

Town of Wethersfield

Financial Policies

Adopted by Town Council on January 16, 2007 & Revisions to Self Insurance in
2009

Table of Contents

- FINANCIAL POLICIES3**
- Statement of Purpose.....3
- ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES4**
- Financial Information4
- Accounting Standards4
- Annual Audit.....4
- RESERVE POLICIES6**
- General Operating Fund Balance.....6
- General Fund Contingency Account.....6
- Capital Reserve Fund.....6
- Self Insurance Fund6
- Post Employment Benefits Reserve – Trust Fund.....8
- REVENUE POLICIES8**
- General Fund Revenue8
- Grants and Gifts9
- General Concepts and Framework9
- Roles and Responsibilities.....10
- Single Audit Act Requirements13
- Grant Summary Form15
- Depository of Town Revenue Procceds16
- DEBT MANAGEMENT POLICY17**
- Purpose.....17
- Debt Management Policies17
- Policy Review.....19
- CAPITAL ACQUISITION AND IMPROVEMENT POLICIES20**
- Capital Improvement Fund – Five Year Capital Improvement Program (CIP)..20
- Definition of a CIP Project.....20
- Policy20
- Evaluation of CIP Projects20
- CIP Financing Policies.....21
- CASH MANAGEMENT INVESTMENT POLICIES22**
- Investment and Porftolio Procedures22
- Objectives.....22

Delegation of Authority	22
Prudence	23
Monitoring and Adjusting the Portfolio	23
Ethics and Conflicts of Interest	23
Internal Controls	23
Portfolio Management.....	23
Qualified Public Depositories	24
Cash Management Programs and Activities	24
Cash Investment Policies and Procedures	25
Overall Risk Profile	25
Competitive Selection of Investment Instruments	26
Investment Selection	26
Short-Term vs. Long-Term Portfolio	26
Short-Term Portfolio Diversification	27
Long-Term Diversification.....	28
Other Investments and Related Information	28
Settlement	28
Safekeeping and Collateralization	28
Investment Reporting Requirements	28
OPERATING BUDGET POLICIES.....	29
Balanced Operating Budget	29
Budget Document.....	29
Budget Control and Accountability	29
Capital Plant and Equipment.....	30

Financial Policies

Statement of Purpose

The financial integrity of our Town government is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. Our Town has evolved with a variety of financial policies that can be found in many different sources, including: Town Council Resolutions; Budget documents; and Capital Improvement Programs. Additionally, there are a number of other informal Council and Administrative policies which may have not been officially discussed or adopted. These proposed financial policies will enable us to discover policies which are in conflict, inconsistent, or incomplete, as well as areas of financial management which are currently not addressed by policy. Written, adopted financial policies have many benefits, such as assisting the Council and Town Manager in the financial management of the Town, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as Council and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the Town. They will promote sound financial management and assist in the Town's stability, efficiency and effectiveness.

The following policies are divided into seven (7) general categories for ease of reference. These categories include: **1) Accounting, Auditing, and Financial Reporting Policies; 2) Reserve Policies; 3) Revenue Policies; 4) Debt Policies; 5) Capital Improvement Policies; 6) Cash Management Investment Policies; 7) Operating Budget Policies.** Except as otherwise noted, all policies included in this document are currently adhered to.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

The Town utilizes a variety of accounting funds for recording revenues and expenditures of the Town. At each fiscal year-end, budgeted/appropriated expenditure authority lapses with very few exceptions, such as capital project spending and operating expenses that have been incurred but not paid (encumbered). The remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the Town. It is appropriate that reserve policies for the Town be established for each of the various funds, that the purpose of these reserves be designated, and that dollars available in excess of the reserve amounts be appropriately and effectively utilized.

Purpose

To ensure accurate and consistent accounting practices that conform to generally accepted accounting principles to ensure public confidence in and ensure the integrity of the Town's financial system.

Policy

FINANCIAL INFORMATION

It will be the policy of the Town of Wethersfield to provide all financial information in a thorough, timely fashion, and in a format that is easy for Council, citizens, and Town employees to understand and utilize. It shall be the duty of the Director of Finance to install, maintain and operate for the town a modern municipal accounting system showing the current condition of all funds and appropriations; to file with the Town Manager and Town Council, monthly, on or before such day as the Council shall determine, a report of the financial transactions of the fiscal year to date, showing the amount of each appropriation, the charges against and credits to the same and the unencumbered balance therein at the end of the fiscal period being reported on. (Town Charter Section 601). Additionally, expenditure reporting showing year-to-date budgeted and actual expenditures shall be prepared monthly and distributed to all Departments.

ACCOUNTING STANDARDS

The Town will establish and maintain a high standard of accounting practices. The Town's accounting of financial systems shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP), standards of the Government Accounting Standards Board (GASB), and the best practices offered by the Government Finance Officers Association (GFOA) when feasible. On June 18, 2007, the Town Council adopted Ordinance Code Section Chapter #84 which provides authority to the Director of Finance to establish Capital Projects and Special Revenue funds as necessary in order to be in compliance with GAAP.

ANNUAL AUDIT

An independent public accounting firm will perform an annual audit and its opinions will be included in the annual financial report. The independent audit firm will be selected

through a competitive process at least once every five years. The contract will be for an initial period of three years with two additional one-year options at the Town Council's discretion. The Town Council Budget and Finance Subcommittee, Town Manager and Finance Director will review the qualifications of prospective firms and make a recommendation to the Town Council. The audit contract will be awarded by the Town Council. The Finance Director shall prepare an Annual Financial Report within one hundred twenty (120) days of the conclusion of each fiscal year. The Town Council may extend the deadline of such report for up to two (2) periods of thirty (30) days per extension. (Town Charter Section 601). It will be reviewed and presented to the Town Council and community at a public meeting. The Town shall maintain accounting records in such a manner as to receive an unqualified audit opinion and when possible, to qualify for a Certificate of Achievement for Excellence in Financial Reporting from the GFOA.

