The financial management policies of the Town of Kingston are framed by the Town’s adopted By-laws and Charter. The implementation of these policies is driven by a commitment to attain the following goals on a continual basis:

- Provide a full range of municipal services to the community in order to preserve our citizens' high quality of life,
- Maintain a stable tax levy commensurate with economic growth,
- Promote a seamless flow of communication, and
- Protect our credit rating.

The financial management policies are intended to be used, and therefore, must be flexible enough to accommodate changing social and economic conditions. It is appropriate for the Town’s Management Team to review these policies every three years and make adjustments as required.
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The financial management policies contained in this guide were reviewed and adopted by the following Town officials.

**Board of Selectmen on** [Date]  
Elaine Fiore, Chairman  
Susan Munford, Vice Chairman  
Sandra MacFarlane  
Richard Arruda  
Jean Landis-Naumann

**Finance Committee on** [Date]  
Mary MacKinnon, Chairman  
H. Claire Soares, Vice Chairman  
Carl Pike  
John LaBrache  
Fred Hughes

**By the Town Administrator on** [Date]  
Robert Fennessy

**By the Town Treasurer on** [Date]  
Kenneth Stevens
What is the purpose?
These financial principles are intended to provide a broad framework for the overall fiscal planning and management of the Town of Kingston's resources.

These financial management policies guide both current activities as well as long-term planning. The principles contained herein are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators and advisors. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate (in accordance with the statutory limits of Proposition 2½).

These principles are designed to ensure the Town’s sound financial condition, and seek to be in the best economic interest of the Town now and in the future.

Sound Financial Condition may be defined as:

- Cash Solvency - the ability to pay bills in a timely fashion.
- Budgetary Solvency - the ability to balance the budget annually.
- Long-Term Solvency - the ability to pay future costs.
- Service Level Solvency - the ability to provide needed and desired services.
- Public Confidence - the ability to garner public support for decisions that promote financial stability.

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.

Well conceived and practiced financial planning can assist Town officials in achieving the best possible use of funds while providing both short and long term stability. Financial policies can improve a Town’s credit rating and reduce the cost of interest paid on the Town’s long-term debt issues. In addition, established policies can provide a base line for reference and consistency independent of political climates and personal agendas.
The following chart summarizes the target goals for the Town. Each item is explained on the following pages.

<table>
<thead>
<tr>
<th>TARGET</th>
<th>MINIMUM</th>
<th>MAXIMUM</th>
</tr>
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<tbody>
<tr>
<td>Free Cash</td>
<td>3% of prior year adjusted omnibus budget&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td>½ % of prior year adjusted omnibus budget</td>
</tr>
<tr>
<td>Stabilization Fund</td>
<td>7% of prior year adjusted omnibus budget</td>
<td>5% of prior year adjusted omnibus budget</td>
</tr>
<tr>
<td></td>
<td>Stabilization plus CIP Stabilization is limited to 10% of Town's Total Equalized Valuation&lt;sup&gt;(b)&lt;/sup&gt; (EQV)</td>
<td></td>
</tr>
<tr>
<td>CIP Stabilization Fund</td>
<td>1% of prior year adjusted omnibus budget</td>
<td>$25,000</td>
</tr>
<tr>
<td></td>
<td>Stabilization plus CIP Stabilization is limited to 10% of Town's Total Equalized Valuation (EQV)</td>
<td></td>
</tr>
<tr>
<td>General Fund Reserve Account</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>½ % of prior year adjusted omnibus budget</td>
<td></td>
</tr>
<tr>
<td>TOTAL Reserve Target</td>
<td>5% - 10% of prior year adjusted omnibus budget</td>
<td>3.5% of prior year adjusted omnibus budget</td>
</tr>
<tr>
<td></td>
<td>10% of Town's Total Equalized Valuation (EQV)</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>7% - 9% of prior year adjusted omnibus budget</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>More than 9% of prior year adjusted omnibus budget</td>
<td></td>
</tr>
<tr>
<td>Enterprise – Surplus Revenue</td>
<td>8%-10% of prior year revenues</td>
<td>10% of prior year revenues</td>
</tr>
<tr>
<td>Enterprise – Debt Service</td>
<td>Up to 30% of prior year revenues</td>
<td>30% of prior year revenues</td>
</tr>
</tbody>
</table>

Omnibus Budget refers to the Town’s annual operating budget.

