



TOWN & COUNTY OF NANTUCKET
BOARD OF SELECTMEN

LONG RANGE FINANCIAL PLANNING POLICY

Effective date: 09/15/2011

Adopted: 09/14/2011

Applicability: Town, School, and Enterprise Departments

I. Purpose

The Long Term Financial Plan establishes financial guidelines for the Board of Selectmen / County Commissioners; Finance Committee / County Finance Review Committee and Town / County Administration in managing the financial affairs of the Town & County of Nantucket over the course of the next ten years.

The purpose of this policy is to:

1. Ensure the Town & County of Nantucket attain financial sustainability
2. Ensure the Town & County of Nantucket has sufficient long term information to guide financial decisions.
3. Ensure the Town & County of Nantucket has sufficient resources to provide the core programs and services the community expects.
4. Ensure potential risks to on-going operations are identified in the long term financial planning process and communicated on a regular basis.

II. Policy – Long Term Financial Plan

At the beginning of the budgetary cycle each year, the Finance Department in collaboration with Town Administration will provide a Long Term Financial Plan to the Board of Selectmen and Finance Committee. The Long Term Financial Plan is a five year municipal budget and capital planning forecast. The forecast provides a long-term overview of revenue, operating expense, and capital activity. For Fiscal Year 2012 and going forward, the forecast information is presented in a format of what the Town & County can afford to spend as opposed to identifying gaps between revenues and expenditures.

It will take a number of years to fully implement all the components of the Long Term Financial Plan policy. Highlights of each policy are provided for a quick reference in the planning process.

III. Policy – Budget

The Town & County will provide for all core programs and services within current revenues. In order to achieve this policy, the following criteria must be followed:

1. All funds are required to balance. As such, total projected revenues must equal the sum of budgetary expenditures for each fund. Revenues are derived from four sources: current revenue charges; increases in existing revenue charges; new revenue sources; and unallocated reserves carried forward from prior years.
2. All requests for appropriations are considered only in conjunction with measurable performance criteria. Expenditures are approved or rejected on the basis of planned

levels of performance. Therefore, it is necessary for each activity within a fund to prepare a performance plan consisting of workload measures, efficiency measures, and effectiveness measures.

3. Expenditure budgets for enterprise operations (i.e., Water, Sewer, Airport, Solid Waste, and Our Island Home) must be funded either exclusively or primarily by user fee revenues; unless the Town decides to use the general tax revenue when a greater public benefit is demonstrated (i.e. Solid Waste and Our Island Home). In addition, expenditure budgets for enterprise operations that require the use of general tax revenue as a funding source to balance the operating budget require Board of Selectmen approval prior to forwarding to the Finance Committee.
4. Ongoing expenses are never funded by a non-recurring or one-time revenue source. Future and current funding sources are identified for all new programs and services.
5. The Town & County of Nantucket may seek an operating override if projected recurring revenues decline more than 5% over the prior fiscal year actuals and over 50% of reserves have been depleted. An operating override will be sought for no less than 3 years to replenish the reserves and continue daily operations at the service levels expected by the community.
6. The Town & County will not introduce new programs & services during the time which the operating budget is balanced with funding generated by an operating override.

IV. Policy – Capital Improvements

One of the Board of Selectmen goals related to Capital Planning and Infrastructure is to work towards reducing costs associated with borrowing. One of the methods to achieve the stated goal is the strategic planning surrounding the Town & County's 5-year Capital Improvement Program.

1. The Town & County will update the five year capital improvement plan on an annual basis through the budget process. The plan identifies not only anticipated capital expenditures in excess of \$50,000 but also related operating expenses with the project and anticipated funding sources. Capital improvements less than \$50,000 are funded within the operating budget.
2. Capital projects in excess of \$50,000 financed through the issuance of bonds will be financed for a period not to exceed the useful "life" of the project as defined by Massachusetts General Law (M.G.L.)
3. The Town & County may seek a Proposition 2 1/2 override for capital projects that are for the greater benefit of the entire community.
4. The Town will coordinate the development of the capital budget with the development of the operating budget. Future operating costs associated with new capital projects will be identified and included in operating budget forecasts.
5. The Town will preserve its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.
6. The Town will establish an appropriate distribution of bonded debt and cash financing in the funding of capital projects.
7. The Town will closeout all capital projects within six months of completion. If a capital project, subject to borrowing and/or funded by revenues in excess of \$5,000, has a remaining available budget, the Finance Department in collaboration with Town Administration will propose a reallocation of the available balances to other capital projects in accordance with the General Laws of Massachusetts (MGL) Chapter 44, Section 20. Capital projects funded with available revenue that have an available

balance less than \$5,000 will be closed out by the Finance Department to the appropriate fund surplus.

V. Policy – Debt Service

The Debt Service policy pertains to Debt Limits, Issuance, Management, and Ratios. A more detailed Debt Service policy is available that outlines each section in greater detail. In terms of the impact on Long Term Financial Planning, highlights include the Debt Limit, Compliance with Federal, State, and Local regulations, Investor Communications, and Debt Ratios.