RESERVE POLICIES

GENERAL OPERATING FUND BALANCE

The General Fund Balance should be maintained in a range of an amount between 7 and 10 percent of the annual General Fund Revenue budget.

Purpose

- The Fund Balance will only be used in the case of significant financial or other emergency as determined by the Town Council.
- To provide a cushion against unexpected revenue and income interruptions.
- To provide working capital by ensuring sufficient cash flow to meet the Town's needs throughout the year.

The Town Council may allocate a portion of the reserves in excess of the 7 percent to offset the subsequent year's budget appropriations or may be transferred to the Town's Capital Reserve Fund. These excess Reserves will be available for spending on capital expenditures or other one-time General Fund expenditures as approved by the Town Council.

GENERAL FUND CONTINGENCY ACCOUNT

The Town's Contingency account will be budgeted annually at an amount to be recommended by the Town Manager and approved by the Town Council. When financially feasible the budget should be recommended at a minimum amount of 0.4 percent of the Town's General Fund Budget. This account will be available for unanticipated, unbudgeted expenditures and will require Town Council approval to spend. The purpose of this account is to provide some flexibility for unforeseen events without the necessity to spend from the Town's reserves.

CAPITAL RESERVE FUND

Every attempt should be made to include funding in the annual General Fund Budget to transfer funds to the Capital Reserve Fund in order to establish a balance that may be used to offset future Capital Projects and other Capital needs. This reserve will also be funded by any unspent funds from Capital Projects that have been completed. Upon approval of the Town Manager these surpluses will be transferred into the Capital Reserve Fund unless there is a legal restriction that requires the surpluses to be spent under the various rules that govern the control of those funds. The decision to transfer funds into this Capital Reserve fund from the General Fund or to use any of these reserves must be approved by the Town Council.

SELF INSURANCE RESERVE FUND FOR THE TOWN AND BOARD OF EDUCATION

1. Pursuant to the Town of Wethersfield Code Chapter 14 – Article II –Section 14-5 and 14-6 and these financial policies, the Town maintains an established Self Insurance Reserve Fund (SIRF) for the purpose of paying for all fees associated with employee medical benefits. This fund is separate from the General Fund, and it shall be audited annually as any other Town funds by the Town's auditors. Revenue to this fund shall include contributions from the Board of Education and Town, employee co-share contributions, investment earnings and any other miscellaneous funds that relate to this

fund. Expenditures from the SIRC will include charges from the Health Insurance Administrators for all hospital and medical claims; claim administrative fees; Producer of Record contract fees; actuarial fees; stop-loss insurance fees and any other associated fees incurred on behalf of participating employees of the Town and Board of Education respectively shall be paid from this Fund. Any transfers from the SIRC must first comply with the goals as outlined in paragraph #5 of this policy; provided however that transfers for non-healthcare purposes may be made upon motion and affirmative vote of seven (7) Town Councilors subsequent to providing adequate notification to the Board of Education.

2. As per the Town's Code (Section 10-10), the Town shall retain an insurance consultant (who may also be the broker for the Town) to request renewal estimates from the Health Insurance Administrator and will bid out the Administrative services at a minimum of 3 year intervals. The consultant shall review the renewal estimates from the Health Insurance Administrator and will review contractual benefits, past claims, administrative costs, and employee demographics separately for Town employees and Board employees participating in their respective health insurance plans, as well as current trends in health insurance costs. Based on that review, no later than February 1, the consultant shall make a preliminary separate recommendation to the Town and Board of Education respectively as to how much they should include in their budget estimate for the up-coming fiscal year. This recommended amount is subject to change prior to the final adoption of the annual budget appropriation if trend information is reflecting substantially different information from the original estimate provided.

3. Except as provided herein and below, the Board of Education and Town shall include in its itemized budget estimate the amount recommended by the consultant or will both agree together on an acceptable estimate to cover its health insurance costs for the coming fiscal year.

4. After the Town Council makes the appropriation to the Town and the Board of Education for a given fiscal year, the Town and Board of Education shall transfer to the SIRC an amount equal to its itemized budget estimate for health insurance costs for the year. At the end of each fiscal year, there shall be an accounting of the SIRC by the Town's Finance Director. If the amount so transferred was more than the amount necessary to cover the Town's and Board of Education's health insurance costs for the year, the Town Council may allocate the surplus as a credit to the Town and the Board of Education to offset amounts otherwise due in future fiscal year's in accordance with this paragraph. Any use of funds in this manner from the reserve must first comply with the goals as outlined in paragraph #5 of this policy. If the amount so transferred was less than the amount necessary to cover the Town's and the Board of Education's health insurance costs for the year, the Town Council shall make appropriate transfers, if any, to assure that all Town and Board of Education health insurance claims for the year are paid from the SIRC.

5. The balance of the SIRC shall be maintained for liability reserves at a level which will adequately fund the Town and Board of Education's potential loss exposure. The goal of this reserve is to accumulate an amount that is based on 10% of the previous year's annual claims in each area as determined by historical loss data. The balance in this reserve may fluctuate by the actual annual experience of the SIRC or by direct appropriation approved by the Town Council. This reserve shall be reviewed by the Insurance Committee and recommendations for funding levels will be made by the

Committee to the Town Council. The Town Council will approve any additional funds to be added during the budget appropriation process towards this reserve. Annual charges to the Departments will be at a level sufficient to maintain the reserve.

