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February 25, 2016

Honorable Daniel Rivera
Mayor
City of Lawrence
200 Common Street
Lawrence, MA 01840

Re: Proposed Comprehensive Financial Management Policies

Dear Mayor Rivera:

The Edward J. Collins, Jr. Center for Public Management at the University of Massachusetts Boston is pleased to submit the attached report "Proposed Comprehensive Financial Management Policies". The Center recommends that you and your finance team carefully review these proposals and develop a plan for acceptance and implementation of many of these proposals. The City has made significant financial improvements in the recent past, resulting in upgrades to its bond rating. According to a recent Moody's Investors Service report to the City, "adoption and adherence to comprehensive financial policies" would be a factor in future bond rating upgrades.

The Center would like to acknowledge the invaluable support provided to the project team by the State overseer and his staff in the development of these proposals and also the review provided by the City's finance director. As you move forward with any of these policies, the Center would be pleased to help with any questions that arise.

Respectfully,

Stephen McGoldrick
Director

Proposed Comprehensive Financial Management Policies for City of Lawrence

February, 2016

Edward J. Collins, Jr. Center for Public Management

McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES

UMASS BOSTON

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INTRODUCTION

In order to ensure the growing and continued financial health of the City of Lawrence, provide the public with confidence that City officials seriously respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the City has thoughtfully prepared for its future, the financial policies outlined below shall guide the City. These policies are a living tool and shall be reviewed by the Finance Director and designated staff on an annual basis and updated as necessary.

Objectives:

The objectives of the Financial Management Policies are as follows:

A. *To guide the City Council, the Mayor and management staff in evaluating and implementing decisions that have significant impact on the City.*

B. *To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.*

C. *To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs.*

D. *To regularly evaluate the City's financial capacity to meet present and future needs.*

E. *To promote credible and sound financial management by providing accurate and timely information on the City's financial condition to elected officials, staff, the public and external interests.*

F. *To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.*

G. *To promote improvement in the City's credit rating and provide financial resources sufficient to meet the City's obligations on all municipal debt and other long term obligations.*

H. *To establish an effective system of internal controls that ensures the legal use of financial resources.*

I. *To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*

A. GENERAL BUDGET POLICIES

A-1 Balanced Budget

Background:

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

Policy:

The Mayor shall propose to the City Council and the City Council shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The City shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The City will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. The City will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to avoid making principal payments.

The City budget shall also support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing.

References:

M.G.L. c.44, §31

Achieving a Structurally Balanced Budget, Government Finance Officers Association Best Practice, February 2012

A-2 Submission of Budget and Budget Message

Background:

The Lawrence City Charter establishes requirements for the Mayor's submission of the annual budget proposal, accompanying budget message, and supporting documents.

Policy:

The Mayor's budget proposal shall provide a complete financial plan of all general and enterprise funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents. The budget message of the Mayor shall explain the proposed budget for all City agencies both in fiscal terms and in terms of work programs. It shall outline the proposed financial policies for the City for the ensuing fiscal year, describe the important features of the budget, indicate any major differences from the current fiscal year in financial policies, expenditures, and revenues, together with the reason(s) for such changes, summarize the City's debt position, and include such other material as the Mayor deems desirable or the City Council may reasonably require.

The City shall work toward the implementation of a budget document that meets the high standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

References:

Section 7.1 Submission of Budget, Budget Message and Section 7.2 Action on the Budget within Section 7. Financial Procedures of the Lawrence City Charter (see Appendix 1).

A-3 Revenue and Expenditure Forecast

Background:

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast(s).Long term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow staff, the Mayor, and the City Council to test various "what-if" scenarios and examine the fiscal impact on future budgets.

Policy:

Each year the Finance Department shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five year Capital Improvement Program.

The forecast shall be used as a budget tool to enable City officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; and, 2) identify the resources needed to maintain required enterprise fund operations and 3) estimate the impact on rate payers.