<sup>(a)</sup> Adjusted Omnibus Budget refers to the Town's annual operating budget less debt service, less Non-Town Net Metering and less Massachusetts School Building Authority (MSBA) subsidies.

<sup>(b)</sup> EQV is the Town’s total Equalized Valuation representing the full and fair cash value of all taxable property for the Town (computed by the DOR as of January 1, 2012).
Reserves are unrestricted monies accumulated and held by the Town. Municipalities maintain reserves in order to provide budgetary flexibility for unexpected events, to withstand financial emergencies and to protect the municipality from the usual unevenness in revenue-expenditure patterns.

Reserves are generally established in three categories:

- Contingency Reserve: A reserve for unforeseen events;
- Unrestricted Reserve: A reserve that can be used for any purpose; and
- Restricted Reserve: A reserve dedicated for specific use at some future time.

The Government Finance Officers Association (GFOA) recommends as a best practice that general purpose governments maintain a minimum unrestricted general fund balance of no less than 2 months of regular general fund operating revenues or regular general fund operating expenditures. This amounts to 16.67% of the Town’s omnibus budget (i.e., 1 month = 8.33% of budget). The GFOA cautions that some governments may require larger reserves based on their particular financial situation. Conversely, a lower level may be appropriate for governments such as states, cities and counties because they are better able to predict and plan for contingencies and because they often have a more diversified revenue base that mitigate problems with revenue volatility.

Credit rating agencies, which regularly monitor the size of governmental fund balances, prefer large reserves so that there is a degree of assurance that debt service payments will be made. However, if a government consistently maintains large reserves, it raises concerns from taxpayers and citizens’ groups about whether the government is taxing too much and hoarding the proceeds. The Town will maintain adequate reserve funds to protect the Town from unforeseen, extraordinary needs of an emergency nature. Prudent stewardship of the Town requires such planning and protection for the Town’s financial health.

Given that the Town of Kingston relies on the tax levy for 73% of its revenue and only 16% on state aid, the Town is less susceptible to revenue volatility. To that extent, the Town should strive to maintain total reserves between 5% - 10% of the general adjusted omnibus budget.
FREE CASH

What is Free Cash?

“Free Cash” (sometimes referred to as “Undesignated Fund Balance”) is a revenue source that results from the calculation, as of July 1, of a community’s remaining, unrestricted funds from operations of the previous fiscal year, based on the balance sheet as of June 30.

Planning for and maintaining a balance of free cash will provide sufficient cash flow to meet payroll and expenditures without having to borrow in anticipation of tax receipts and will serve as liquid funds that can be used in case of emergency.

The amount of Free Cash (that the Town has as of June 30) is certified annually by the Massachusetts Department of Revenue (“DOR”). It may not be appropriated until after having been certified by the DOR.

Free Cash is typically computed as:

\[ \text{Free Cash} = + \text{unexpended free cash from the previous year} + \text{actual receipts in excess of revenue estimates} + \text{unspent appropriations for the year just ended (i.e., “turn backs”)} \]

Funding Target

The Town will maintain adequate working capital in the General Fund by seeking to refrain from using available fund balance equivalent to 3% of adjusted omnibus budget.

As a general rule, at no time should unappropriated free cash be less than ½ % nor more than 7.5% of adjusted omnibus budget.

Uses of Free Cash

Free Cash in excess of the funding target should be used to:

- Enhance reserves (Stabilization Fund, Capital Stabilization, OPEB Trust, etc.)
- Fund non-recurring, unforeseen expenditures, and/or
- Provide funding for additional capital projects.

Given that Free Cash is a one time revenue source, it should not be used to fund any personnel, program, or initiative that would require expenditures in subsequent fiscal years. In other words, it should not be used to fund the annual omnibus budget of the Town.

Managing Free Cash

Less than ½ %

In any year where certified Free Cash is less than the minimum threshold (½ % of adjusted omnibus budget), then the Town should avoid appropriating Free Cash until such time as the minimum threshold is reached.
Between ½ % and 3%
In any year where certified Free Cash is greater than the minimum threshold but less than the target (3% of adjusted omnibus budget), then the Town should defer to the Priorities for Appropriating Free Cash (outlined below) but should remain judicious in its use of Free Cash.

Between 3% and 7.5%
In any year where certified Free Cash exceeds the target (3% of adjusted omnibus budget) but is less than the 7.5% maximum target, then the Town should defer to the Priorities for Appropriating Free Cash (outlined below).

