## A-1 Annual Budget Process (review draft 12.02.20)

**PURPOSE**

The purpose of this policy is to articulate the principles to be followed in the formulation of the recommended annual budget, formalize the steps that culminate in the adoption of the annual budget, and identify the parties responsible for preparing and presenting the budget.

**APPLICABILITY**

This policy applies to the Finance Committee, the Selectboard, the Town Administrator, the Town Accountant, the Director of Assessing, the Capital Improvement Committee, and Town Meeting.

The responsibilities of individual staff positions or public bodies as identified in this policy reflect the historical and current practice of the Town. The key roles played by volunteer members of the Town Finance Committee and Capital Improvement Committee are particularly notable. This policy documents the existing Annual Budget Process, but it is noted that it may not reflect typical practice as applied in other Massachusetts towns.

While the Town’s current budget process has served the Town well due to the exceptional dedication and skill of those volunteer committee members who, as town residents, bring an understanding of issues of importance to the citizens of Montague, there is also recognition that a heavy dependence on volunteers comes with some risk. This may include the potential loss of key skills or institutional knowledge due to member turnover and the competing demands on members’ time from personal and professional obligations. Consequently, notwithstanding the adoption of this policy, the Town shall continue to explore ‘best practices” for management of the annual budget process to see if there is any opportunity for improvement to the existing practice of the Town.

**DEFINITIONS**

Annual Budget - comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Capital Project - a major, non-recurring expenditure that generally meets the following criteria:

* Massachusetts General Law permits the Town to issue bonds to finance the expenditure;
* Project cost is $25,000 or greater;
* Proposed project or asset to be acquired has a useful life of 5 years or more including:
  + New public buildings, or additions to existing buildings, including land acquisition costs and equipment needed to furnish the new building or addition for the first time;
  + Alterations, renovations, or improvements to existing buildings;
  + Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking;
  + Major equipment acquisition, replacement or refurbishment, including but not limited to vehicles, furnishings, and information technology systems’ hardware and software or other items that combined in purpose together make it a Capital Project;
  + New construction or major improvements to Town’s physical infrastructure, including streets, sidewalks, stormwater drains, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a Capital Project;
  + Feasibility studies, engineering design services, or consultant services which are ancillary to a future Capital Project.

Enterprise Fund - 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.

General Fund - the primary fund used by a government entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise, capital project, grant, and revolving funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Gill-Montague Regional School District (GMRSD) Affordable Assessment – as a matter of policy, per the agreement captured in the 2009 Compact for Funding Education endorsed by the Administration and School Committee of the Gill-Montague Regional School District, the Selectboards and Finance Committees of Gill and Montague, and reaffirmed by consensus of those boards in 2019, 48.5% estimated general fund revenues for the ensuing fiscal year shall be known as the Affordable Assessment and be allocated to support the recommended budget of the GMRSD.

For the purpose of calculating the Affordable Assessment, estimated general fund revenues for the ensuing fiscal year shall be exclusive of those revenues characterized as non-recurring and/or revenues targeted to support specific operating budget programs, e.g., veterans benefit reimbursements, solid waste fees, Council on Aging reimbursements from the Town of Gill, a portion of Kearsarge Lease Fees and School Resource Officer (SRO) reimbursements from the FCTS and the GMRSD.

**POLICY**

The following principles shall guide town officials in the preparation of the recommended annual operating budget for presentation to town meeting:

* As required by Massachusetts General Law (M.G.L. c.44, §31 and M.G.L. c.59, §§ 21C-23), the recommended annual operating budget shall be balanced; that is, total recommended appropriations shall be supported by estimates of revenue equal to those appropriations.
* Recommended appropriations shall be realistically budgeted and revenues shall be conservatively estimated.
* As a general rule, sources of estimated revenue shall be reasonably expected to recur annually to sustain recurring annual expenditures. The document presenting the recommended annual budget shall include a presentation of estimated revenues and the assumptions underlying the estimates.
* The Town will seek to avoid using budgetary relief offered by statute or regulation that balances the budget at the expense of future years, such as amortizing deficits over multiple years.
* The Town shall maintain reserves for emergencies and other purposes (See Financial Reserves Policy) and shall maintain liquidity sufficient to pay bills on time to preclude the need to borrow in anticipation of revenue.

**PROCEDURES**

The following procedures shall be followed in the development and presentation of the recommended annual operating budget:

* The recommended annual operating budget – inclusive of general fund operations, enterprise fund operations, and capital projects – shall be the responsibility of the Finance Committee.
* Prior to the beginning of the budget process, the Finance Committee shall develop a calendar outlining the steps to be followed in the development of the budget and the proposed dates they are scheduled to occur. The calendar shall be distributed to the Selectboard and the Town Administrator for their review and comment.

The calendar shall include, but not be limited to, dates for the following:

* Departmental submissions of capital requests, including those from the Gill-Montague Regional School District to the Capital Improvements Committee.
* Presentation by the Town Administrator and Town Accountant to a joint meeting of the Selectboard and the Finance Committee of the status of the current year’s budget, preliminary estimates of revenue for the ensuing fiscal year, and proposed budget guidelines to accompany instructions to Department Heads for submittal of their operating budget requests for the ensuing fiscal year.
* Presentation by the Town Administrator and Town Accountant of a multi-year revenue and expenditure forecast (see Revenue and Expenditure Forecasting policy)
* The calculation by the Town Accountant and transmittal of the preliminary GMRSD Affordable Assessment to the Finance Committee and GMRSD.
* Submittal of departmental operating budget requests, including Boards and Committees, to the Finance Committee.
* Presentation by the Capital Improvements Committee to the Finance Committee of the preliminary list of capital requests for the ensuing fiscal year.
* Joint reviews by the Finance Committee and Selectboard of departmental budget requests.
* Preparation by the Assessors of a new growth estimate on or about March 1st, which will inform the final budget figure for use in the Annual Budget Process and calculation of the Affordable Assessment.
* Joint Meeting of the Finance Committee and Selectboard, to be joined by representatives of the Town of Gill and the GMRSD, to receive from the Town Accountant final revenue estimates for the ensuing fiscal year and the final calculation of the GMRSD Affordable Assessment.
* Joint meeting of the Finance Committee, Selectboard and Capital Improvements Committee to receive CIC recommended capital projects for the ensuing fiscal year.
* Joint Meeting of the Finance Committee and the Selectboard to approve the operating budget to be recommended to the Annual Town Meeting as well as other articles to be included in the Annual Town Meeting warrant.
* Preparation and transmittal of the Finance Committee’s report to Town meeting on the recommended budget for the ensuing fiscal year. The report shall include but not be limited to the following:
* A description of the important features of the budget
* A description of any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes
* A summary of the Town’s debt position
* Other material the Finance Committee deems appropriate

**REFERENCES**

M.G.L. c. 44, §31 M.G.L. c.59, §§ 21C-23

Town of Montague – Capital Planning policy

Town of Montague – Revenue and Expenditure Forecasting policy

Town of Montague – Financial Reserves policy

**Adopted by:**

**Date Adopted:**