Procedure:

The Finance Department, in cooperation with other City departments, will review its assumptions every year when it updates the forecast and will use information that is timely and accurate in preparation of the forecast. The forecast and assumptions used in development of the forecast shall be made available to the City Council and the public no later than upon submission of the Capital Improvement Plan.

References:

Revenue and Expenditure Forecasting, MA DOR Division of Local Services Best Practice.

Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association Best Practice, February 2014.

Financial Management Assessment, Standard and Poor's, June 2006.

A-4 Position Control/Vacancies

Background:

The largest segment of a city's budget is its personnel costs. Failure to accurately monitor the approved personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

Policy:

The City shall maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the City intends to have during that budget period.

A-5 Labor Contracts/Personnel Policies

Background:

The City has a total of 21 unions and associations which represents over 3,500 employees.

For the purposes of these policies, the following definitions shall apply:

- **Personnel Policies** are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.

- **Pay and Classification Plans** are the schedules that identify employees by job category, job title, and union/non-union status on a typical Grade structure. Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- **Memorandums of Agreement (MOAs)** are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- **Collective Bargaining Agreements (CBAs)** are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union.
- **Side Letters** are documents that represent a short term agreement between a municipality and a union.

Policy:

Pay plans and pay rates shall be constantly monitored to ensure compliance with labor contracts, personnel policies, and accuracy. Contract proposals and agreements will be fully costed out to understand the short and long term impact on City finances. In order to foster transparency in the provision of employment agreements and benefits, the City will prepare and maintain documents that are publically available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters.

B. ENTERPRISE FUNDS POLICIES

B-1 Self Sufficiency and Rates

Background:

Enterprise funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with the revenues and expenses of all other governmental activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

Policy:

Enterprise Funds (e.g., Water/Sewer Fund, Airport Fund, and Parking Garage and Lots Fund) shall be fully supported by the revenue from their rates, fees, and other revenue-generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by City Finance and Enterprise department heads.

Rates and fees for enterprise services shall be set at a level to provide for self-supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants. The enterprise funds shall be reviewed annually to project revenues and expenditures for the next fiscal year and generate estimates of the current fiscal year and projections for future years in order to prevent the need for subsidy from the general fund operating budget. Estimates of capital project costs, debt service, and other liabilities shall be included in this analysis in order to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency. Changes in rates and/or rate structure shall be carefully analyzed prior to recommendation and implementation in order to ascertain the short and long term impact on rate payers.

The Mayor may elect to recommend in writing a waiver of the Self Sufficiency and Rates policy in order to provide a subsidy or loan from the General Fund to an enterprise fund in order to meet other policy goals of the City

References:

M.G.L. c. 44 §53F½

Enterprise Funds, MA DOR Division of Local Services Best Practice.

B-2 Metering, Collections and Liens

Policy:

A modern and efficient metering system shall be maintained by the Water/Sewer Enterprise Fund to provide for accurate and efficient consumption and use data. Billings will occur on a regular scheduled basis at a minimum of twice per year. Collections will be closely monitored to identify and rebill delinquent accounts. All abatements shall require the approval of the department head. Accounts delinquent over one year shall be moved to water/sewer liens and added to the property tax bill.

B-3 Enterprise Fund Retained Earnings/Reserves:

Policy:

Enterprise funds shall maintain a reserve account to accomplish two major objectives: 1) provide rate stabilization in the event of a sudden drop in revenues and/or a sudden increase in expenditures; and, 2) provide funds for major future capital projects. This amount shall be no less than 20% of the total enterprise budget, but may be significantly higher if significant infrastructure improvements are necessary.

C. RESERVE FUNDS/FUND BALANCE POLICIES

Background:

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus.

C-1 Free Cash

Background:

The Department of Local Service's *Municipal Finance Glossary (May 2008)* defines Free Cash as follows:

> Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures).