1. In accordance with the General Laws of Massachusetts Chapter 44 Section 10, the Town is authorized to incur debts to an amount not to exceed 5 percent of the equalized valuation. As general practice, the goal is to ensure Town of Nantucket debt service payments will not exceed 12% of the Total Municipal Budget (General Fund combined with Enterprise Funds) and 12% of the General Fund operating budget.
2. In order to ensure compliance, the Finance Director and Treasurer will coordinate their activities to make certain that all securities are issued in the most cost-effective manner while in accordance with Governmental Accounting Standards Board (GASB), the General Law of Massachusetts (MGL), Town & County By-laws, and Town & County Policies. In order to ensure the Town & County is complying with legal and regulatory requirements, the Finance Director and Town Counsel will coordinate all activities necessary to issue debt, including but not limited to the selection of bond counsel; review of ordinances and resolutions provided by bond counsel; review of all documents necessary to issue debt provided by bond counsel; and verifying compliance with the Town Charter.
3. The Town of Nantucket will include a written statement in the bond offering documents which commits the Town staff to provide timely information to the rating agencies and to provide investors with copies of the basic financial statements upon written request and payment of a reasonable fee.
4. The Finance Director will present key debt ratios with recommendations to Town Administration for future capital expenditures subject to borrowing.
 - i. Debt as a percentage of assessed value. Debt as a percentage of assessed value indicates the relationship between the Town's debt and the taxable value of property in the Town.
 - ii. Debt per capita. Debt per capita is a ratio that indicates the per capita debt burden and is a general indicator of the Town's debt burden.
 - iii. Debt per capita as a percentage of per capital income is a measure of the capacity of citizens to finance tax supported debt. A low ratio means that taxes required to pay debt represent a smaller portion of the average citizen's income.
 - iv. Debt Service as a percentage of general governmental expenditures identifies the Town's ability to repay debt without hampering other Town services and programs.

VI. Policy – Investments

The investment policy applies to the investment of Town & County General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds. Information contained with investment policy document is quite detailed and includes but is not limited to the legal requirements as outlined in the General Laws of Massachusetts; acceptable levels of safety, liquidity, and yield; ethical standards & prudence required of the Treasurer; diversification of investments; investment instruments; risk; and reporting.

On a semi-annual basis (as of September 30th and March 31st of each fiscal year), the Treasurer shall issue a report to the Finance Director, Town Administration / County Administration, and the Board of Selectmen / County Commissioners containing the following information:

1. A listing of Total Funds on deposit by financial institution or advisor showing percentage of total deposits to each institution, type of insurance coverage or collateral and approximate value of uninsured or uncollateralized funds held by the Town & County.
2. A listing of Total Funds on deposit by financial institution or advisor by type of deposits or investment showing percentage of total deposits in each institution.
3. Summary of interest income, realized and unrealized gains and losses earned on investments on a fiscal year to date basis.
4. Detail listing of any exceptions to policy stating reason for exception and anticipated date of correction, if applicable.

VII. Policy – Revenues

The Town & County will maintain a diversified and stable revenue system. Each year, the Finance Department will update the five year revenue forecast and identify potential risks associated with each revenue stream including User Fees & Charges and One Time Revenue Sources.

User Fees & Charges apply to Town & County programs and services where the intent is to recapture, through fees, up to the full cost of providing such programs and services. On an annual basis, at the beginning of each budgetary cycle, the Finance department will forward recommendations to Town Administration pertaining to increases and/or decreases to the existing user fee & charges matrix. Within the report to Town Administration, the service detail will indicate if there is an associated subsidy, surplus, or break even point. Town Administration will review and determine if there is a public benefit to providing a subsidy to support the service or if the user fee needs to be adjusted to achieve full cost recovery. Town Administration's recommendations are then forwarded to the Board of Selectmen for consideration. In order to be incorporated into the financial forecast, the Board of Selectmen will need to adopt changes to the user fee & charges matrix no later than October each fiscal year. The review of user fees & charges that apply to the School system would be conducted by the School Finance Director, Superintendent, and School Committee.

One time revenue sources are identified as unreserved, undesignated revenue streams that occur on a one time basis as opposed to a continuous basis each fiscal year. One time revenue sources include but are not limited to revenue obtained through the sale of public land, grants, and gifts. Approved uses of one time revenue resources are as follows:

1. Revenue obtained from the sale of public land will be recognized in accordance with the General Laws of Massachusetts Chapter 44 Section 63 as follows:
“whenever the proceeds of the sale or other disposal of real estate exceeds five hundred dollars, the same shall be applied to the payment of indebtedness incurred in acquiring such real estate or shall be added to the sinking fund, if any, from which said indebtedness is payable, or if no such indebtedness is outstanding may be used for any purpose or purposes for which the town is authorized to incur debt for a period of five years or more or be applied to the payment of indebtedness incurred under clause (3) of section seven, except that the proceeds of a sale in excess of five hundred dollars of any park land by a town shall be used only by said town for acquisition of land for park purposes or for capital improvements for town land”.
2. Grant funding is only used for the purpose as stipulated in the grant. A financial audit is conducted each year for Federal & State grants to ensure the funds are used as intended by the grantor.
3. Gifts and other one time revenue sources such as donations shall be held by the Town Treasurer and maintained in a separate fund by the Town Accountant. Gifts

and donations can only be expended according to the purpose of the gift and/or donation as specified by the donor. If the Town & County is unable to use the gift or donation for the specified purpose, the funds will be returned to the donor.