Over 7.5%
In any year where certified Free Cash exceeds the maximum desired target (7.5% of adjusted omnibus budget), then the Town should appropriate such excess to the Stabilization Fund, Capital Stabilization Fund or OPEB Trust Fund before applying the Priorities for Appropriating Free Cash (outlined below).

Priorities for Appropriating
The highest priority use of Free Cash should be to increase the Town’s reserves to achieve their target levels.

The next highest priority is maintaining critical Town infrastructure including roads, buildings and other equipment.

The Finance Committee and Board of Selectmen will consider, evaluate and prioritize all other requests (based on the present conditions/needs of the Town).
**STABILIZATION FUND**

**What is a general Stabilization Fund?**

A stabilization fund is a mechanism for setting aside money either for unforeseen needs or for capital projects. It is sometimes used to provide tax rate relief; although only as a temporary measure to offset an unforeseen economic condition.

It is referred to as the Town's primary savings account also known as the "rainy day" fund.

The Stabilization Fund shall be maintained under the provisions of M.G.L. Chapter 40, § 5B requiring that:

1) Cities and towns may appropriate an amount not to exceed 10% of the amount raised the preceding fiscal year by taxation of real estate and tangible personal property.

   For example, FY14 tax levy is $27,294,265 * 10% = $2,729,426. As of 7/1/14, the maximum amount that the Town may appropriate into the Stabilization Fund for FY15 is $2,729,426.

2) The aggregate amount in all Stabilization Funds may not exceed 10% of the total equalized valuation of the Town.

   For example, the Department of Revenue total equalized valuation for Kingston as of 2012 is 1,830,708,300. As of 7/1/14, the Town's Stabilization Fund may not exceed $183,070,830.

3) Withdrawals from the stabilization fund may be appropriated for any lawful purpose. Any appropriation of funds into or out of a stabilization fund shall be approved by two-thirds vote, at an Annual or Special Town Meeting. Interest earned on Stabilization Fund balances will be retained in the Stabilization Fund.

**Funding Target**

It should be the goal of the Town to maintain a funding level for the Stabilization fund equivalent to 7% of the Town's adjusted omnibus budget.

As a general rule, the unreserved balance in this fund should not be less than 5% of the Town's adjusted omnibus budget.
Use of Stabilization

The Stabilization Fund should be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, an unexpected liability created by Federal or State legislation, immediate public safety or health needs, opportunities to achieve long-term cost savings, or planned capital investments and related debt service.

To the extent possible, the Stabilization Fund will not be used to fund recurring budget items. The Town should consider utilizing the Stabilization Fund to support the operating budget only when revenues increase less than 3% over the previous fiscal year.

Withdrawals from Stabilization

The amount transferred from the Stabilization Fund to the operating budget should 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 revenue, whichever is less.

There should not be any additional withdrawals from the Stabilization Fund until it has been replenished.

Withdrawals of funds should be limited when possible to the amount available above the 5% minimum fund balance.

Replenishing the Stabilization Fund

In order to replenish the Stabilization Fund, in the year immediately following any withdrawal, an amount at least equivalent to the withdrawal should be deposited into the fund. Said funding should come from Free Cash or revenues. If Free Cash or revenue is insufficient to replenish the Stabilization Fund in the immediately following fiscal year then the replenishment should occur as soon as Free Cash or revenue is available, and no further withdrawal should occur until the fund has been replenished.
STABILIZATION FUND FOR CAPITAL PROJECTS

What is a Capital Stabilization Fund?

The Town shall maintain a Stabilization Fund for Capital Projects under the provisions of M.G.L. Chapter 40, § 5B.

The Capital Stabilization Fund is used to defray the cost of new equipment, building repairs/maintenance, and capital improvements to town land and buildings to the extent that these costs may be funded by the Fund’s balance. Purchases exceeding the Fund’s available balance may require borrowing.

Capital Stabilization Target

Pursuant to M.G.L. Chapter 40 §5B, the Town established a Stabilization Fund for Capital Projects under Article 43 of ATM authorized on April 4, 2011.

The Town shall prepare and maintain a 5-year capital plan. The Capital Stabilization Fund may only be used to fund projects which have been approved as part of the Town’s 5-year Capital Improvement Plan (“CIP”).