DLS recommends that a municipality strive to generate free cash in an amount equal to 3-to-5% of its annual budget.

Policy:

The City will continue to increase its unrestricted financial reserves (also known as "Free Cash") with a goal of maintaining Free Cash in the range of 3-5% of its annual budget.

Free cash shall not be depleted in any year, so that the following year's calculation will begin with a positive balance. Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs.

Free Cash may be used for certain one-time expenditures, such as major capital projects, emergencies, other unanticipated expenditures, or to replenish other reserves.

References:

Free Cash, MA DOR Division of Local Services Best Practice.

Appropriate Level of Unrestricted Fund Balance in the General Fund, Government Finance Officers Association Best Practice, September 2015.

Reserve Policies, MA DOR Division of Local Services Best Practice.

C-2 Stabilization Funds

Background:

A stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose.

Special purpose stabilization funds help a municipality think long-term, be prepared to address needs in a timely manner, and manage debt. A plan to accumulate cash over time and pay outright for a moderate-range capital expenditure helps preserve debt capacity for major, high-dollar purchases or projects. An approach that balances capital debt with pay-as-you-go practices, and protects against unforeseen costs is viewed in a positive light by credit rating agencies.

Under state law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed 10% of the prior year's tax levy. A two-thirds vote of a city council is required to establish, amend the purpose of, or appropriate money into or from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund. The total of all stabilization fund balances shall not exceed 10% of a municipality's equalized values.

Policy:

1. The City shall establish and maintain a General Stabilization Fund of not less than 1% of the prior year's tax levy for the purpose of extraordinary or unforeseen expenditures. The initial appropriation and any funds necessary to maintain the Fund at the 1% policy shall be made by transfer from Free Cash.

2. The City shall establish and maintain a special purpose Stabilization Fund of not less than 0.5% of the prior year's tax levy for the purpose o potential litigation and settlement costs. The initial appropriation and any funds necessary to maintain the Fund at the 0.5% policy shall be made by transfer from Free Cash.

References:

M.G.L. c. 40 §5B

Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.

C-3 State Mandated Capital Reserve Fund

Background:

State law requires that Lawrence establish a capital reserve fund into which the City shall appropriate in each fiscal year beginning in fiscal year 2012 at least 1.5% of the amount of property taxes committed for the preceding fiscal year. The fund may be appropriated only for purposes for which the City could borrow for 10 years or longer under chapter 44 of the General Laws.

Policy:

The City shall continue to comply with Chapter 58 of the Acts of 2010 by appropriating to this fund in each fiscal year at least 1.5% of the amount of property taxes committed for the preceding year. Funds shall be appropriated only for capital needs in the City's School Department for which the City could borrow for 10 years or longer under Chapter 44 of the General Laws.

References:

Section 9 of Chapter 58 of the Acts of 2010, "An Act Providing for the Financial Stability of the City of Lawrence."

C-5 State Mandated Fiscal Stability Fund

Background:

A special state law requires that Lawrence maintain a "supplemental reserve fund to ensure fiscal stability" in an amount equal to 1.5% of the prior fiscal year's tax levy.

Policy:

The City shall maintain a special reserve fund, to be known as the "Supplemental Reserve Fund to Ensure Fiscal Stability", for extraordinary and unforeseen expenditures. The City shall maintain this reserve fund in an amount equal to 1.5% of the prior fiscal year's tax levy. This reserve is maintained as a reservation of fund balance in the General Fund.

References:

Section 4 of Chapter 41 of the Acts of 1990, "An Act Establishing Certain Financial Provisions for the City of Lawrence.", as amended,

C-5 Overlay Reserve

Background:

State law requires municipalities establish an overlay reserve to fund property tax exemptions and abatements resulting from adjustments in valuation.

Policy:

The City shall maintain an overlay reserve that shall be used to fund property tax exemptions and abatements resulting from adjustments in valuation. At the end of each fiscal year, the Assessor shall submit to the Mayor an update 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.

