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PROPOSED
Comprehensive Financial
Management Policies for Town of
Belmont

October 2018

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INTRODUCTION

In order to ensure the financial health of the Town of Belmont, provide the public with confidence that Town officials respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the Town has prepared for its future, the financial policies outlined below shall guide the Town. These policies are a living tool and shall be reviewed by the Town Administrator and designated staff on an annual basis and updated as necessary.

This document is intended to establish a set of financial management policies and not the procedures that identify the specific methods and actions necessary to carry out these policies. Policies are the terms and conditions which guide and direct the town in making financial management decisions. They are not hard and fast rules so that they may recognize extraordinary situations. Financial management policies are made to support strategies. In many instances, administrative procedures are or will be developed as tools to implement these policies.

Objectives:

The objectives of the Financial Management Policies are as follows:

- 1. To guide the Board of Selectmen, Town Administrator, Warrant Committee, and management staff in evaluating and implementing decisions that have significant impact on the Town.*
- 2. To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.*
- 3. To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs.*
- 4. To regularly evaluate the Town's financial capacity to meet present and future needs.*
- 5. To promote credible and sound financial management by providing accurate and timely information on the Town's financial condition.*
- 6. To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.*
- 7. To provide financial resources sufficient to meet the Town's obligations on all municipal debt and other long term obligations.*
- 8. To maintain internal controls that ensure the legal use of financial resources.*
- 9. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*

A. GENERAL BUDGET POLICIES

A-1 Balanced Budget

Background:

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

Policy:

The Town shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The Town shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The Town will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred or accruing future year revenues.

The Town shall maintain reserves for emergencies and shall maintain sufficient liquidity to pay bills on time without revenue anticipation borrowing.

References:

M.G.L. c.44, §31 Liabilities in Excess of Appropriations

Achieving a Structurally Balanced Budget, Government Finance Officers Association Best Practice, February 2012

Adopted by:

Date Adopted:

A-2 Warrant Committee Annual Reserve Fund

Background

A municipality cannot spend money in the absence of an appropriation. In a town, only town meeting can make appropriations.

The Legislature has, however, recognized that there may arise extraordinary or unexpected expenditures which were not provided for in the normal budgeting process. It therefore authorized town meetings to appropriate monies for a reserve fund and provided that the town finance committee (in Belmont, this is the Warrant Committee) can authorize transfers from that fund but only up to the amount appropriated by the town meeting.,

The purposes for which reserve fund transfer may be made are set forth in the Massachusetts Finance Committee Handbook, p. 3-4:

The law (M.G.L. Ch. 40 s 6) allows towns to appropriate money, either at the annual or special town meeting into a reserve fund "to provide for extraordinary or unforeseen expenditures." DOR has expressed its opinion that reserve fund transfers are appropriate:

1. *to provide for urgent or unforeseen expenditures* that could not have been anticipated before town meeting; and/or
2. *to allow immediate expenditures of funds in the event of emergency* (threat to public safety or health) when the delay of having to call a special town meeting could be potentially harmful

Policy:

The Town shall annually recommend an appropriation to the Reserve Fund for the purpose of supporting any emergency and unforeseen issues that may occur during the current fiscal year.

Reserve fund transfers should be used only for unexpected contingencies for which financial need can be quantified. In addition, the need for the transfer shall be communicated to the Warrant Committee in a timely manner. A reserve fund transfer requires a majority vote at a meeting of the Warrant Committee. The Warrant Committee shall review the appropriation amount at least every 5 years to determine whether an increase or decrease in appropriation should be recommended.

References:

Belmont Warrant Committee Reserve Fund Transfers instruction document
MGL Chapter 44, Section 6 Reserve Fund

Adopted by:

Date Adopted:

A-3 Submission of Budget and Budget Message

Background:

Two important principles of public budgeting are clarity and publicity. The GFOA considers the preparation of the annual budget document of great importance in providing detailed financial information and also explaining the key issues that face the community. It is also important to distribute this information to the staff, elected and appointed officials and the general public in order to give them a greater understanding of the operations, financing and key issues confronting the community.

Policy:

The Town Administrator's Office is responsible for the preparation of the annual operating budget and capital budgets, which integrates the work of appointed citizen committees, such as the Warrant Committee and Capital Budget Committee, to ensure involvement in the budget decision-making process. The Office also works with the School Committee and School Administration to assist in the development of the School Department Budget.

The Town Administrator shall submit the Budget document to the Board of Selectmen and Warrant Committee no later than the 3rd Friday in February before the first business day of town meeting. The responsibilities of the Warrant Committee to Town Meeting are described in the Belmont By-Laws Article 4, Section 40-425.

The Town shall work toward the development of a budget document that meets the standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

References:

Belmont By-Laws Article 4 Section 40-425 WARRANT COMMITTEE

Adopted by:

Date Adopted:

A-4 Revenue and Expenditure Forecast

Background:

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast(s). Long term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality. The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow the Town Administrator and staff, the Warrant Committee, and the Board of Selectmen to test various “what-if” scenarios and examine the fiscal impact on future budgets.

Policy:

Each year the Town Administrator, in consultation with the Warrant Committee, shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five-year Capital Improvement Program.

The forecast shall be used as a budget tool to enable Town officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; and, 2) identify the resources needed to maintain required enterprise fund operations and 3) estimate the impact on rate payers.

