



Town of Chester

Comprehensive Fiscal Management Policies

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Introduction

The following financial principles set forth the overall fiscal planning and management of the Town of Chester's resources, recognizing that Town Meeting may vote as it determines in the best interest of the Town and outside of the goals stated in these policies. These principles address both current activities and long-term planning and are intended to be advisory in nature and serve as a point of reference for the Select Board, Finance Committee, all independent elected bodies and management staff. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject to statutory limits such as Proposition 2½.

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 balance the budget annually
- 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.

A. FISCAL POLICIES – GENERAL FUND¹

Municipalities maintain reserves in order to provide budgetary flexibility for unexpected events, to withstand financial emergencies and to protect the municipality from the usual unevenness in revenue-expenditure patterns. The Government Finance Officers Association recommends that local governments

¹ The General Fund is defined as the fund that accounts for all financial resources except those required by law or by accounting standards to be accounted for in another fund. Like all funds, it is divided into revenues and expenditures. Revenues must balance expenditures and vice versa. General fund revenues come from taxes, licenses, permits, fines, intergovernmental revenue, forfeits, charges for services and other miscellaneous sources. The General Fund pays for the Town's basic services and essential functions including public safety, public works, education, infrastructure improvement, recreational, cultural, and administration.

maintain reserves (unreserved fund balance) of 5% – 15% of general fund revenues, depending on the needs of the community. Appendix 1 contains a review of different reserves and recommendations.

Reserves are Generally Established in Three Categories:

- Contingency Reserves – a reserve for unforeseen events.
- Unrestricted Reserves – a reserve that can be used for any purpose.
- Restricted Reserves – a reserve dedicated for specific use at some future time.

Reasons for Creating and Maintaining Reserves:

- Operational Needs – These are contingency reserves, which are typically appropriated as part of the annual budget. The purpose is to meet unexpected increases in department operational cost such as legal fees, major equipment repairs and anticipated increases in service costs.
- Catastrophic or Emergency Expenditures – These are contingency reserves which provide emergency funds for use in a major calamity such as a hurricane, uninsured loss or damage to a capital asset.
- Maintenance of Assets – These are restricted reserves used to replenish the continuing depreciation or replacement of buildings and equipment. In accordance with Governmental Accounting Standards Board (GASB), GASB Statement No. 34, the Town is required to show the depreciation of certain fixed assets.
- Liquidity or Cash Flow – These are unrestricted reserves used to reduce the need for short-term borrowing, generate investment income and to maintain a strong credit rating.
- Unfunded Liabilities – These are restricted reserves used to fund an unfunded liability that has been incurred during the current or prior years, but which does not have to be paid until a future year, and for which adequate reserves have not been set aside. These liabilities may not be apparent in typical financial records in a way that makes their impact easy to assess. This type of liability accumulates gradually over time and may go unnoticed until it has created severe financial problems. Unfunded liabilities are predominantly pension obligations and post-employment benefits (OPEB).

The Town has formally adopted an OPEB funding policy beginning in Fiscal Year 2026, which commits to annual appropriations starting at \$50,000 and increasing by 3.5% annually, in addition to ongoing PAYGO costs, with the goal of achieving full actuarial funding by Fiscal Year ____ (see Appendix 2).

1. All current operating expenditures will be paid for with current operating revenues.

The purpose of this policy is to maintain a financially sound operating position for the town by promoting Chester's ability to: (1) balance its budget on a current basis; (2) maintain reserves for emergencies and one-time capital expenses; and (3) have sufficient liquidity to pay bills on time to avoid short-term borrowing costs. The town will avoid budgetary procedures that balance current expenditures at the expense of meeting future year's expenses, using reserves for ongoing operational expenses, postponing expenditures, utilizing future year's revenues or rolling over short-term debt.

2. The town will endeavor to maintain a combined balance of Free Cash and Stabilization Funds at 10% - 15% of the General Fund.