Any balance in the overlay reserve of a given year in excess of the amount remaining to be collected or abated can be transferred into the overlay surplus account. Overlay surplus may be appropriated for any lawful purpose. If the balance of any fiscal year overlay exceeds the amount of potential abatements, unused overlay surplus shall be "closed" to surplus revenue and become part of free cash, used to augment the capital improvement plan, or used to address employee-related unfunded liabilities.

References:

M.G.L. c.59, §25

D. CAPITAL IMPROVEMENT PROGRAM AND POLICIES

Background:

Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sound manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment.

Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

References:

Financial Management Assessment, Standard and Poor's, June 2006.

D-1 Capital Improvements Program Budget

Policy:

The City shall comply with Section 7.4 Capital Improvements Program Budget within Section 7. Financial Procedures of the Lawrence City Charter (see Appendix 2).

D-2 Capital Improvement Financing Policies

Background:

For the purpose of these policies, the following definitions shall apply:

- Net Operating Revenue - Gross revenues, less school state aid and state library aid, MSBA reimbursements from the old SBA program ("contract assistance" payments), debt exclusion funds, enterprise (self-supporting) operations funds, free cash, grants, transfers from other nonrecurring non-general funds, and non-appropriated costs.

- Net Debt (and Debt Service) - Gross costs from local debt, less deficit financing notes, MSBA reimbursements from the old SBA program ("contract assistance" payments), Prop 2 ½ debt exclusion amounts and amounts from enterprise operations.

- Net Tax-Financed CIP - Gross amount of appropriations for capital improvements from current revenues, less amounts for enterprise operations, grants, free cash, transfers, and non-recurring special revenue funds.

Policy:

The capital improvement program shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.

- Enterprise Operations – Self-Supporting - Capital projects for enterprise operations shall be financed from enterprise revenues, except when a general fund subsidy is recommended by the Mayor and specifically authorized by the City Council.

- General Fund Budget Allocation as % of Net Revenues - Total general fund net debt service and net tax-financed capital investment shall be maintained at a level no less than the FY2016 net debt service as a percent of net revenue (e.g., 6.0%). Beginning no later than FY2021, total capital investment shall be maintained at a minimum level equivalent to 7.5% of prior year net operating revenues. This result shall be achieved by dedicating $300,000 annually from the "new growth" to the CIP until total capital investment reaches 7.5% of prior year net operating revenues.

- Debt-Financing/Borrowing -

    - Debt service as a percent of net general fund operating revenues shall be increased to address up with the backlog of capital needs and avoid deferred maintenance which increases costs, pushes costs into the future, and impacts the quality and efficiency of educational and public services.
    - The term of borrowing for a capital project shall not exceed its estimated useful life.
    - The City will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years.
    - The impact of level debt service versus level principal/declining debt on total project cost and on the City's operating budget shall be analyzed before borrowing is authorized.

D-3 Capital Improvements Program Process

Policy:

In accordance with the City Charter requirements, the City shall adopt an annual practice of preparing and updating a five year Capital Improvements Program. The associated policies are identified below:

- The Finance Department will coordinate development of the capital improvement budget with development of the operating budget. To qualify as a capital expenditure, a proposed purchase or project must have a useful life of five years or more, and must exceed $25,000 in cost, or be expected to prolong the useful life of a capital asset by five years or more. Both thresholds must be satisfied; otherwise the purchase or project is not a capital item and shall be funded as an expense in the departmental operating budget

- Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts, as appropriate.

- Federal, state, or private grants or loans shall be used to finance only those capital improvements that are consistent with the City's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.

- All assets shall be maintained at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.

- Capital projects shall be prioritized based upon criteria establish by the City.

- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to City Council for appropriation. Projects funded by enterprise funds shall estimate the rate impact to the enterprise customer.