Town Meeting may appropriate (annually) an amount to this Stabilization Fund for the purposes of funding the 5-year Capital Plan. A two-thirds vote of Town Meeting is required to utilize resources from this fund.

It is recommended that all new and on-going operating costs resulting from capital projects should be funded through the operating budget. These costs should be clearly noted in the Capital Improvement Plan.

Funding Target

It should be the goal of the Town to maintain a funding level for the Capital Stabilization fund equivalent to at least 1% of the Town’s adjusted omnibus budget. As a general rule, the unreserved balance in this fund should not be less than $25,000.
GENERAL RESERVE FUND ACCOUNT

What is a Reserve Fund Account?

Massachusetts General Law Ch. 40, Section 5C, 6 allows towns to establish General Reserve Funds “to provide for extraordinary or unforeseen expenditures”.

Further the law limits the General Reserve Fund Account to an amount not to exceed 5% of a Town’s tax levy for the preceding year.

A Reserve Fund Account is a line item of the annual operating budget to be used for unforeseen, extraordinary expenditures. This appropriation is under the direction of the Finance Committee.

Before the Town expends funds from this General Reserve Fund Account, the Town should explore other funding mechanisms (e.g., budgetary transfers) to pay these expenses.

Funding Target

The Town’s General Reserve Fund balance is currently set at $100,000. The level should be set annually as part of the budget review process, but it should not exceed ½ % of the current adjusted omnibus budget for the Town.

Request Procedure

The requesting department shall submit, in writing, a detailed explanation for the request.

The Finance Committee requires that the Department Head or designee of a requesting department be present at the time the request is considered. Failure to appear before the Finance Committee to address questions or issues may result in non-approval of the Reserve Fund request.

[Adopted by the Finance Committee on June 20, 2013]
What is the Overlay Reserve?

The overlay reserve is an account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year.

The Town shall maintain an Overlay Reserve under the provisions of M.G.L. Chapter 59, § 25. The overlay reserve is not established by the normal appropriation process, but rather is raised through the setting of the tax rate in November of each year. In setting the amount to be raised for the overlay reserve, the following factors are taken into consideration:

- the volume and exposure value of abatement applications (the exposure value represents the potential refund of taxes based on the property value sought by the applicant compared to the assessment),
- the number and exposure value of abatement decisions appealed to the Appellate Tax Board,
- whether the fiscal year is a certification year, a factor that typically results in an increased number of abatement applications

The Overlay Reserve is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and/or abatements resulting from adjustments to valuation. Any balance in the overlay account of a given year in excess of the amount of taxes remaining to be collected or abated can be transferred from the overlay reserve account to free cash upon certification of the excess amount as surplus revenue.

The Board of Selectmen should, within 45 days of the conclusion of the fiscal year, request the Board of Assessors to submit a written status of the Overlay reserve for each fiscal year, including, but not limited to, the current balances, amounts of potential abatements, and any transfers between accounts.

Release of Excess Overlay Reserve Funds

The Massachusetts Department of Revenue recommends that the Town establish a policy to annually conduct an analysis to determine whether excess overlay can be certified as surplus by the Board of Assessors and transferred to free cash. The suggested time frame in which to conduct such an analysis is September – November after the Town Accountant has closed the fiscal year and produced the final balance sheet.

If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Board of Selectmen may request the Board of Assessors to declare those balances surplus, for use in the Town’s Capital Improvement Plan (CIP) or for any other one-time expense.

Note: The Town operates on a July 1 – June 30 fiscal year.
Why incur debt?

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries of a capital investment to share in the cost of that improvement. Unlike most personal or private debt, towns have access to capital at very competitive tax exempt rates. Properly managed debt helps to preserve the Town’s credit rating, provides flexibility in current and future operating budgets, and provides the Town with long-term assets that maintain or improve our quality of life.

Managing limitations on debt service as a percent of the Town’s total budget is especially important when budgeting to fund Town services. At the same time, regular and well-structured use of long-term debt symbolizes a commitment to maintaining and improving infrastructure. To provide for the responsible use of debt, the Town recommends the following debt management policies. These apply to the Town’s General operations; not Enterprise or other operations.

Long-term debt should be issued only for projects / assets as authorized by M.G.L. Chapter 44 § 7 & 8 where:

- Each project/asset has a useful life in excess of five (5) years,
- The total issuance cost is not less than $50,000, and
- Those projects/assets that are not able to be financed from current revenues.