- The Town will endeavor to maintain a certified Free Cash balance equal to 5% - 10% of the General Fund. The Free Cash balance is an important indicator of whether a town is living within its means. Chester's goal is to maintain its Free Cash balance at 5% - 10% as a reserve which can be tapped in case of emergency and to provide enough cash in the bank to meet payrolls and pay current bills without having to borrow in anticipation of revenues. Together with the Stabilization Fund the 5% - 10% goal is a widely accepted measure of good financial standing and a factor in Chester's bond rating.

The Town will endeavor to maintain a Stabilization Fund balance equal to 6% - 10% of the General Fund budget. Funds held in Stabilization should be appropriated for one-time capital expenses, if State Aid payments are reduced creating a budget shortfall, or for catastrophic or emergency events if the financial impact of the event is in excess of an amount which the Finance Committee Reserve Fund can fund.

The Town may appropriate monies into the Stabilization Fund over two or more years for a specific planned capital project in order to avoid borrowing costs.

3. Free cash in excess of the Town's goal should be used for non-recurring expenditures, used to lower the tax rate, fund unfunded liabilities such as retirement or OPEB (Other Post Employment Benefits), or appropriated to a stabilization fund for future capital projects and equipment purchases.

This goal, combined with Policy 1 above, will provide a strategy to avoid creating future operating deficits by over-reliance on Free Cash to subsidize the operating budget. The policy provides for a contingency reserve to be used for expenditures of a non-recurring nature, capital and

equipment purchases, or unexpected, non-recurring small increases in service costs.

4. Annual budget should include a Capital Projects Fund from current dollars to maintain an equipment replacement and facilities maintenance schedule equal to a minimum of 2% of the General Fund Operating Budget.

Much of the Town government wealth is invested in our capital plant i.e. buildings, fields, infrastructure, equipment and vehicles. Long-term debt is an appropriate source of funding for certain types of projects while current revenues should be used for those assets with a short useful life.

5. Fees and user charges should be reviewed on a three-year cycle in relation to the costs of providing the service.

As State and Federal assistance has declined and/or been eliminated, the Town's local non-property tax revenue base has provided more funding for local services. In order to continue to provide these services without an additional burden on the property tax, these fees should be reviewed to cover, when appropriate, any cost increase or decrease associated with delivering a program or service.

B. FISCAL POLICIES – WATER

1. Rates and fees for Water funds shall be set at a level to provide for self-supporting operations.

The Water department rates shall be reviewed quarterly to project revenues and expenditures for the next fiscal year, estimates of current year, and projections for future years. Estimates of capital projects and debt service should be included in order to project the impact on water or water rates.

2. Betterments will be assessed for Water extensions.

In line with Paragraph (1) Water projects that are extensions on the existing system will be assessed to the property owner according to the betterment formula as described in the Town's Bylaws.

3. Water main replacements should be scheduled so as to avoid major increases in Water rates.

The current Water funds are established as self-supporting on a cash basis. Revenues are planned to cover operating budgets, indirect and overhead costs, and debt service payments. Depreciation is not funded; therefore, a

carefully designed replacement plan is necessary to ensure a rate structure adequate to pay all costs including proposed new long-term debt.

4. The Water capital plan should attempt to invest in the town's Water system at a rate that does not place dramatic increases on the ratepayer.

C. FISCAL POLICIES – ELECTRIC

1. Rates and fees for electricity funds shall be set at a level to provide for self-supporting operations.

The electric department rates shall be reviewed quarterly to project revenues and expenditures for the next fiscal year, estimates of current year, and projections for future years. Estimates of capital projects and debt service should be included in order to project the impact on electricity or electric rates.

2. Betterments will be assessed for electricity extensions.

In line with Paragraph (1) electric projects that are extensions on the existing system will be assessed to the property owner according to the betterment formula as described in the Town's Bylaws.