- Except as required by an emergency, all approved capital projects must be part of the annual adopted Capital Improvement Plan as required by the City Charter (see Appendix 2). Capital projects that were not included in the Capital Improvement Plan may not be conducted unless an emergency has occurred and a written report explaining the emergency has been provided to the City Council.

E. GRANTS MANAGEMENT POLICIES

Background:

DLS recommends analyzing current and future impact of grants on operating budget, capital improvement program, and debt management.

The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

E-1 Grant Administration

Policy:

The City shall develop a grants policy that requires certain steps to be taken before applying for or accepting grants to maximize the benefits of grants while minimizing their risks, including specialized requirements that can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, and specialized reporting requirements. Further, grants may, either as a condition of the grant itself or politically, commit a grant recipient to financially maintain a program or asset after the expiration of the grant. The City shall also ensure that it appropriately administers grants after their acceptance, as inappropriate administration can result in the failure to meet all grant requirements, potentially resulting in the need to return some or all of the resources to the provider.

E-2 Impact on Operating Budget

Policy:

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the City's cost for providing that benefit.

E-3 Impact on Capital Improvement Program and Debt Management

Policy:

When grants are accepted for capital purposes, the City shall include in its capital improvement program any share of costs associated with the grant and project the City's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the City's revenue /expenditure forecast.

References:

Administering Grants Effectively, Government Finance Officers Association Best Practice, May 2013.

F. USER FEES POLICIES

F-1 Fees and Charges

Background:

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or other subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

Policy:

City fees and charges shall be reviewed periodically in relation to the cost of providing the service. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that the City is collecting reasonable charges. The City may decide against full costs recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where: the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

References:

M.G.L. c.140

Emerson College v. Boston, 391 Mass. 415 (1984).

Costing Municipal Services: Workbook and Case Study, MA DOR Division of Local Services' workbook.

Establishing Government Charges and Fees, Government Finance Officers Association Best Practice, February 2014.

G. ONE-TIME REVENUES POLICIES

<u>G-1 Use of One-Time Revenue</u>

Background:

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize services disruptions due to the non-recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan.

Policy:

The City shall carefully avoid the use of one-time revenue, including Free Cash, to support any ongoing annual operating budget costs. One-time revenues shall be used to fund one-time budget or capital costs or appropriated to reserve funds.

References:

A Framework for Improved State and Local Government Budgeting, Government Finance Officers Association Recommended Budget Practice, June 2009.

H. UNFUNDED LIABILITIES POLICIES

Background:

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Lawrence and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

H-1 Pensions/Retirement

Background:

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the City's retirement system, which does not include teachers, as their pensions are funded by the State.

Policy:

In accordance with state law, PERAC regulations and government accounting standards, the City contracts for an actuarial valuation of the retirement system to quantify the unfunded liability on a biennial basis. Under current state law, the City established a funding schedule to fully-fund this liability by 2039. The City shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the local retirement board.

References:

M.G.L. c.32

H-2 Other Post Employment Benefits (OPEB)

Background:

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Policy:

While there is currently no legal requirement to fund OPEB, the City shall initiate a plan to move toward fully-funding the Annual Required Contribution (ARC), including establishment of an OPEB trust fund, funded initially with transfers from the Enterprise Funds and ultimately developing a funding schedule that fully-funds OPEB according to a schedule similar to the pension funding schedule. This plan should continue to include annual increases in the portion of the appropriation supported by General Fund revenues. It should also include the "run-off" from the pension system once that system is fully-funded. In order to determine the funding schedule, the City shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement.

References:

Statement No. 43, *Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Governmental Accounting Standards Board, April 2004.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* Governmental Accounting Standards Board, June 2004.

GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.

I. RISK MANAGEMENT POLICIES

I-1 Risk Management Program

Background:

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

Policy:

The City's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the City is exposed to on a regular basis. The City shall develop and maintain a risk management program to protect the City against the financial consequences of accidental loss of property, liability and personal injury to the extent possible through effective prevention and loss control policies and practices.