In witness whereof, the Town and the Board of Education, acting through their designated representatives, have set their hands this __ day of _____, 2009

TOWN OF WETHERSFIELD

WETHERSFIELD BOARD
OF EDUCATION

By _____

By _____

POST EMPLOYMENT BENEFITS RESERVE – TRUST FUND

A separate Trust Fund shall be established for establishing a reserve for future retiree post employment benefits. The Governmental Accounting Standards Board's GASB 45 requires the actuarial calculation of the value of future post employment benefits that the Town will need to pay for. An actuarial valuation will be performed on the funding requirements each year which will determine the amount of funds that the Town will need to reserve for the future. The Town Council shall take into consideration during the budget process the building of a Reserve in this fund to meet the actuarial requirements. All funds will be invested within a Trust arrangement pursuant to the limitations of the State Statutes regarding Trusts.

REVENUE POLICIES

GENERAL FUND REVENUE

The Town will strive to develop and maintain a diversified and reliable revenue stream so as to avoid becoming overly dependent on any single type of revenue. Efforts will be directed to optimize existing revenue sources while periodically reviewing potential new revenue sources. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the State and other governmental agencies when available. Revenues from "one-time" or limited duration sources will not be used to balance the Town's annual operating budget. An exception to this rule would be to use those funds to offset one time or limited duration expenditures. Fees and charges for service shall be evaluated by Town Staff and, if necessary, adjusted annually to assure that they cover costs. Town Staff may recommend to Town Council that certain revenue cost recovery is not recommended because it would not be in the best interest of the public or may result in a violation of State Statutes. As appropriate within the marketing of certain Town recreation or other programs, higher non-resident fees are charged, as well as priority registration procedures for Wethersfield residents.

GRANTS AND GIFTS

Overview

With state-takeaways and continued decreases in key General Fund revenues, grant revenues have become an even more important part of the Town's overall resource picture, especially in funding capital improvements. Although grant programs themselves are being reduced and becoming more competitive, actively seeking out grant revenues that assist in achieving identified Town goals and objectives should nonetheless play a key role in the Town's overall financial health strategies.

Purpose

The purpose of this policy is to set forth an overall framework for guiding the Town's use and management of grant resources.

Goals

1. Set forth the importance of grant programs in accomplishing Town goals and objectives.
2. Establish general concepts and framework for seeking and managing grant programs.
3. Identify roles and responsibilities in managing grant programs.
4. Establish criteria for evaluating the benefits and costs of grant programs.
5. Set forth the Town's policy in complying with Single Audit Act requirements.

GENERAL CONCEPTS AND FRAMEWORK

1. The Town will aggressively pursue grant funding from federal, state and other sources, consistent with identified Town goals and objectives.
2. Aside from entitlement grants, the Town should focus its efforts on securing grants for capital improvements. This approach will allow the Town to compete for projects we might not otherwise be able to afford while maintaining financial independence should future grant sources diminishes. Grants for operating purposes may be considered on a case-by-case basis after careful consideration of the benefits of the program and the ongoing impacts on the Town if grant funding is no longer available.
3. The Town should cautiously pursue grants that fund "pilot" operating programs or short-term staffing enhancements to existing programs. Taking on these programs could ultimately aggravate the Town's fiscal position should the desire for the program remain once the grant funding is no longer available.
4. The Town will only seek grants when sufficient staff resources are available to effectively administer the program in compliance with grant requirements and successfully perform the grant work scope.

5. Indirect costs of administering grant programs will be recovered to the maximum extent feasible.
6. Operating departments have the primary responsibility for identifying the need for grant programs and/or the potential new programs that could be initiated through grant funding, for developing the program/project concept and preliminary cost estimate, working with the grant administrator in preparing effective grant applications and for successfully managing grant programs after they have been awarded.
7. The Town Manager's Office will provide grant resource information to operating departments. Operating departments are responsible for reviewing the funding source announcements and identifying grants of interest. Using this system, all capital improvement plan budget requests will evaluate and document the ability of grants to assist in funding the project.

ROLES AND RESPONSIBILITIES

Town Council

1. Approves grant management policies.
2. Approves all grant applications in excess of \$5,000 and delegates contract execution to the Town Manager if delegation is allowed by the grantor agency.
3. Authorizes any commitment for in-kind financing or any Town match of funding. This would also include any addition of new staffing.

Town Manager

1. Performs grant and contract execution after approval of Town Council (if required).
2. Assistant to the Town Manager provides grant leads and application assistance.

Department of Finance

1. Provides technical assistance to operating departments in preparing grant applications, submitting reports and maintaining records.
2. Coordinates preparation and distribution of single audit reports.
3. Receives grants and executes related contract documents when delegated to do so by the Council.
4. Develops, recommends and maintains grant management policies.