Debt Authorization

- Borrowing authorization requires a two-thirds majority vote at any Town Meeting.
- Debt exclusion requires a two-thirds majority vote at any Town Meeting AND a majority vote at the next regular or special town election.

Debt Retirement Considerations

Bonds will be paid back within a period not to exceed the expected useful life of the capital project/asset or the period defined by state law, whichever is shorter.

The Town should strive for a repayment schedule of 10 years or less (wherever possible). This ensures cost savings and seeks to avoid strapping future generations with large debt obligations. This policy recognizes that capital needs continue and that new debt will continue to be identified and issued.

Communication

- The Town Treasurer and other officers will maintain good communications with banks, financial advisors, bond counsel and bond rating agencies.
- The Town (i.e., Treasurer) will frequently analyze existing debt in order to take advantage of refunding options.
- The Town’s annual Town Report and Annual Town Meeting Warrant will give summaries of the debt obligations of the Town.
About Credit Rating Agencies

The Town's credit rating is a statement of its overall fiscal health as a government and as a community. The benefit of a strong rating is realized in lower interest rate costs on the Town's long term debt issues. To protect its credit rating, the Town practices prudent financial management, strong budget control, good cash management and timely billing and collection.

Agencies (e.g., Moody's) suggest 10% of net operating revenues as a maximum benchmark for financial soundness. Debt service exceeding 20% of net operating revenues may signal a potential problem. Dramatic increases in debt service also indicate potential problems unless revenue sources increase to keep pace with these additions to fixed costs.

Debt Limitations

The Town will strive to limit annual increases in debt to a level that will not materially jeopardize the Town's credit rating.

Maximum Debt Limit ["Ceiling"]

M.G.L. Chapter 44, § 7 and 8 describe the limitations of borrowings for a Town. Under the law, a community is subject to the following limitations but may also adhere to more conservative local policies and guidelines:

- Inside the Town's Debt Limit [maximum of 5% of total EQV]
- Outside the Town's Debt Limit [maximum of 10% of total EQV]

The Town is committed to limiting General Fund debt service to 7% - 9% of adjusted omnibus budget. This does not apply to emergency borrowing needs.

Minimum Debt Limit ["Floor"]

The Town has not included a debt service “floor” policy.

Alternative Financing Strategies

The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants and low- or zero-interest loans from available federal, state and local agencies.

Scheduling of Debt

The Town will schedule bond issues to remain under the $5 million annual limit (for arbitrage purposes), but in no case over $10 million in a given year.

The Town will structure debt payments in order to maximize cash flow.

Debt Issuance

The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met, full disclosure on all bond offerings is achieved and that the lowest possible interest rate can be obtained. Kingston will continue to employ Bond Counsel to compute and confirm the amount of borrowing allowed.

Debt Roll-Off

The Town has not included a debt roll-off policy (i.e., maintaining debt capacity within the budget as previously incurred debt is paid down).
INVESTMENT POLICY

Investment practices will be in accordance with the Town's “Investment Policy”.

Please refer to policy under separate cover.
DEPARTMENTAL REVENUE POLICY

Departmental revenue practices will be in accordance with the Town’s “Departmental Receipt Policy”.

Please refer to policy under separate cover dated May 2008.
SNOW AND ICE BUDGET

What is a Snow and Ice budget?
Each year the Town authorizes an appropriation in the annual operating budget to cover the costs associated with snow and ice removal of the Town roadways, parking lots, sidewalks and other public surfaces.

Given that weather conditions can be volatile, it is difficult to accurately predict the funds needed to cover this operation in a given year.

M.G.L. Ch. 44 §31D allows municipalities to spend in excess of appropriations for costs related to snow and ice removal.

Deficit spending is authorized for only those expenses directly related to the removal of snow and ice that are variable from year to year depending on the severity of the winter. The statute recognizes that certain snow and ice removal costs are unpredictable and difficult to accurately budget for given variable weather conditions. Its purpose is to ensure that communities, for reasons of public safety, will be able to conduct essential snow and ice removal activities without delay when appropriations for such expenses have been exhausted. Typically, the types of expenses that vary unpredictably with the weather are overtime costs for Town’s plowing crews, the cost of extra sand and chemicals to be spread on the roads, the cost of hiring plows and drivers during storms and the costs associated with removing debris, cutting/chipping trees and other expenses required to clear the roadways.