3. Electric equipment replacements should be scheduled so as to avoid major increases in electric rates.

The current electric funds are established as self-supporting on a cash basis. Revenues are planned to cover operating budgets, indirect and overhead costs, and debt service payments. Depreciation is not funded; therefore, a carefully designed replacement plan is necessary to ensure a rate structure adequate to pay all costs including proposed new long-term debt.

4. The electric capital plan should attempt to invest in the town's electric system at a rate that does not place dramatic increases on the ratepayer.

D. FINANCE AND CAPITAL PLANNING POLICIES

Capital Planning will be accomplished to ensure that the highest priorities and greatest needs of the town are met. The Finance and Capital Planning Committee will assign value to each capital request from 1 to 10 on each of the following ten factors. This gives each project a potential score of 100 which will then be ranked from the highest to lowest priority. The Finance and Capital Planning Committee will use this ranking as a guideline for developing the Five-Year Capital Plan.

Criteria for Setting Priorities:

Factor 1 – Public Safety and Health – Consideration of the impact of a request and its impact on existing conditions of public safety and health. For example, the reliability of the police cruisers and fire department equipment could have an effect on the Town’s ability to provide for the public safety and health.

Factor 2 – Infrastructure Needs – Consideration of the impact of a request in relation to infrastructure problems and needs of the community. For example, does the current equipment the Town owns meet the needs of the community in relation to the infrastructure needs (roads, curbs, parks, sidewalks, lighting).

Factor 3 – Quantity of Use – Consideration is given to the number of people that will utilize the facilities or equipment and/or how often the equipment will be used. For example, a high-cost item that is used for a specialty purpose on an infrequent basis should be considered a low priority while an item that has broad uses and will be used by many people should be given a higher priority.

Factor 4 – Efficiency of Services – Consideration is given to requests that increase the efficiency of services provided by the Town to the public. A specific example may be the purchase of a new computer system or software that would provide the same level of service that currently takes many hours to perform.

Factor 5 – Legal Requirements – Consideration of requests based on mandates of local, state or federal regulations or laws. An example would be shoring for the Department of Public Works, which is required during certain excavation and trenching operations.

Factor 6 – Public Support – Consideration of requests in relation to public support of a specific project or program, specifically, you should consider how the public will view the purchase of specific capital items.

Factor 7 – Personnel Impact – Consideration of requests that are necessary based upon increased personnel or increased use by personnel. An example would be if new employees were added to the Department of Public Works and whether additional equipment would be needed for the new employees to be effective.

Factor 8 – Service Impact – Consideration of requests that are necessary due to increased, altered or new services the Town is offering.

Factor 9 – Budgetary Constraints – Consideration given to the effect of various requests on the capital budget in total. The practicality of each item requested should be considered in relation to all other items.

Factor 10 – Administrative Needs – Consideration of requests that are necessary due to the administrative needs of various departments. Common examples would be copiers, fax machines, computer equipment, office furniture, etc. that arises due to other factors (i.e. new employees, age of current equipment, volume of material that needs to be maintained, etc.).

Capital Project/Item

An expenditure of \$5,000 or more with a useful life greater than three years and falls under one of the following categories:

- Acquisition of land.
- Construction, expansion or renovation of a facility. Facilities include buildings, streets, bridges, sidewalks, parking lots, utilities, playing fields, cemeteries, playgrounds, etc.
- Acquisition of large capital items including vehicles, technology, communications equipment, etc.
- Facility maintenance projects including roof repair, HVAC, electrical, masonry, painting, carpeting, street resurfacing, sidewalk reconstruction, playground equipment or major repairs.
- Planning, feasibility, engineering or design studies related to a capital project.

Funding Sources

The following funding sources may be used or recommended as follows:

Borrowing – Projects/items of \$100,000 or more with a useful life of at least 10 years may be considered for borrowing. The sources of revenue to support borrowing are:

- General Fund Within Proposition 2½.
- General Fund With debt exclusion vote.

