New to the Finance Committee: Budgeting 101

Overview: Dedham, MA

- Annual operating budget
  - Process and timeline
- Capital Improvement Plan (CIP)
  - CIP process
  - Differences between operating and capital processes
- Managing long-term debt
  - Policies and guidelines
- Tax recapitulation process

Annual Operating Budget Process

- Process begins in the fall and concludes at Annual Town Meeting in the spring
- Departments develop line-item budget requests
  - Salaries
  - Purchase of Services
  - Supplies
  - Other Charges & Expenses
- Review process of each line item includes Town Administrator and Finance Committee’s recommendations to Town Meeting
Operating Budget Process Timeline

<table>
<thead>
<tr>
<th>When</th>
<th>Who</th>
<th>What</th>
</tr>
</thead>
<tbody>
<tr>
<td>November</td>
<td>Finance Department</td>
<td>Revenue projections: State aid, property tax, local receipts, other</td>
</tr>
<tr>
<td></td>
<td>Town Administrator</td>
<td>Deliver annual budget message to departments with guidelines for budget requests</td>
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<tr>
<td>December</td>
<td>Finance Department</td>
<td>Meet with departments, develop and compile budget requests</td>
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<td></td>
<td>Town Administrator</td>
<td>Review departmental budget requests</td>
</tr>
<tr>
<td>January</td>
<td>Town Administrator</td>
<td>Develop budget recommendations, submit to Board of Selectmen and Finance Committee</td>
</tr>
<tr>
<td>February</td>
<td>Board of Selectmen</td>
<td>Publish warrant</td>
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<tr>
<td>February</td>
<td>Finance Committee</td>
<td>Review budget requests, hold budget hearings</td>
</tr>
<tr>
<td>March,</td>
<td>Finance Committee</td>
<td>Develop budget recommendations and publish warrant recommendations to Town Meeting</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>Town Administrator</td>
<td>Budget presentation to Town Meeting</td>
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</tbody>
</table>

Developing a Capital Improvements Plan

- Annual CIP process occurs in conjunction with operating budget process
- Capital budget covers 5-year period
- Capital Policy & Process document adopted in FY12
  - Definition of capital improvement
    - "A physical betterment, including construction of new buildings, purchase of land, or items having a useful life of 3 years or more. Any having a cost of less than $10,000 and not of a non-recurring nature shall not be considered a capital improvement."
  - Policy document is a work in progress

Capital Budget Process: Dedham, MA

- Town Administrator delivers guidelines and forms for capital requests to department heads
- Department heads’ capital requests specify:
  - Fiscal year and priority of each request
  - Description of need, and whether replacement or new equipment
  - Estimated useful life
  - Cost estimate and funding source
- Director of Facilities prepares assessment of all facilities with recommendation
  - Building, Planning and Construction Committee reviews any request involving a Town building
- Director of Finance prepares 5-year financial plan describing funds available and bonding capacity
Capital Process: Committee Review, Town Meeting

- Capital Expenditures Committee (CEC): Five appointed members (3 by Moderator, 1 Finance Committee, 1 Planning Board)
  1. Review all capital reports and requests, hold department hearings
  2. Review Town Administrator’s proposed capital budget
  3. Vote to make capital recommendations to Finance Committee
- Finance Committee reviews CEC recommendation, votes to make capital recommendation to Town Meeting
- All capital items presented in one article to Town Meeting

Managing Long-Term Debt

- Three policies guide Dedham’s financial decisions (established 1998, revised 2003 and 2012)
  - Overall Financial Management Policies
  - Debt Management Policy
  - Investment Policy
- Overall Financial Management Policies describes broad financial goals:
  - Maintain highest possible bond rating
  - Maintain balance in General Stabilization Fund at 5-10% of operating budget
  - Meet ARC of retiree pension and healthcare costs

Debt Management Policy

- Financing Capital Improvements
  - $10,000-$250,000 funded through annual budget
  - Projects < $250,000 to be funded through borrowing, debt service paid through operating budget
  - Projects < $4,000,000 to be funded by borrowing, paid from debt exclusions or reserves (Major Capital Facilities Stabilization Fund: Meals and 2% Set Aside for Hotels)
- Debt Service Guidelines: Annual debt service on non-excluded borrowing to be 2-10% of the annual operating budget
  - FY13: Operating budget $85m, Capital borrowing $5.1m (6%)
Investment Policy
- MGL c.44 §55B requires all funds to be invested except for immediate distribution
- Investment Policy outlines objectives, allowable instruments, and diversification requirements for the Town’s investments
  - Objectives of investments:
    - Safety of principal
    - Liquidity
    - Yield
  - Allowed Investment Instruments
    - Mass. Municipal Depository Trust, certain treasuries, CDs, etc.

Objectives of investments:
1. Safety of principal
2. Liquidity
3. Yield

Allowed Investment Instruments
- Mass. Municipal Depository Trust, certain treasuries, CDs, etc.
- Maturity date
- Instrument type and issuer

Tax Rate Recapulation Process
- Determines the annual tax levy amount
- Tax Levy = (Amounts to Be Raised) – (Estimated Receipts)

<table>
<thead>
<tr>
<th>Amounts to Be Raised</th>
<th>Estimated Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Budget</td>
<td>State Aid</td>
</tr>
<tr>
<td>Capital Budget</td>
<td>Local Receipts</td>
</tr>
<tr>
<td>State Assessments</td>
<td>Motor Vehicle Excise</td>
</tr>
<tr>
<td>Reserve for Abatements</td>
<td>Departmental Revenue</td>
</tr>
<tr>
<td>Other Deficits</td>
<td>PILOT, etc.</td>
</tr>
<tr>
<td>Snow &amp; Ice</td>
<td>Other Available Funds</td>
</tr>
<tr>
<td>Tax Titles</td>
<td>Free cash</td>
</tr>
<tr>
<td>Overides</td>
<td>Stabilization</td>
</tr>
</tbody>
</table>

Other considerations: Split tax rates; Excluded debt; Overrides

Tax Rate Recap: Dedham, FY12

<table>
<thead>
<tr>
<th>TAX RATE RECAP: DEDHAM, FY12</th>
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</thead>
<tbody>
<tr>
<td>AMOUNTS TO BE RAISED</td>
</tr>
<tr>
<td>Town Meeting Appropriations</td>
</tr>
<tr>
<td>Other Amounts (Cherry Sheet charges, Abatements, etc.)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td>ESTIMATED RECEIPTS AND OTHER REVENUES</td>
</tr>
<tr>
<td>State Receipts</td>
</tr>
<tr>
<td>Local Receipts</td>
</tr>
<tr>
<td>Free Cash &amp; Other Available Funds</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td>REAL &amp; PERSONAL PROPERTY TAX LEVY</td>
</tr>
<tr>
<td>Amounts to Be Raised</td>
</tr>
<tr>
<td>Estimated Receipts and Other Revenues</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>
Resources

- **Department of Revenue**
  - Division of Local Services: [http://www.mass.gov/dor/local-officials/](http://www.mass.gov/dor/local-officials/)
  - Tax Rate Recap Sheets: [https://dlsgateway.dor.state.ma.us/gateway/Public/WebForms/TaxRate/ReportTaxRateRecapPublic.aspx](https://dlsgateway.dor.state.ma.us/gateway/Public/WebForms/TaxRate/ReportTaxRateRecapPublic.aspx)

- **Mass. Municipal Association**

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- Questions?