Operating Departments

1. With the support from the Town Manager's Office, identify funding opportunities that support implementation of the Town's strategic plan or identified emerging needs within their functional areas of responsibility.
2. Evaluate benefits and costs of specific grant programs on a case-by-case basis:
 - a. Purpose of the grant program and its consistency with identified Town goals and objectives.
 - b. Additional staffing, office space, facilities, supplies or equipment that will be required if the grant is awarded.
 - c. Ongoing impacts of the grant program after it is completed.
 - d. Responsibilities of other departments and impacts on them in preparing the grant application or performing work scope if the grant is approved.
 - e. Amount of indirect costs to be recovered from the grant,
 - f. Total program costs, including portion funded through grant revenues and any required Town contribution.
 - g. Source of funding for any required Town share.
 - h. Compliance and audit requirements, paying special attention to those areas where the grantor's administrative procedures are different than the Town's.
3. Prepare grant applications
 - a. Work with the grantor agency in identifying special program requirements and developing strategies for preparing a successful grant application.
 - b. Complete grant application documents.
 - c. Coordinate with affected departments as necessary.
 - d. For grants in excess of \$5,000, prepare a Council agenda report requesting authorization to seek grant funding. This report should describe the grant program's conformance with this policy, including the results of the cost/benefit analysis. Submit this report to the Town Manager to recommend to Town Council.

- e. For grants of \$5,000 or less, submit the grant application to the Town Manager for approval, subject to the following conditions:
 - It will not add regular staffing.
 - Any matching funds or in-kind contributions are already available within existing resources, and no additional appropriation of unreserved, undesignated fund balance or working capital is required.
 - At the conclusion of the grant, there will no ongoing commitments or obligations to continue the program.
 - The purpose of the grant program is clearly consistent with current Town plans, policies and goals.

4. Administer grant programs if awarded.

- a. For grants in excess of \$5,000, prepare and submit to the Town Manager a Council agenda report requesting acceptance of the grant award (if required), including grant summary form (see attached), any required budget amendment request and any other required Town forms or documents; and coordinate execution of grant documents and return executed documents to grantor agency.
- b. For grants of \$5,000 or less, have the Town Manager execute the documents and then the operating department will return grant documents to grantor agency.
- c. Notify affected departments of grant award.
- d. Maintain financial and other records in accordance with grant requirements. Consult with the Finance Director for any specialized financial information reporting requirements.
- e. Complete and submit required reports, including requests for funds.
- f. Monitors grant expenditures and receipt of revenues.
- g. Coordinate on-site management reviews by the grantor agency during the grant term when required.
- h. Ensure compliance with grant requirements, paying special attention to those areas where the grantor's administrative procedures are different than the Town's.
- i. Perform the grant work scope.

5. Provide the Finance Department with copies of the following information:

- Copy of the Town Resolution (if Any), authorizing the Town staff to apply for the grant.
- Copy of the original grant application with all attachments.

- Copy of the grant award or rejection letter. Include any grant identification numbers.
- Copy of any reporting requirements communications.
- If it is a Federal Grant Award submit the Catalog of Federal Domestic Assistance (CFDA) number.
- Copy of any drawdown requests for grant funds.
- Copy of grant financial progress reports or closeout information.

6. Complete grant closeout.

- a. Complete the grant summary sheet.
- b. Notify affected departments that the project is completed and schedule a “close-out” meeting if necessary to resolve any final procedural issues.
- c. Ensure final receipt of grant revenues.
- d. Prepare and submit any required grant close-out documents.
- e. Review grant file for completeness.
- f. Retain all necessary program and financial records for the period of time required by grantor agency.
- g. Coordinate any on-site management reviews or audits after the grant is completed.
- h. Resolve any audit findings.
- i. Ensure that the Town’s policy regarding single audit act requirements is implemented as discussed below.

Other Departments

Provide assistance to the managing department as identified during the grant application and award process.

SINGLE AUDIT ACT REQUIREMENTS

Background

The Town is subject to the financial and compliance requirements of the Federal Single Audit Act of 1984, which is applicable to all local and state governments expending more than \$300,000 in federal financial assistance during a fiscal year. It is also subject to the State Single Audit Act. The purpose of these Acts is to:

1. Improve the financial management and accountability of state and local governments with respect to state and federal financial assistance programs.

2. Establish uniform requirements for audits of state and federal grants.
3. Promote efficient and effective use of audit resources.
4. Assure that state and federal departments and agencies rely upon and use audit work performed during a single audit rather than performing the audit work themselves.

Under this Act, state and federal grants are included under an inclusive single audit program that is incorporated into the Town's annual audit and financial report preparation process. During the audit, tests are made to determine the adequacy of the internal control structure, including that portion related to state and federal financial assistance programs, as well as to determine that the Town has complied with applicable laws and regulations.

Town's Policy Regarding the Single Audit Approach

For state and federal grants included in the scope of the Town's single audit approach, it is the Town's policy that all financial and compliance issues have been met through the single audit, and follow-up audits to determine these issues are not necessary unless specifically related to findings or recommendations included in the single audit report. As noted above, the purpose of the Act is to establish uniform audit requirements, promote efficient use of audit resources, and assure that federal agencies rely upon audit work already completed; its purpose is not to audit local agencies twice. Accordingly, the Town will strongly resist any efforts by state and federal agencies to duplicate audit work already performed in complying with Act requirements. As such, whenever state and federal grantor agencies request final audits, the managing department should notify the Department of Finance in order to ensure a consistent response to these types of requests.

ATTACHMENT – Grant Summary Form

Town of Wethersfield – Grant Summary Form

Grant Title			Grant No.	
General Description of Grant				
Granting Agency		Agency Contact		Phone No.
Responsible Department		Department Contact		Phone No.
Council Approval Date	Application Date	Award Date	Amount	Est. Completion Date or Grant Period
			\$	
Type of Grant (check one)	CFDA # (Federal grants only)	Pass through Agency		Local Match? If yes, Amount?
<input type="checkbox"/> Federal <input type="checkbox"/> State <input type="checkbox"/> Other				<input type="checkbox"/> yes <input type="checkbox"/> no \$_____
Final Grant Closeout Date	Audit Required?	If so, Audit Completion Date		

Attachments:

- Copy of the Town Resolution (if Any), authorizing the Town staff to apply for the grant.
- Copy of the original grant application with all attachments.
- Copy of the grant award or rejection letter. Include any grant identification numbers.
- Copy of any reporting requirements communications.