References:

Creating a Comprehensive Risk Management Program, Government Finance Officers Association Best Practice, March 2009.

J. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES

J-1 Annual Audit

Background:

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

Section 7.1 of the Lawrence City Charter requires that at least once in every year an outside audit of the books and accounts shall be made.

Policy:

In accordance with the above provision of the Charter, the City shall have an independent outside audit performed by a certified public accountant each year. The City Council shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the city government or of any of its officers or employees. The City will strive to have the audit completed by early November each year. The City is required to submit completed audits to the DLS Director of Accounts by the time the City sets a tax rate each year.

References:

Lawrence City Charter Sec. 7. - Financial procedures, 7.1 Independent Audit.

Annual Audits, MA DOR Division of Local Services Best Practice.

J-2 Comprehensive Annual Financial Report

Policy:

The City shall work towards the preparation of a Comprehensive Annual Financial Report (CAFR) that meets the criteria established by the GFOA's Certificate of Achievement in Financial Reporting Program. This program encourages the preparation of a comprehensive report that goes beyond the annual audit report and presents information that enhances government transparency and disclosure

J-3 Audit Committee

Background:

"An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices." (Government Finance Officers Association)

Policy:

The City shall establish an audit committee appointed by the Mayor. The Finance Director and/or Comptroller shall be the staff position assigned to work with the Committee. Responsibilities of the Audit Committee shall include, but not be limited to, selection of the independent auditor/accounting firm, monitor independent audit, review results of audit with independent auditor, discuss findings and recommendations monitor implementation of any corrective actions or improvement, and, after acceptance of the final audit report, present report to Mayor and City Council.

References:

Audit Committees, Government Finance Officers Association Best Practice, October 2008.

J-4 Monthly Reporting

Background:

Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing.

Policy:

The Finance Director shall produce and distribute monthly budget-to-actual reporting to evaluate the City's financial position, make regular updates to the cash flow forecast and adjust spending behavior to meet financial challenges. The Finance Director will review with the Mayor a monthly report of revenues and expenditures at the line item level and submit year-to-date quarterly reports to the Department of Revenue Division of Local Services Bureau of Accounts.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

J-5 Cash Collections

Background:

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the revenue collections office, accounting office, the government's attorney, budget office, taxpayers, tax assessor, local government's treasurer, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

Policy:

The City shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before June 30th of each year, the City shall commence tax title proceedings against all properties that owe property taxes to the City.

The Collector/Treasurer shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Collector/Treasurer's office daily so they may be deposited in the bank in a timely manner.

The Collector/Treasurer shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other City officials to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Collector/Treasurer shall execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the City.

References:

Revenue Collection, Government Finance Officers Association Best Practice.

J-6 Reconciling Cash and Receivables

Background:

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the treasurer, collector, and accountant/auditor. The treasurer is the custodian of the community's revenues, tax titles, and tax possessions, the collector keeps listings of outstanding receivables due to the community, and the accountant/auditor is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

Policy:

Within fifteen business days after the end of each month, the Collector/Treasurer shall internally reconcile the cashbook to all bank statements, and the Collector/Treasurer shall internally reconcile all receivable balances with the receivable control. The results of these activities shall be forwarded to the Comptroller's office and compared to the general ledger records. If differences are determined, the

Collector/Treasurer and Comptroller shall reconcile the variances (e.g., missing information, errors, and timing differences). The results of these reconciliations shall be reported to the Finance Director.

The City shall reconcile revenues and expenditures for each fiscal year within two to three months of the end of the fiscal year.

References:

Reconciling Cash and Receivables, MA DOR Division of Local Services Best Practice.

J-7 Cash Flow Forecasting and Budgeting

Background:

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may requiring temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessary coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity.

Policy:

The Finance Department will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

K. PROCUREMENT AND PURCHASING POLICIES

Background:

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B, and other related regulations.