The Town & County of Nantucket will not use One Time Revenue Sources as a resource to balance the operating budget.

VIII. Policy – Reserves

The purpose of reserves is to ensure the resiliency within all operations in the Town & County of Nantucket. There are four main reserves contained within the Town of Nantucket: Free Cash, the Stabilization Fund, Trust Funds, and Fund Balance. As contained within the Financial Reserves policy, reserve funds can only be used for the following purposes:

1. Appropriate uses of free cash include: to fund the stabilization fund; to fund capital projects with an estimated cost between \$100,000 and \$500,000 for which long-term borrowing is authorized at terms of five or fewer years; to fund extraordinary deficits that would otherwise be carried over to the following year; to remain in unreserved, undesignated fund balance until the sum of unappropriated free cash is equal to 5% of general fund revenue. The purpose of maintaining an unappropriated amount of free cash is to provide for cash flow and to have funds available if necessary for emergency appropriation.
2. The Stabilization Fund may only be used to support the operating budget when revenue increases less than 3% from the prior fiscal year. The amount withdrawn from the Fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year revenue to 3%, or 1% of prior year's revenue, whichever is less. There will not be any additional withdrawals from the Stabilization Fund until the amount withdrawn is replenished. Replenishment funding shall come from Free Cash or from revenue. If Free Cash or revenue is insufficient to replenish the Stabilization Fund in the immediately following fiscal year, the replenishment shall occur as soon as Free Cash or revenue is available, and no further withdrawal shall occur until the fund has been replenished.
3. The Town & County of Nantucket will not use the fund balance(s) as a source to balance the operating budget or to offset unforeseen expenditures until all other forms of reserves have been exhausted.

IX. Policy – Accounting Basis

Governmental Funds are accounted for using the current financial resources measurement focus incorporated in the Modified Accrual Basis of Accounting. Using this basis, revenues are recognized when they are subject to accrual or when they become measurable and available. Likewise, expenditures are recorded as the liabilities are incurred with the exception of principal and interest on general long-term liabilities which are recognized when they are due. Revenues which are subject to accrual include grants from other governments and interest on investments. Revenue from property taxes is subject to accrual but is not accrued because funds are not collected in an appropriate time period after the fiscal year's end to pay the liabilities of the current reporting period. Local revenues are generated from excise taxes, fees, licenses, permits, rentals, penalties, and interest. Local revenues are not subject to accrual as they are neither measurable nor available prior to receipt of revenue.

Proprietary funds, including Enterprise Funds and Internal Service Funds, are accounted for on the Accrual Basis of Accounting. Revenues are recognized when they are earned and become measurable. Expenses are recognized when incurred, if measurable. Unbilled receivables at the years end for the Airport, Water, Our Island Home, Sewer, and Solid Waste enterprise funds are not accrued since they are not significant to current operations.

The Town & County also report Fiduciary Funds which do not adopt budgets. These funds are accounted for on an accounting basis consistent with the funds measurement focus. Fiduciary

Funds include the Health Insurance Trust Fund, Expendable Trust Funds, and Private Purpose Trust Funds.

X. Policy – Budgetary Basis

Annual budgets are adopted for the General Fund, Special Revenue Funds (Revolving Funds), and Enterprise Funds. All budgets are adopted on a basis consistent with Generally Accepted Accounting Principals (GAAP) and the General Laws of Massachusetts (MGL).

The level at which expenditures may not legally exceed the budget is contained within each line item in the fund. Any change in the salary or operating expense appropriation level of the fund must be approved at the Annual Town Meeting or at fiscal year end by the Board of Selectmen and Finance Committee. Line item adjustments within the department's budget do not require Town Meeting approval; however alterations to the budget require the approval of the Assistant Finance Director. With the exception of appropriations pertaining to Capital Improvements Projects and outstanding purchases, appropriations lapse at year's end. Appropriations for Capital Improvement Projects are carried forward until such time as the project is completed.

XI. Policy – Interim Reporting

In accordance with the General Laws of Massachusetts Chapter 41 Section 58, the Finance Department provides a summary report on revenue and expenditure activities by category and department to the Board of Selectmen and Town Administration on a monthly basis. The information contained within the summary report includes not only current fiscal year actual to budget information but also a comparison to last year's actual activities.

On an annual basis, the Finance Director acting as the Town Accountant provides the accountants report on prior year's finances in the Annual Town Report. The Annual Town Report is distributed each year at the Annual Town Meeting.

XII. Timeline

The long term financial planning policy will be communicated to departments no later than September 15, 2010. The effectiveness of the policy will be reviewed each fiscal year at the beginning of the budgetary cycle and refined accordingly.