Future Submissions to Finance Department:

- Copy of any drawdown requests for grant funds.
- Copy of grant financial progress reports or closeout information.

Drawdown #	Date of Request	Amount of Request	Date Drawdown Funds Received	Interim Reports Filed? If so, Description of the type of report and date filed
#1				
#2				
#3				
#4				
#5				
#6				

DEPOSITORY OF TOWN REVENUE PROCEEDS

The Town Tax Collector's Office will be the central repository for all Town proceeds. All deposits accompanied by the appropriate revenue transmittal forms should be deposited with the Tax Collector in a timely manner. Any funds in excess of \$10,000 shall be deposited with the Tax Collector within 1 day of the receipt of funds. Any funds in excess of \$200 but less than \$10,000 shall be deposited within 2 days of the receipt of funds. Any funds under \$200 may be deposited on a weekly basis.

DEBT MANAGEMENT POLICY

Our Mission

To provide a comprehensive and viable debt management policy which recognizes the capital improvement needs of the Town of Wethersfield as well as the taxpayer's ability to pay while taking into account existing legal, economic, financial and debt market considerations.

Purpose

The basic purpose of this policy is to provide a conceptual framework for the issuance and management of debt.

Some Factors Relevant To the Issuance of Debt

- Legal constraints on debt capacity and various financing alternatives.
- The urgency of the capital requirements to be met and the economic costs of delays.
- Willingness and financial ability of the taxpayers to pay for the capital improvements.
- Determination as to whether to employ a "pay as you acquire" versus a "pay as you use" approach.
- Proper balance between internal and external financing.
- Current interest rates and other market considerations.
- The financial condition of the Town of Wethersfield.
- The types, availability and stability of revenues to be pledged for repayment of the debt.
- Type of debt to be issued.
- The nature of the projects to be financed.

Debt Management Policies

1. Capital improvements shall be financed by debt to be repaid annually by tax revenues or available revenue sources designated for same when it is not feasible to pay-as-you-acquire. Current operating expenditures shall not be funded through the issuance of debt, i.e., small, recurring maintenance, rolling stock (excluding vehicles that have a cost in excess of \$500,000 and a life expectancy greater than 15 years), operating costs or salaries.
2. Cash surpluses, grants, contributions and other revenue that may have been designated for specific capital improvements from the capital reserve and non-recurring fund and other funds (excluding the General Fund), to the extent available and appropriable, should be used to finance scheduled capital improvements.

3. Short-term debt may be used to provide interim cash flow to facilitate the timing of bond sales, to avoid locking in high long-term interest rates during periods of market turmoil or to partially finance projects whose final cost is uncertain. It is not to be used to defer the operating budget impact on bonded debt service or to speculate on market rates. Interest and issuance costs for short-term debt will be included in the capital request and will be charged to the project.
4. General obligation bonds are issued to finance traditional public improvements. Revenue or limited obligation bonds may be issued within statutory parameters only to finance those special projects or programs which directly support the Town's long-term economic development or housing interests or which service a limited constituency and are clearly self-supporting.
5. Long-term leases may be used for copiers, computers, major equipment or rolling stock and other capital items when it is cost justifiable to do so.
6. Any method of creative financing such as the use of swaptions, variable rate debt, etc., should be fully disclosed, reviewed with and approved by the Town Council.
7. The Town of Wethersfield will issue debt only for the purposes of constructing or acquiring large nonrecurring permanent capital improvements and for making major renovations to existing capital improvements that are included within the Town's Capital Improvement program. The only exception to the above would involve entering into long-term leases as described above when it is cost justifiable to do so or to fund emergency projects that are not included within the Town's Capital Improvement program.
8. All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event to exceed 20 years (30 years for sewer projects) as in accordance with Connecticut State Statutes.
9. The Town of Wethersfield shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.
10. The Town of Wethersfield will, at all times, manage its debt and sustain its financial position in order to seek and maintain at a minimum a credit rating of AA- (Standard & Poors) or Aa3 (Moody's) or the highest credit rating possible.
11. The Town of Wethersfield will ensure that an adequate system of internal control exists so as to provide reasonable assurance as to compliance with appropriate laws, rules, regulations, and covenants associated with outstanding debt.
12. Revenue sources will only be pledged for debt when legally available and, in those situations where they have previously been used for operation and maintenance expenses/general operating expenditures, they will only be pledged for debt when other sufficient revenue sources are available to replace same to meet operation and maintenance expenses/general operating expenditures.
13. The Town of Wethersfield will market its debt through the use of competitive bid whenever deemed feasible, cost effective and advantageous to do so. However, it is recognized that, in some situations, certain complexities and intricacies of a particular debt issue are such that it may be advantageous to market the debt via negotiated sale. Bidders will be encouraged to market the bonds to local investors.

14. The Town of Wethersfield will continually monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient cost savings can be realized.
15. Credit enhancements will be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.
16. In order to maintain a stable debt service burden, the Town of Wethersfield will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuances of variable rate debt. In those instances, the Town of Wethersfield should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement.

The Town will review and update as necessary the Debt Management Plan in order to maintain a stable debt service burden in compliance with this policy.

Policy Review

This policy should be jointly reviewed by the Town Council of the Town of Wethersfield, Town Manager and the Director of Finance a minimum of once every three years, notwithstanding the fact that more frequent reviews may be performed as deemed necessary.