In order to deficit spend, however, the town must appropriate at least the amount appropriated the prior year for those expenditures.

Implications of Deficit Spending
There may be times when the Town must deficit spend in the snow and ice budget. In this event, the amount of the deficit is raised by the Town on the Tax Recapitulation sheet used to set the tax rate. This means that the deficit is added to the tax roll and applied to all residents of the community. This may result in an increase of property taxes higher than anticipated when the annual operating budget was adopted by Town Meeting.

Funding Target
The Town of Kingston will develop the Snow and Ice expenditure budget using a minimum of a 10 year rolling average. The Town will also consider the quantity and condition of snow removal equipment during the budget process. Unreliable equipment or equipment in poor condition could result in the need for additional funding to rent replacement equipment during the snow and ice season.

Whenever possible, the Town will seek to avoid deficit spending and cover the costs of snow and ice removal using surplus appropriations from other budgets and/or from Free Cash.
Note: 10 year data not available in Town’s current financial system. An 8-year average of actual expenditures is presented here.
What is an Enterprise Fund?

An Enterprise Fund is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

M.G.L. Chapter 44, § 53F½ allows municipalities to establish and operate Enterprise Funds for the purposes of public utilities, health care, recreation and transportation.

The Town operates the following enterprise Funds:
- Water
- Wastewater (“Sewer”)

An Enterprise Fund shall:
- Be self-sufficient (raise sufficient revenue to cover all expenses).
- Provide for retained earnings to support capital projects,
- Maintain revenues and expenditures separate from the Town’s General Fund,
- Review rates annually to ensure that costs are sufficiently covered and rate payers are not overcharged.

Target Debt Service Ceiling

It is important to continually maintain and improve the operation and infrastructure. To that extent, it is expected that the enterprise funds will incur debt. Enterprise funds should maintain a debt service limit of no more than 30% of prior year revenues.

Target Retained Earnings

Enterprise funds should have target retained earnings (i.e., surplus revenue) of 8%-10% of prior year revenues. Retained earnings in excess of 10% will be appropriated to offset user fees directly or indirectly through capital project pay-as-you-go funding of enterprise fund projects, if sustainable.

Exclusion:

As of June 30, 2012, the Town also operates a Renewable Energy Enterprise Fund that accounts for the revenue and expenditures of the turbine operated on the Town owned land [See Assessors Map 75-1-1]. This enterprise fund does not provide services to the residents of the Town nor does it raise revenues through user charges. As such, this Enterprise Fund is exempt from the financial guidelines contained herein.
What are Post Employment Benefits?

Municipal employees may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment ends. The most common type of these post-employment benefits is a pension. Post-employment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. These are referred to as Other Post-employment Benefits, or OPEB.

The Town must take care to fund its obligations relating to health insurance, retirement benefits, and other post-employment benefit obligations (OPEB) at the appropriate amount.

Retirement ("Pension")

The Town is a member of the Plymouth County Retirement System.

The Plymouth County Retirement System is required to establish a funding schedule whereby this liability is fully funded by 2028. The Town currently pays an annual assessment to the County.

The Town is offered a vendor discount (approximately 2%) if paid in 1 annual payment on July instead of 2 semi-annual payments. The Town should strive to pay in full and take advantage of the available discount assuming cash flow management allows for this practice.

If available and deemed fiscally appropriate, additional contributions may be made to the retirement system in an effort to decrease the Town's unfunded liability without penalty or adverse effects.

OPEB

As of June 30, 2012, the Town has an outstanding unfunded liability of $39,396,705. Accordingly, the Town's Annual Required Contribution ("ARC") is $4,608,985. Underfunding these obligations will mandate the use of the following year's revenue stream to meet the expense, thus perpetuating the shortfall.

As allowed by M.G.L. Chapter 32B § 20, the Town established an OPEB Trust Fund. Adopting this legislation allows the Town to invest (under the "prudent investor rule") more aggressively in order to generate more substantial returns on the investment.

The Town will need to establish, define a charge, and appoint members to an OPEB Trust Fund Committee/Board.
Mitigation Efforts

In an effort to minimize the OPEB liability, the Town implemented M.G.L. Chapter 32B §18 requiring all eligible retirees to enroll in Medicare Part B. This section of the law allows the Town to shift a significant portion of its retiree health care costs to the federal Medicare program. The retiree sees no loss in benefits received.