Available Revenues – Projects of \$15,000 or more with a useful life of at least 3 years may be considered for funding with available revenues. The sources of available revenues are:

- Capital Improvement Budget as recommended by the Finance and Capital Planning Committee
- Free Cash warrant articles.

- Community Preservation Funds

Departmental Operating Budget – Projects/items of less than \$15,000 with a useful life of greater than one year may be considered for funding in departmental operating budgets.

Miscellaneous

The annual operating cost of a proposed capital project, as well as debt service costs, will be identified/and or estimated before any long-term bonded capital project is recommended.

Capital projects may increase future expenses, decrease future expenses or may be cost-neutral. The funding of capital projects may fall within available revenues (taxes or fees) or new revenue sources (debt or capital exclusions). It is important to project the impact that the proposed capital project has on the operating budget so that the operating budget has adequate resources to meet long-term operating expenses.

Capital projects should be reviewed in relation to impact on property tax limitation and annual operating budgets.

- Projects/items funded with current tax revenues should identify the impact on the annual operating budget.
- Projects/items funded with long-term debt and not exempted from Proposition 2½ should identify the impact on annual operating budgets.
- Projects funded with long-term debt and exempted from Proposition 2½ should identify the impact on the annual tax rate and/or tax bill (debt exclusion).

E. DEBT MANAGEMENT

Long-term debt should not be incurred without a clear identification of funding sources.

Long-term debt is generally utilized to fund capital projects that have a long useful life and are relatively expensive. Because of the debt service costs and annual appropriations necessary to retire this debt, there should be clear knowledge and commitment of revenue sources available to pay these costs without competing with operating budgets for limited resources.

General Fund debt service will not exceed 10% of the General Fund. The credit rating agencies, consider debt service on net direct debt (i.e. non-self-supporting) exceeding 20% of net operating revenues as a potential problem. Dramatic increases in debt service also indicate potential problems unless revenue sources

increase to keep pace with these additions to fixed costs. The 10% benchmark provides a policy to apply to new projects and the growth of revenues to such projects.

The use of long-term debt is a common and often necessary way for a community to address major infrastructure and equipment needs. It is also a means of spreading the cost of large capital projects over a larger, changing population base. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing a strain on future revenues. The purpose of this policy is to establish guidelines governing the use of long-term debt.

Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose. Massachusetts General Laws, Chapter 44, Section 10 specifies that the debt limit for towns is 5% of equalized valuation. There are two “annual” limitations applicable to municipal debt. First if a municipality borrows \$5 million in a fiscal year, it may be subject to an arbitrage penalty. If a borrowing is over \$10 million in one fiscal year, it is not “bank qualified”. This essentially means that the issue is not marketable.²

1. Capital Improvement Plan

The town will establish and maintain a five (5) year Capital Improvement Plan (CIP), including all proposed projects and major pieces of equipment that exceed \$15,000 in cost. The town’s long-term debt strategies will be structured to reflect its capital needs and ability to pay. One and one half percent of the town’s budgeted annual expenditures should be set aside to pay for capital improvements for vehicles and building maintenance which cost under \$100,000 and is not funded by a debt issuance.

2. Bond Rating

The community’s bond rating is important because it determines the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate. Bond Rating Agencies (Moody’s, Standard & Poor’s, etc.) typically look at four sets of factors in assigning credit rating:

- Debt Factors – debt per capita, debt as a percentage of equalized valuation and rate of debt amortization.
- Financial Factors – operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, and unfunded pension liability.

² These limitations do not apply to loans from a state or federal agency such as USDA or MCWT.

- Economic Factors – property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.
- Management Factors – governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.

The town will continually strive to improve its bond rating through sound financial management, maintaining a high receivables management, accounting and financial reporting and maintaining sound reserves.