Policy:

The City shall maintain a purchasing policy manual that complies with the requirements of M.G.L. Ch. 30B. This manual shall prescribe the process and forms to be utilized for procurements of supplies, services and real property.

L. INVESTMENT POLICIES

L-1 Investment Policy

Background:

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

Policy:

The Treasurer-Collector is responsible for investing City funds and will make all decisions regarding their management in consultation with the Finance Director and others as necessary. The Treasurer-Collector shall invest City funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer-Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. Each month the Treasurer-Collector will submit a report of investment activity as part of the cash flow report to the Finance Director.

References:

City Investment Policy document

M.G.L. c. 44, §54 M.G.L. c. 44, §55 M.G.L. c. 44, §55A M.G.L. c. 44, §55B

Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

Creating an Investment Policy, Government Finance Officers Association Best Practice, October 2010.

Financial Management Assessment, Standard and Poor's, June 2006.

L-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations

Background:

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

Policy:

The Treasurer-Collector shall review post-issuance compliance procedures at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel.

References:

City Post-Issuance Tax Compliance Procedure document

APPENDICES

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APPENDIX 1: City Charter Sections 7.1 and 7.2

In Section 7: Financial Procedures, the Lawrence City Charter defines the process by which the annual budget is submitted and acted upon. Sections 7.1 and 7.2 are duplicated below for ease of reference only and do not supersede the charter.

Lawrence City Charter Sec. 7. - Financial procedures.

7.1 Submission of Budget, Budget Message.

"Within the period prescribed by state law, the mayor shall submit to the city council a proposed budget for the ensuing fiscal year which shall provide a complete financial plan of all city funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents.

The budget message of the mayor shall explain the proposed budget for all city agencies both in fiscal terms and in terms of work programs. It shall outline the proposed financial policies for the city for the ensuing fiscal year, describe the important features of the budget, indicate any major differences from the current fiscal year in financial policies, expenditures and revenues, together with the reasons for such changes, summarize the city's debt position, and include such other material as the mayor deems desirable or the city council may reasonably require.

7.2 Action on the Budget.

(a) Public Hearing. "The city council shall, within seven days following the date the proposed budget has been filed with the clerk of the council, cause to be published in a local newspaper the general summary of the proposed budget as submitted by the mayor and a notice stating (1) the date, not less than seven nor more than fourteen days following such publication, and the place at which the city council, or a standing committee of the city council, will hold a public hearing on the proposed budget and (2) the times and places where complete copies of the proposed budget will be available for examination by the public in advance of said hearing.

(b) Adoption. Within the period prescribed by state law the city council shall adopt the budget, with or without amending the proposed budget, the city council may delete or decrease items or amounts except expenditures required by law or for debt service. If within the period prescribed by state law the city council shall fail to take action with respect to any item in the proposed budget, as submitted by the mayor, such amounts shall, without any action by the city council become a part of the appropriations for the ensuing fiscal year and shall be available for the purposes specified."

APPENDIX 2: City Charter Section 7.4

In Section 7: Financial Procedures, the Lawrence City Charter defines the process by which the annual Capital Improvements Program budget is submitted and acted upon. Section 7.4 is duplicated below for ease of reference only and do not supersede the charter.

Lawrence City Charter Sec. 7. - Financial procedures.

7-4. Capital Improvements Program Budget.

(a) "Submission to City Council. The mayor shall prepare and submit to the city council a five year capital improvements program, annually at least sixty days before the date he is required to submit an annual budget.

(b) Contents. The capital improvements program shall include: (1) a clear, concise summary of its contents; (2) a list of all proposed capital improvements which are intended to be undertaken over the next five fiscal years, with supporting data as to the need for each such improvement; (3) cost estimates, method of financing and time schedules; (4) the estimated annual cost of maintaining and operating, if any, each item proposed; (5) a listing of all sources and amounts of revenue, if any, which will be generated by each item proposed. The information shall be revised and extended annually.

