum so designated is transferred to, and becomes part of, the General Fund undesignated fund balance.

Override: A vote to increase the amount of property tax revenue that may be raised over the levy limit set by **Proposition 2½**.

Payment in lieu of Taxes (PILOT): made to compensate a local government for some or all of the tax revenue that it loses because of the nature of the ownership or use of a particular piece of real property. Usually it relates to the foregone property tax revenue.

Personal Services: The cost of salaries, wages, and related employment benefits.

Property Tax Levy: The amount produced by multiplying the assessed valuation of property by the tax rate. The tax rate is expressed per thousand dollars of assessed valuation. For example: (based on \$14.29 tax rate)

<i>House Value:</i>	\$700,000
<i>Tax Rate:</i>	\$14.29 (which means \$14.29 per thousand \$\$ of valuation)
<i>Levy Calculation:</i>	\$14.29 multiplied by \$700,000 divided by \$1,000.
Result, Property Tax Levy:	\$10,003

Proposition 2½ (see below): A tax limitation measure passed by Massachusetts voters in 1980 that limits the growth of the total property tax levy to 2.5% per year. New construction values are added to this limit. Two provisions of Prop 2½, so-called, allow the Town to raise taxes above this tax levy limit, upon approval by a Town-wide vote: an operating override or a debt exclusion.

APPENDIX: Glossary

Public Employee Retirement Administration Commission (PERAC): A government agency that was created for and is dedicated to the oversight, guidance, monitoring, and regulation of the Massachusetts Public Pension Systems.

Purchased Services: The cost of services that are provided by a vendor.

Reserve Fund: A fund appropriated each year that may be used only by vote of the Finance Committee for "extraordinary or unforeseen expenditures."

Revolving Fund: Those funds that may be used without **appropriation**, and that are established for special uses. Fees (such as for recreation) may be paid into a revolving fund. Revolving funds are established directly by state law or by Town bylaw consistent with state law.

Tax Levy: Total amount of dollars assessed in property taxes by the Town each **fiscal year**.

Therm: A unit of measure for heating energy. In Concord this can be linked to facility natural gas output.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any of the **Actuarial Accrued Liability** over the **Actuarial Value of Assets**. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Warrant: A list of items to be voted upon at Town Meeting.

Terms Associated with Proposition 2½

Excess Levy Capacity: The difference between the Town's maximum annual tax levy limit as established by Proposition 2½, and its actual **tax levy** for the current year. It is additional **tax levy** that a town could raise without asking voters for an **override** or debt exclusion.

Growth Revenue: The amount of property tax revenue that the Town can add to its allowable tax levy as a result of new construction, alterations, subdivision, or change of use of a parcel.

Primary Levy Limit, or Absolute Limit: 2.5 percent of certified full and fair cash value of taxable property.

Secondary Levy Limit, or Annual Levy Limit: Prior levy limit plus 2.5 percent (base) plus **growth revenue**.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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Town of Concord

Massachusetts

For the Fiscal Year Beginning

July 1, 2018

Christopher P. Morill

Executive Director