CAPITAL ACQUISITION AND IMPROVEMENT POLICIES

CAPITAL IMPROVEMENT FUND - FIVE YEAR CAPITAL IMPROVEMENT PROGRAM (CIP)

Purpose

The goal of this fund is to utilize a “pay as you go” philosophy for capital acquisitions and improvements. There will also be instances where other longer term financing methods may be used, such as bond issuance or lease financing, based on the procedures outlined in the Town’s Debt Policy. Our public buildings, infrastructure and our park system are the primary beneficiaries of the Town's Capital Improvement Fund (CIP). In order for capital acquisitions or improvements to be considered for funding under this program they must meet certain criteria.

Definition of a CIP Project

A capital improvement project is any project that improves or adds to the Town's infrastructure, has a substantial useful life, and costs \$25,000 or more, regardless of funding source. Examples of capital projects include the following:

- Construction of new buildings
- Major renovation of or additions to existing buildings
- Land acquisition or major land improvements
- Street reconstruction and resurfacing
- Sanitary sewer and storm drain construction and rehabilitation
- Major equipment acquisition and refurbishment
- Planning, feasibility studies, and design for potential capital projects
- Park Improvements

Policy

The Town shall annually prepare a capital improvement spending program for projecting capital needs for a five year period. The five year program projects capital improvement needs for the Town of Wethersfield as recommended by the Town Capital Improvements Advisory Committee, the Planning & Zoning Commission and the Town Manager and approved by the Town Council. The first year of the five year CIP will be consistent with, and adopted as a component of, the annual operating budget by Town Council. In the development of the Capital Improvement Program, the future impact of the operating costs associated with the capital project will be projected (when possible) and considered in conjunction with the recommended CIP.

Evaluation of CIP Projects

The capital improvement program shall include those projects that will preserve and provide, in the most efficient manner, the infrastructure necessary to achieve the highest level of public services and quality of life possible within the available financial resources. In most instances, only those projects that have gone through the CIP review process shall be included in the CIP. There may be projects that are identified during

the budget deliberation process with Town Council or during the middle of the budget year that may be approved by Town Council. The CIP shall be developed in concert with the operating budget and shall be in conformance with the Town's CIP financing policy. No project, regardless of the funding source, shall be included in the CIP unless it meets an identified capital need of the Town and is in conformance with this policy.

Capital improvement projects shall be thoroughly evaluated and prioritized using the criteria set forth below. Priority will be given to projects that preserve essential infrastructure. Expansion of the capital plan (buildings, facilities, and equipment) must be necessary to meet a critical service. Consideration shall be given to the distributional effects of a project and the qualitative impact on services, as well as the level of disruption and inconvenience.

The evaluation criteria shall include the following:

- Eliminates a proven or obvious hazard to public health and safety
- Required by legislation or action of other governmental jurisdictions
- Supports adopted plans, goals, objectives, and policies
- Reduces or stabilizes operating costs
- Prolongs the functional life of a capital asset of the Town by five years or more
- Replaces a clearly obsolete facility or maintains and makes better use of an existing facility
- Prevents a substantial reduction in an existing standard of service
- Directly benefits the Town's economic base by increasing property values
- Provides new programs having social, cultural, historic, environmental, economic, or aesthetic value
- Utilizes outside financing sources such as grants

CIP Financing Policies

An important commitment is to providing the funds necessary to fully address the Town's capital improvement needs in a fiscally prudent 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. Specific revenue sources shall be designated to provide funding to this fund in support of general operational infrastructure. The capital improvements program shall be prepared and financed in accordance with the following policies:

- **OUTSIDE FUNDING** - Local, State and/or federal grant funding and any cost sharing by various interest groups shall be pursued and used to finance the capital budget wherever possible
- **CIP BUDGET ALLOCATION** - Transfers-in from the General Fund annual appropriation process or use of Capital Reserve funds as appropriated by the Town Council. Transfers into the CIP Fund will be processed by the Finance Department on an annual basis and recorded as such in the annual adopted budget when it applies
- **DEBT FINANCED ALLOCATION** – Issuance of Debt Financing in accordance with the Town's Debt Policy

CASH MANAGEMENT INVESTMENT POLICIES

The Town Council shall periodically review and update, or modify as appropriate, the Town's investment policy. This review shall take place at a Finance and Budget Subcommittee level and any policy revisions shall be recommended to Town Council by this Subcommittee at a public meeting and adopted by resolution of the Town Council. Reports on the Town's investment portfolio and cash position shall be developed and presented to the Town Council Budget and Finance Sub-committee on a quarterly basis. Town funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order. The Town will periodically conduct a Request for Proposal process for the provision of banking services.

INVESTMENT AND PORTFOLIO PROCEDURES

Scope

These investment and portfolio procedures apply to the activities of the Town with regard to investing the financial assets of all funds, including the following:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Internal Service Funds
- Non-Restricted Trust and Agency Funds
- Any new fund created by the governing body, unless specifically exempted by the governing body or legally restricted.

This investment policy applies to all transactions involving the financial assets and related activity of all the foregoing funds. This investment policy exempts any pension or other formal trust funds.

Objectives

Funds of the Town will be invested in accordance with Connecticut Statutes, any Town fiscal policies and these administrative procedures. The Town's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investments must be maintained so that there will be sufficient liquidity to meet cash flow needs. Investments shall be made based on statutory and policy constraints. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the Town of Wethersfield's ability to govern effectively.

Delegation of Authority

The Finance Director or designee made by the Finance Director is designated as Investment Officer of the Town and is responsible for investment decisions and activities, under the direction of the Town Manager. These individuals will fall under the normal bonding requirements of the Town.