(c) Public Hearing. The city council shall, within seven days following the date the capital improvements program is filed with the clerk of the council, cause the general summary of the capital improvements program as submitted by the mayor to be published in a local newspaper and a notice stating (1) the date, not less than seven nor more than fourteen days following such publication, and (2) the place where a public hearing will be held on the proposed capital improvements program by the city council or a standing committee thereof.

(d) Adoption. After the public hearing, and on or before the last day within which the mayor may submit a proposed operating budget, the city council, by resolution, shall adopt the capital improvement program, with or without amendment, provided that each amendment must be voted upon separately and that any increase in the capital improvement program as submitted must clearly identify the manner in which any proposed addition is to be financed."

APPENDIX 3: Massachusetts Trust Fund Policies

The following sections are Massachusetts general laws that provide municipalities with some annual flexibility in covering unexpected cost increases. The State provisions are duplicated below for ease of reference only and do not supersede state law.

- Workers Compensation

M.G.L. Ch.40 Section 13C: Any city or town which accepts the provisions of this section and has elected to self insure its worker's compensation may establish reserves to pay worker's compensation claims until said claims are fully paid. Said claims reserves shall be segregated by fiscal year and all funds so reserved shall be managed by a designated fiscal officer of such city or town. Any funds remaining after all claims are paid for a particular year, may be placed in another fiscal year's claim reserve fund, if needed, or returned to general funds. Costs of reinsurance, if used, and outside claims and safety services may be disbursed from said funds

- Unemployment Compensation

M.G.L. Ch.40 Section 5E: To provide for the anticipated costs of funding reimbursements to the commonwealth for unemployment compensation benefits under the provisions of chapter one hundred and fifty-one A, any city, town or district may appropriate in any year an amount not exceeding one-tenth of one per cent of such city's or town's equalized valuation as defined in section one of chapter forty-four, to establish and maintain a special fund to be known as the unemployment compensation fund; provided, however, that no such appropriation may be made at any time when the aggregate amount in such fund equals or exceeds one per cent of such equalized valuation. Any interest shall be added to and become a part of such special fund.

The treasurer of the city, town or district shall be the custodian and administrator of such special fund, and may deposit or invest the fund in such manner as may be legal for other city, town or district funds under the laws of the commonwealth including, without limitation, the Massachusetts Municipal Depository Trust.

The treasurer shall pay from such special fund, including the income thereof, such amounts as the selectmen or other officers authorized to expend money determine to be necessary from time to time to satisfy the liability of the city, town or district, or any instrumentality thereof, in accordance with the unemployment security law of the commonwealth.

- Municipal Buildings Trust Fund

M.G.L. Ch 40, Section 13: A town which at a meeting, or a city which by its city council accepts this section, or has in like manner accepted corresponding provisions of earlier laws, may appropriate an amount not exceeding in any one year one twentieth of one per cent of its equalized valuation as defined in section one of chapter forty-four to establish and maintain a municipal buildings insurance fund from which any municipal buildings or other municipal property damaged or destroyed or lost by fire, lightning, vandalism, burglary, theft or otherwise, may be repaired, rebuilt or replaced by other buildings or property to be used in place thereof; but no money shall be appropriated for such purpose while the fund equals or exceeds one per cent of such equalized valuation. Such fund shall be managed and administered by the sinking fund commissioners of the town, if any, otherwise by the commissioners of trust funds of the town.

If a city or town which has established such a fund in accordance with this section has neglected or failed for a period of five consecutive years to appropriate for such fund, for any reason other than that the maximum amount authorized by this section has been accumulated, it may vote appropriations from such fund and the income therefrom for the purpose of paying a proper charge for effecting fire insurance on municipal buildings or other municipal property against loss or damage by fire, lightning or otherwise; provided, that nothing in this paragraph shall prevent any city or town from appropriating money for effecting fire insurance under authority of any other general or special law applicable thereto.

ABOUT THE CENTER

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.

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