3. Debt Guidelines

General Fund Debt Service – A limit on debt service costs as a percent of the Town’s total budget is especially important because of Proposition 2½ constraints on budgets. At the same time, the community’s regular and well-structured use of long-term debt symbolizes the municipality’s commitment to maintaining and improving its infrastructure. Municipal credit analysis often uses 10% as a maximum benchmark for financial soundness. The Town of Chester is committed to establishing a debt service ratio that will not exceed the 10% benchmark. The town will also, by policy, establish a debt service “floor” of 2% as an expression of support for continued investment in the town’s roads, public facilities and other capital assets.

Debt service costs include annual principal and interest payments. Debt service costs are also a significant portion of fixed costs. A reasonable maturity schedule not only reduces interest costs but recognizes that capital needs will continue to be identified and recommended. Credit rating bureaus review these maturity schedules and future capital needs.

Debt Maturity Schedule – As previously stated, Chapter 44 of the General Laws specifies the maximum maturity for bonds issued for various purposes. However, a town may choose to borrow for periods less than the statutory limit. A reasonable maturity schedule, not only reduces interest costs, but will, by policy establish a debt maturity goal of 7 to 10 years. The Town of Chester is committed to establishing an average debt maturity goal of 10 years or a maturity that is consistent with the life of the project. This can be accomplished through more aggressive amortization of new debt service and shortening terms for existing debt when the option to refinance a bond becomes available.³

4. Debt Strategies

³ It should be noted that debt service for Water projects as well as the Community Preservation Act (CPA) will not be subject to this objective.

- Alternative Financing Strategies – The town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants and low or zero interest loans from state or federal agencies, such as the Massachusetts Clean Water Trust (MCWT) or USDA, etc.
- Debt Issuance – The town will work closely with the town’s Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the all-important disclosure document (Official Statement), as well as preparation of the required documents to be signed by the Select Board and signed/notarized by the Town Clerk.

Print Name:

Signature:

Position:

Date:

**APPENDIX 1
SPECIFIC RESERVE POLICIES**

It is recommended that the Select Board of the Town of Chester establish the following Reserve Policy Goals for financial reserves:

Reserve: Finance Committee Reserve Fund

Statutory Reference: MGL Chapter 40, § 6
Type of Reserve: Contingency and Unrestricted
Proposed Reserve: Approx. 0.5% of the prior year general fund operating budget less debt service
Uses: For extraordinary and unforeseen expenditures, as determined by vote of the Finance Committee

Reserve: Free Cash*
Type of Reserve: Unrestricted
Proposed Reserve: 5% - 10% of the prior year general fund operating budget
Uses: To be used for one-time expenses, capital expenses and to lower the tax rate using only the amounts above the reserve.

Reserve: Stabilization Fund*
Statutory Reference: MGL Chapter 40, § 5B
Type of Reserve: Contingency, Unrestricted, May be Restricted by vote of Town Meeting
Proposed Reserve: 6% - 10% of the prior year general fund operating budget
Uses: Stabilization funds should only be used (1) For Capital Purchases requiring debt issuances when the balance of the fund exceeds 5%; (2) if State Aid payments are reduced creating a budget shortfall; or (3) for catastrophic or emergency events if the financial impact of the event is in excess of an amount which the Finance Committee Reserve Fund can fund.

Reserve: Other Post-Employment Benefits Liability Trust Fund (OPEB) – Unfunded Liability

Statutory Reference: MGL Chapter 32B § 20
Type of Reserve: (Restricted)
Proposed Reserve: Beginning in Fiscal Year 2026, the Town will appropriate a minimum of \$50,000 annually to the OPEB Trust Fund. Contributions will increase each year by 3.5% to keep pace with rising costs and funding requirements.
In addition, the Town will continue to pay its annual pay-as-you-go (PAYGO) retiree health insurance costs, with OPEB Trust

contributions made in addition to PAYGO. Contributions will follow the **funding schedule adopted by the Select Board** which projects full funding of the Town's OPEB liability by **2045**

Uses: The OPEB Trust Fund shall be used exclusively to pay for future post-employment health benefits for retirees, in accordance with MGL Chapter 32B, §20.

*The combination of Free Cash and Stabilization Fund should be 5% - 15%.