

Town of Lynnfield

Overall Financial Management Policies

Introduction

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Lynnfield's resources. In addition, these principles address both current activities and long-term planning. The principles 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, subject of course to statutory limits such as Proposition 2 ½.

The principles outlined in this policy are designed to ensure the Town's sound financial condition 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 annually balance the budget
- *Long Term Solvency* - the ability to pay future costs
- *Service Level Solvency* - the ability to provide needed and desired services

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.

Policy Statements

1. The Town Administrator shall annually prepare a balanced budget and comprehensive Budget Message as required by state law and town charter. The Budget Message shall include a detailed examination of trends in tax levy "new growth" revenues, local receipts, state aid, and available funds.
2. The town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years expenses.
3. Ongoing operating costs will be funded by ongoing operating revenue sources. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed. In addition:
 - a. Fund balances should be used only for one-time expenditures such as capital improvements, capital equipment and unexpected or extraordinary expenses such as unbudgeted snow and ice removal expenses. **It shall be the goal of the Town to maintain a level of unassigned fund balance plus unrestricted stabilization fund, and Capital Facilities Fund as defined in the Town's audited financial statements, equivalent to no less than 5% of annual general fund expenditures with a goal of 10% to 15%.**

- b. New operating costs associated with capital projects should be funded through the operating budget but reflected in the capital improvement plan.
4. The Town will maintain a Stabilization Fund as its main financial reserve in the event of an emergency or extraordinary need. It shall be the goal of the town to achieve and maintain a balance in the Stabilization Fund from 3% to 5% of its operating budget.
5. The Town will maintain a Capital Facilities Maintenance Fund to address extraordinary capital maintenance needs. It shall be the goal of the town to achieve and maintain a balance in the Capital Facilities Maintenance Fund from 1% to 3% of its operating budget.
6. **Free Cash shall be used for funding the stabilization fund, capital facilities funds and used primarily for non-recurring and/or capital expenditures and recurring non-operational expenditures greater than \$5,000. If free cash must be used for operations, its use should be restricted as a general revenue source for the ensuing year's budget in an amount no greater than 25% of the total free cash certified for the previous fiscal year. It shall be the goal of the Town to achieve and maintain an annual certification of free cash in the amount of 3 to 5% of the Town's general fund operating budget.**
7. **Overlay Reserve established per MGL Chapter 59, Section 25, the overlay is used as a reserve under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall annually request in writing the Board of Assessors to submit the balance in the overlay account in excess of the amount remaining to be collected or abated as certified by the Board of Assessors. Either upon their own initiative or within ten days of the request of the Board of Selectmen, the Board of Assessors shall transfer the declared surplus to a reserve fund to be appropriated for any lawful purpose. It shall be the goal of the Town to appropriate such overlay surplus to fund the Town's Capital Improvement Plan (CIP) or for any other one-time expense.**
8. Debt service payable, when taking into consideration debt, exempt from Proposition 2 ½ and financed directly with additional taxes, on an annual basis should be no more than 10% or less than 2% of the annual operating budget. The Town should strive to issue debt for shorter periods than the maximum allowable when the statutory limit exceeds 10 years. Please refer to the Town's "Debt Management Policy" for a more complete discussion of this subject matter.
9. Investment practices will be in accordance with the Town's "Investment Policy."

Adopted February 11, 2013

Amended April 2017