



Town of Rockport Finance Committee November 17, 2014

POLICY ON THE USE OF THE FINANCE COMMITTEE RESERVE FUND

Background

M.G.L. Chapter 40, Section 6. To provide for extraordinary or unforeseen expenditures, a town may at an annual or special town meeting appropriate or transfer a sum or sums not exceeding in the aggregate five per cent of the levy of the fiscal year preceding the fiscal year for which the fund, to be known as the reserve fund, is established. No direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the finance or appropriation committee of the town...

DOR, "A Guide to Financial Management for Town Officials" (p.29-30) The Finance Committee "has statutory authority to make transfers from the town's reserve fund (a contingency fund usually created as part of the annual budget appropriations to departmental budgets for extraordinary or unforeseen occurrences... How the fund is used depends upon a community's interpretation of the terms "extraordinary" or "unforeseen." Some towns assume a very conservative interpretation and use the fund only for dire emergencies (e.g. natural disasters). Other communities take a more liberal view and are willing to use the fund for less critical purposes that were simply not foreseen when the budget was approved. However, if town meeting has rejected funding for a particular item, it cannot later be funded through the reserve fund. In general, extraordinary or unforeseen items such as an increased insurance premium or replacing a damaged police cruiser are acceptable. Salary increases are generally not an acceptable use. Finance committees should adopt their own guidelines to supplement the state statute and provide other town officials with a better understanding of the circumstances under which the committee is likely to use the reserve fund."

Town By-laws make no mention of restrictions or procedures for use of the General Reserve but **Section 8. Approval of Financial Warrants** says, "Department Heads (other than the School Department, which has budget autonomy by statute) may reallocate funds in their respective Department budgets between line items of Labor Accounts and such Department Heads may also reallocate funds between line items of Non-Labor Accounts if such reallocation is submitted in writing to the Town Accountant and approved by the Department's appointing authority, however, no such allocation shall be allowed between Labor and Non-Labor line items. (added STM 9/8/2003)

The purpose of this document is to establish policies for the use of the Finance Committee reserve fund in the Town of Rockport. Budgets are constructed by a process that begins in the fall, continues through the winter, is sent to the printer in mid-March and presented to the Town Meeting in early April. They contain numerous assumptions and forecasts. The Finance

Committee recommended level for financing the Committee's Reserve Fund is intended to serve as a hedge against routine operational problems that occur, with the understanding that unspent authority left in the fund at year's end will be passed to Free Cash to be re-appropriated for future use.

Limits on the size of the Fund

Maximum - M.G.L.40.6 says the appropriation for the reserve may not **exceed** 5% of the prior year's levy.

Minimum – While there is no statutory minimum, setting a lower limit on the reserve depends on the anticipated usage.

The Water and Sewer Enterprise Funds, and the School Department have separate reserve funds, and are not considered in setting the goal for the General Reserve.

The goal for the annual reserve fund appropriation is 2.5% of the non-school General Fund operating budget to allow for budgetary uncertainties. The minimum appropriation is 2.0% of the non-school General Fund operating budget.

Uses of the Fund

Whenever reasonable, it is preferable to authorize changes to existing budgets for committees and departments via action at a regularly scheduled Town Meeting. Committees and departments are encouraged to employ their existing authority to make line item transfers to delay for as long as possible the need for Finance Committee or Town Meeting action.

The Finance Committee views the reserve fund as a source of monies and authority to smooth the routine functioning of Town government, not as a means of circumventing the limits set by Town Meeting and the voters. That said, budgets established by action of Town Meeting invariably contain mistakes, omissions, and uncertainties. Use of the Reserve Fund to correct these occurrences may be approved, if the amounts involved are small (see the first definition of "extraordinary" below) or if the problem at issue would cause a significant disruption in the provision of Town services (see the second definition of "extraordinary"ⁱⁱ below). Emergency requests, for example repair work which should be accomplished before the next town meeting in order to minimize a public safety problem, also qualify under the second definition.

Reserve Fund transfers justified on the basis of mistakes, omissions or the removal of uncertainties, between the Annual Town Meeting and the startup of the new operating year budget will be entertained by the Finance Committee in the first month or two of the new operating year, but only if the adjustments cannot be deferred until Fall Town Meeting. Transfer requests resulting from unforeseen events will be entertained before Fall Town Meeting only if immediate action is required to maintain a town service or function.

Following Fall Town Meeting, transfer requests should be deferred to the Special Town Meeting just preceding the Annual Town Meeting in April if feasible. When large requests are

approved, which deplete the General Reserve, the Finance Committee may seek additional reserve funding at the STM in April.

As the operating year draws to a close, transfer requests will be handled as they are received, and voted based upon their priority as viewed by the Committee.

Procedure

All requests for transfers from the General Reserve should be on the attached form. The explanation of why the expenditure is extraordinary or unforeseen should include a description of the need, its cause, its urgency and what other funding sources are available.

Documentation, for example a copy of a quote, should be attached wherever possible.

The Finance Committee will consider the request promptly after it and its supporting documentation has been approved by the Town Administrator.

Reporting

The Finance Committee will publish a reporting of the Reserve Requests approved through Feb 1 of each year in the Voters Booklet for the Annual Town Meeting. The report should detail the more significant items and amounts approved (those amounts exceeding \$10,000) and will summarize the less significant items. A full reporting of the prior fiscal year's Reserve Requests shall be presented in the Voters' Booklet for the Fall Town Meeting.

¹¹ **ex·traor·di·nar·y:** 1. Beyond what is usual, ordinary, regular, or established: extraordinary costs. 2. exceptional in character, amount, extent, degree, etc.; noteworthy; remarkable.