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule. This rule states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing the overall portfolio.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly. Reports shall be distributed to the Town Council Budget and Finance Subcommittee on a quarterly basis.

Ethics and Conflicts of Interest

Rules and policies promulgated by the Director of Finance shall be designed in the best interest of the Town and its citizens, and shall not afford special financial advantage to any individual or corporate member of the financial investment community.

Internal Controls

The Finance Director shall establish a system of internal controls, which shall be reviewed annually by an independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Investments shall be done on a pooled funds basis with interest allocated on a cash balance method. Those internal controls shall consist of competitive bids on investments, and division of duties among the staff.

- Investments made by investment officer
- Records maintenance by a finance staff member other than investment officer
- Review and reconciliation by the Finance staff

Portfolio Management

It shall be the Town's procedure to restrict investments to only to those investment instruments that are set forth under the State of Connecticut Statutes Sections 7-400 through 7-402, Sections 3-27a through 3-27d (STIF), 7-400(3) (Tax Exempt Fund) and related statutes as amended. These Statutes include investment provisions for national or state chartered banks certificates of deposit, money market instruments, bank accounts, State of Connecticut Short Term Investment Fund (STIF), MBIA CLASS and

CLASS Plus funds, State Treasury's Tax Exempt Bond Fund, U.S. Treasury and U.S. Government Agencies.

The procedures shall consist of yield curve analysis and implemented with the appropriate purchase of the above investments. Maturity scheduling shall be within those investments and in a manner that will maximize yield and liquidity and minimize interest rate risk.

Qualified Public Depositories

The Town of Wethersfield shall only do business with qualified public depositories. Eligibility may be based on the recent certified Qualified Public Depository Qualification Form which is prepared by each institution. At a minimum, the Town's Investment Officer shall conduct an annual evaluation of each institution's credit worthiness to determine whether it should be a qualified institution.

Financial institutions which serve as depositories of Town funds shall comply with all prevailing collateralization provisions of the State of Connecticut Statutes.

Cash Management Programs and Activities

The Finance Department is committed to the overall success of the Town's cash management programs. These programs address a variety of cash management issues, including:

1. The design and implementation of reliable and effective cash-flow forecasting methodologies which will assist the investment officer in determining the amounts of cash available for investment, the time period for which the funds may be invested with a reasonable level of confidence. Consideration must be given to meet the demands that occur outside of the forecasting methodologies.
2. The design and implementation of any appropriate programs which will enhance the speed at which monies are collected and deposited.
3. The design and implementation of suitable disbursement programs which will ensure that Town expenses are met in a timely manner but not in such a way so as to jeopardize the earning capacity of the Town's cash management portfolio.
4. The design of investment policies which will allow the Town to maximize its investment earnings and establish policies and procedures which will ensure total safety of all funds that are entrusted to the care and control of the Finance Department.
5. The design and implementation of banking relationships which are both favorable to the Town and responsive to the day-to-day requirements of the Town's financial operations.

Cash Investment Policies and Procedures

Temporary idle or available funds of the Town of Wethersfield shall be invested in accordance with the provisions of the Connecticut State Statutes and this policy.

1. Overall Risk Profile

The basic objectives of the Town of Wethersfield's investment program, in order of priority are:

- a. Safety of Investments
- b. Maintenance of sufficient liquidity to meet cash flow needs
- c. Attainment of the maximum yield possible consistent with the first two objectives and staffing limitation

The achievement of these objectives shall be accomplished in the following manner:

The Town shall insure the safety of its invested idle funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the portfolio securities will fall due to an increase in general interest rates.

Credit risk will be mitigated by:

- a. Limiting investments to the safest types of securities
- b. By pre-qualifying the financial institutions with which we will do business
- c. By monitoring the Town's investments in order to anticipate and respond appropriately to a significant reduction of credit worthiness of any of the depositories

Interest risk will be mitigated by:

- a. Structuring the Town's portfolio so that securities mature to meet the Town's cash requirements, thereby avoiding the need to sell securities on the open market prior to their maturity
- b. Investing primarily in shorter-term securities unless it is anticipated that long-term securities can be held to maturity without jeopardizing liquidity requirements

Yield of the Town's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

2. Competitive Selection of Investment Instruments

Before the Town invests any surplus funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Bids will be requested from financial institutions for various options with regards to term and instrument. The Town will accept the bid that provides the highest rate of return within the maturity required and within the parameters of these procedures.

Bids for purchases through the treasury auctions, STIF or CLASS are not required.

To be eligible to submit a competitive bid for a certificate of deposit, a bank must comply with the collateralization requirements of the State for municipal deposits and must provide the Town with quarterly statements of its capital, general loss reserve, surplus and undivided profits and risk based capital ratio.

Records will be kept in accordance with the State of CT record retention requirements for the bids offered, the bids accepted and a brief explanation of the decision that was made regarding the investment.

3. Investment Selection

Short-Term vs. Long-Term Portfolio

Limitations of instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term except those reserved for capital reserve, capital projects (i.e., bond sale proceeds), insurance reserve funds and a portion of undesignated fund balance as deemed appropriate by the Director of Finance.

Short-Term Portfolio Diversification

The Town will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

	<u>Percent of Portfolio</u>
Diversification by Instrument:	
U.S. Treasury Obligations (Bills, Notes and Bonds)	100%
U.S. Government Agency Securities and Instrumentalities of Government sponsored Corporations	100%
Repurchase Agreements (Repos) – for overnight sweep only	35%
Certificates of Deposits – Commercial Banks & S&L's	100%
Local Government Investment Pool – STIF	75%
Cooperative Liquid Assets Securities System (CLASS)	75%

Percentage ratio of the total portfolio is not to be exceeded by investment type.