According to MGL Ch 32B §2(d), an “employee” eligible for health-care benefits is one that receives either a salary or stipend, whether full-time, part-time, appointed or elected. Elected officials have no minimum hourly requirement, while appointed positions must regularly work at least 20 hours per week in order to receive health insurance. To that extent, the Town is pursuing opportunities to fill vacant positions with part-time (19 hour per week) resources.

Funding Target

Beginning in FY15, the Town, appropriated $50,000 to its OPEB Trust Fund.

The Town will delay future funding to the OPEB Trust until such time as:

- The Town’s pension obligation has been fully funded, and/or
- The Plymouth County establishes an OPEB Trust Fund and assessment program, and/or
- The Commonwealth establishes legislation promulgating funding guidelines, and/or
- Other opportunities become available to the Town to address this liability.

Per M.G.L., the Town is required to obtain an actuarial analysis of the OPEB liability every 3 years. The actuarial analysis should be provided to the Board of Selectmen, Finance Committee and Town Administrator for review and discussion.
The data contained in this Appendix is intended to be used for supporting documentation and illustration purposes only.

**RESERVE CALCULATIONS**

The following are sample calculations using the FY15 estimated revenues as the basis.

### ADJUSTED OMNIBUS BUDGET

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY15 Budgeted Revenues</td>
<td>$39,970,863.00</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>$2,587,223.00</td>
</tr>
<tr>
<td>Non-Town Net Metering</td>
<td>$1,500,000.00</td>
</tr>
<tr>
<td>School Building Reimbursement</td>
<td>$1,190,052.00</td>
</tr>
<tr>
<td>Total Offsets</td>
<td>$5,277,275.00</td>
</tr>
<tr>
<td><strong>Net Adjusted Omnibus Budget</strong></td>
<td>$34,693,388.00</td>
</tr>
</tbody>
</table>

### GENERAL FUND

<table>
<thead>
<tr>
<th>Description</th>
<th>Minimum</th>
<th>TARGET</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash % of Adjusted Omnibus Budget</td>
<td>0.05%</td>
<td>3.00%</td>
<td>7.50%</td>
</tr>
<tr>
<td>$17,048.69</td>
<td>$1,040,901.64</td>
<td>$2,602,004.10</td>
<td></td>
</tr>
</tbody>
</table>

### STABILIZATION FUND

<table>
<thead>
<tr>
<th>Description</th>
<th>Minimum</th>
<th>TARGET</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Adjusted Omnibus Budget</td>
<td>5.00%</td>
<td>7.00%</td>
<td>10% of EGV*</td>
</tr>
<tr>
<td>$1,734,069.40</td>
<td>$2,428,537.16</td>
<td>$183,070,830.00</td>
<td></td>
</tr>
<tr>
<td>Balance in Stabilization Fund as of 6/30/14</td>
<td>$1,708,804.00</td>
<td>$1,708,804.00</td>
<td></td>
</tr>
<tr>
<td>Over (Under) Target</td>
<td>$27,665.40</td>
<td>$721,733.16</td>
<td></td>
</tr>
</tbody>
</table>

### CIP STABILIZATION FUND

<table>
<thead>
<tr>
<th>Description</th>
<th>Minimum</th>
<th>TARGET</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Adjusted Omnibus Budget</td>
<td>1.00%</td>
<td>10% of EGV*</td>
<td>10% of Town’s 2012 EGV per DOR</td>
</tr>
<tr>
<td>$25,000.00</td>
<td>$346,933.88</td>
<td>$183,070,830.00</td>
<td></td>
</tr>
<tr>
<td>Balance after funding the FY15 CIP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Over (Under) Target</td>
<td>$(25,000.00)</td>
<td>$(346,933.88)</td>
<td></td>
</tr>
</tbody>
</table>

### DEBT SERVICE (GENERAL FUND)

<table>
<thead>
<tr>
<th>Description</th>
<th>Minimum</th>
<th>TARGET</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target = 8% AOB</td>
<td>0.00%</td>
<td>8.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>FY15 Debt Service Budget</td>
<td>$2,750,175.39</td>
<td>$2,750,175.39</td>
<td>See Dept 710 Budget</td>
</tr>
<tr>
<td>Over (Under) Target Limit</td>
<td>-</td>
<td>$(25,295.85)</td>
<td>$(372,229.53)</td>
</tr>
</tbody>
</table>
SNOW AND ICE AVERAGE BUDGET

These guidelines recommend using a 10 year average for Snow and Ice budgeting purposes. The Town’s current financial system provides data back to FY06. To that extent, an 8-year average has been included below.