Diversification by Financial Institution:

Repurchase Agreements

100% of total portfolio limit above for overnight sweep purposes only.

Certificates of Deposit (CD's) – Commercial Banks & Savings & Loan Associations

No more than 40% of the total portfolio with any one institution.

Local Government Investment Pool (STIF)

100% of the total limit of the portfolio. With an exception that during heavy revenue collection periods the balance may exceed the limitation for a maximum of one month.

Cooperative Liquid Asset Securities System

100% of the total limit of the portfolio.

Maturity Scheduling:

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizeable blocks of anticipated revenue (tax turnover). No more than 20% of the portfolio may be invested beyond 12 months and the average maturity of the portfolio shall never exceed one year. Investments beyond 12 months could be from Capital Reserve, Insurance Reserve, and other longer term reserve accounts that are non-restrictive and excess Fund Balance availability. This would be based on the anticipated need for the reserve funds.

Long-Term Diversification

Instruments and diversification for the long-term portfolio shall be the same as the short-term portfolio. Maturity scheduling shall be timed according to anticipated need.

4. Other Investments and Related Information

- a. The State of Connecticut's Tax Exempt Proceeds Fund shall be utilized for the interim investment of Bond Anticipation Notes and Bond Proceeds from State Funds pending draw-downs as project expenditures are made. Monies deposited into this account by the State in accordance with State grant disbursements shall be left in place and disbursed as expenditures are made.
- b. The Town will customarily utilize depositories or investment houses that maintain a branch or office within the State of Connecticut. When the Director of Finance has been provided documentation that warrants an effective transmission process to carry out investments in depositories out of State, then the Finance Director will recommend to Town Council and seek approval from them for the utilization of that depository or investment house. Such out of State depositories or investment houses must meet all of the requirements of protection of principal and yields designated in the award of the investment.
- c. The Town, by policy, shall make no investment in mutual funds whose net asset value (NAV) fluctuates below one dollar. Investments may be made in money market mutual funds following the prudent person rule.
- d. Other Investments: Direct purchases of statutorily allowed government securities shall only be made when there is available staff time to properly manage these types of investments.

Settlement

All settlements of investments shall be on a "Delivery Vs. Payment" (DVP) basis. Physical delivery shall be avoided if at all possible, with book-entry being the preferred method of safekeeping.

Safekeeping and Collateralization

All investment securities purchased or owned by the Town shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity and other pertinent information.

Investment Reporting Requirements

The investment officer shall generate daily and monthly reports for management purposes. A report shall be prepared on a quarterly basis including any data on investment instruments being held, investment earnings and any narrative necessary for clarification. This report will be provided to the Town Council Budget and Finance Subcommittee.

OPERATING BUDGET POLICIES

BALANCED OPERATING BUDGET

The Town shall annually adopt a balanced budget where operating revenues are equal to operating expenditures. Any increase in expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated surpluses or designated reserves to support ongoing operations. Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy. All appropriation processes shall be done in accordance with the Town Charter Sections 703 through 711.

BUDGET DOCUMENT

The operating budget shall serve as the annual financial plan for the Town. It will serve as the policy document of the Town Council for implementing Council goals and objectives. The budget shall provide the staff the resources necessary to accomplish Town Council determined service levels. The Town Manager shall annually prepare and present a proposed operating budget to the Town Council no later than the first Monday in April of each year; and Council will adopt said budget no later than May 15th of each year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Town Council. The Town's annual budget will be presented by Department, with a logical breakdown of programs and line-item detail. A separate summary budget document will also be presented for discussion and review by the Town Council and the public. This document will focus on policy issues and will summarize expenditures at the personnel, operating and maintenance, capital levels and any other levels deemed necessary for presentation purposes.

Where practical, the Town's annual budget will include measures of workload, efficiency, and effectiveness. On an alternating basis, Departments will utilize the Zero Based Budgeting method to prepare annual budget estimates. Departments using this method will be responsible to review the cost of all operations, identify all programs provided and the cost of those programs. Outcomes should be reviewed to determine if there should be any changes in service level provision or changes in methodologies for providing the service.

BUDGET CONTROL AND ACCOUNTABILITY

Budget control is maintained at the Departmental level. In no case may total expenditures of a particular fund exceed that which is appropriated by the Town Council without a budget amendment. Any anticipated line item shortages should have a budget transfer request prepared in advance. This request shall be reviewed by the Town Manager and approved where permissible. The Town Manager has the authority to approve appropriation transfers within Departments. Any transfer requests between Departments may not be processed until after April 1 of the fiscal year and must be approved by Town Council. See also Town Charter Section 709. Transfers from Contingency must be approved by the Town Council. Budget accountability rests primarily with the operating Departments of the Town. The Director of Finance will ensure that the Departments are appropriately expending funds.

CAPITAL PLANT AND EQUIPMENT

The annual budget will provide for adequate maintenance and replacement of capital assets to the extent that the Town Council feels that the Town can financially incur. The General Fund operating budget shall include sufficient funding to extent of the Town's financial capability to maintain public buildings as determined by the Building and Facilities Maintenance Plan that is jointly developed by Town and Education staff. The Capital and Non-Recurring fund will be funded by annual appropriations from the General Fund budget for the replacement or purchase of rolling stock, equipment, Public Safety Apparatus. It may also include other capital improvements under \$25,000 that are not budgeted elsewhere.