---

**DEFICIT SPEND in... Reported on...**

- FY07 FY08 Recap $15,595
- FY08 FY09 Recap $233,512
- FY09 FY10 Recap $173,979

---
OVERLAY RESERVE

The following is a sample worksheet to be prepared on an annual basis for reviewing the Overlay Reserve account.

<table>
<thead>
<tr>
<th>FY</th>
<th>A Balance (Beginning)</th>
<th>B Expended</th>
<th>C Balance (ATB Pending)</th>
<th>D Uncollected Taxes, June 30</th>
<th>E</th>
<th>F Overlay Deficits</th>
<th>G Potential Surplus</th>
<th>H Surplus Released</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY05</td>
<td>251,224.03</td>
<td>127,001.66</td>
<td>124,222.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY06</td>
<td>232,736.07</td>
<td>133,972.54</td>
<td>98,762.73</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY07</td>
<td>271,928.01</td>
<td>202,023.46</td>
<td>69,899.55</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY08</td>
<td>274,017.09</td>
<td>271,768.30</td>
<td>2,248.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY09</td>
<td>308,034.22</td>
<td>247,012.62</td>
<td>61,021.60</td>
<td></td>
<td></td>
<td>133,169.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td>273,534.74</td>
<td>231,845.04</td>
<td>41,689.70</td>
<td></td>
<td></td>
<td>174,849.74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY11</td>
<td>302,007.77</td>
<td>177,087.56</td>
<td>124,989.70</td>
<td></td>
<td></td>
<td>299,903.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY12</td>
<td>250,736.57</td>
<td>185,120.89</td>
<td>67,615.68</td>
<td></td>
<td></td>
<td>407,518.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY13</td>
<td>234,838.02</td>
<td>157,820.36</td>
<td>137,017.76</td>
<td></td>
<td></td>
<td>544,553.26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legend:**

- **C = A - B**
- **G = C + D**
- **H = Amount released by Bd of Assessors**
OPEB UNFUNDED LIABILITY

The Town's most recent actuarial study was conducted by:
KMS Actuaries, LLC
814 Elm St, Suite 204
Manchester, NH 03201

The Town's unfunded liability was valued as of July 1, 2012 and is $39,396,705.

SUMMARY OF PRINCIPAL RESULTS

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>July 1, 2012</th>
<th>July 1, 2008 *</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of Member Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Members</td>
<td>275</td>
<td>287</td>
</tr>
<tr>
<td>Average Age</td>
<td>47.5</td>
<td>47.5</td>
</tr>
<tr>
<td>Average Service</td>
<td>10.1</td>
<td>20.2</td>
</tr>
<tr>
<td>Retired Members and Survivors</td>
<td>108</td>
<td>80</td>
</tr>
<tr>
<td>Average Age</td>
<td>68.9</td>
<td>70.5</td>
</tr>
<tr>
<td>Covered Spouses of Retired Members</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td>Discount rate</td>
<td>4.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Actuarial Accrued Liability</td>
<td>$39,396,705</td>
<td>$21,522,057</td>
</tr>
<tr>
<td>Normal Cost</td>
<td>$2,240,576</td>
<td>$266,450</td>
</tr>
<tr>
<td>Assets</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Unfunded Actuarial Accrued Liability</td>
<td>$39,308,705</td>
<td>$21,522,057</td>
</tr>
<tr>
<td>Annual Required Contribution</td>
<td>$4,608,985</td>
<td>$1,679,814</td>
</tr>
<tr>
<td>Expected Employer Premiums</td>
<td>$758,547</td>
<td>$658,141</td>
</tr>
</tbody>
</table>

* Based on the actuarial report prepared by Aon.
Commonwealth of Massachusetts

Plymouth County Retirement Association
Plymouth, Massachusetts, 02360

2-Jun-14

Your Share of the assessment for 1/2 year for FY 2015 Plymouth County Retirement Assoc. amounting to $605,829.50 is due and payable on July 1, 2014.

discounted year amount July 2014 $1,776,457.00

If paid in full by July 1st, the assessment is $1,776,457. If paid after that date or in 2 installments, then the expense is $1,811,659.