The Town Administrator, in cooperation with the Warrant Committee and other Town departments, will review fiscal assumptions every year when the forecast is updated and will use information that is timely and accurate in preparation of the forecast. The preliminary forecast and the associated assumptions shall be made available to the Board of Selectmen and the Warrant Committee no later than December 1.

References:

Belmont Revenue/Expenditure Forecast FY2019-FY2023 and Manual, Edward J. Collins Center for Public Management 2018

Revenue and Expenditure Forecasting, MA DOR Division of Local Services Best Practice.

Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association Best Practice, February 2014.

Adopted by:

Date Adopted:

A-5 Position Control/Vacancies

Background:

A large segment of a town's budget is its personnel costs. Failure to accurately monitor the personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

Policy:

The Town shall maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the Town intends to have during that budget period.

Adopted by:

Date Adopted:

A-6 Personnel Policies and Labor Contracts

Background:

For the purposes of these policies, the following definitions shall apply:

- Personnel Policies are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.
- Classification Plans are the schedules that identify employees by job category, job title, and union/non-union status on a typical Grade structure. Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- Memorandums of Agreement (MOAs) are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- Collective Bargaining Agreements (CBAs) are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union.
- Side Letters are documents that represent a short term agreement between a municipality and a union.

Policy:

Pay plans and pay rates shall be monitored to ensure compliance with labor contracts, personnel policies, and accuracy. Contract proposals and agreements will be fully costed out to understand the short and long term impact on Town finances. In order to foster transparency in the provision of employment agreements and benefits, the Town will prepare and maintain documents that are publically available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters.

References:

Belmont Personnel Rules and Regulations

Adopted by:

Date Adopted:

B. ENTERPRISE FUND POLICIES

B-1 Self Sufficiency and Rates

Background:

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

Policy:

Enterprise Funds (i.e. Water and Sewer Funds) shall be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by the Town Administrator, Town Accountant, Treasurer and Enterprise Department heads.

Rates and fees for enterprise services shall be set at a level to provide for self-supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants.

Enterprise Funds shall be reviewed annually by the responsible board, commission, or department head to project revenues and expenditures to prevent the need for subsidy by the General Fund operating budget. Estimates of capital project costs, debt service, and other liabilities shall be included in this analysis in order to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency.

Changes in the rates and/or rate structure shall be analyzed prior to recommendation and implementation in order to ascertain the short and long term impact on rate payers.

References:

MGL, Chap 44, Sec 53F1/2

Enterprise Funds, MA DOR Division of Local Services Best Practice

Adopted by:

Date adopted:

C. RESERVE FUNDS/FUND BALANCE POLICIES

Background:

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus.

C.1 Annual Reserve Ratio

Background:

The Town of Belmont shall maintain minimum fund balances at a level sufficient to assure that the town can withstand unanticipated financial shocks without endangering payments to bondholders or critical town functions.

Fund Balance Measurement Approach

The town defines the following quantity to appropriately reflect its substantial Capital Endowment Fund as well as the usual reserves held by other communities: "Adjusted Reserve Ratio" or ARR shall be a fraction defined as follows --

1. The denominator shall be general fund revenues.
2. The numerator shall be the sum of:
 - a. Unreserved, undesignated General Fund balance;
 - b. Unreserved General Fund balance designated for stabilization;
 - c. Capital Endowment Fund balance.

For the purposes of applying this policy to projected year end balances, the town shall not project that an operating surplus will contribute to unreserved, undesignated general fund balance until such point after January 1 of the fiscal year in question when the contribution can be projected with high confidence.

Policy:

No interim or annual budget decision shall be made which would place the town at material risk of ending the fiscal year with an Adjusted Reserve Ratio under five percent.

The only exceptions to this policy shall be considered in catastrophic circumstances, such as the sudden creation of an environmental liability.

It is further resolved that maintaining an ARR of 10% is prudent to help the town avoid hardship resulting from the 5% floor in the face of cyclical revenue reductions and long- term cost increases.

Reserve Recovery Practice

In any year in which the prior year's final actual ARR is below the ten percent target, the town shall seek to budget so to achieve a recovery in the ARR equal to one percentage point (or the difference between the ARR and ten percent, whichever is less), provided such recovery can be achieved without hardship. However, if, as a result of a rare catastrophic event, the ARR is below five percent, the town shall budget so as to achieve a recovery of at least one percentage point regardless of hardship.

References:

Proposed Belmont Draft Reserve Policy document (WNB, February 17, 2005)

Adopted by:

Date Adopted:

C.2 Free Cash

Background:

The Division of Local Service's *Municipal Finance Glossary (May 2008)* defines Free Cash as follows:

Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves. GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). DLS recommends that a municipality strive to maintain free cash in an amount equal to 3-to-5% of its annual budget.

Policy:

The Town will seek to maintain Free Cash of 3-5% of the current fiscal year's General Fund Revenue Budget, with the understanding that the goal will be to maintain Free Cash of approximately 4%. Excess Free Cash may be used to support the annual budget, for non-recurring or emergency expenditures, to replenish funds used in calculating reserve requirements, to fund unfunded liabilities (such as OPEB), to appropriate to stabilization funds, for non-recurring one time capital needs and for other uses as appropriated by Town Meeting.

General Fund Revenue Budget: General Fund Revenue Budget for the fiscal year beginning as of the date of Certified Free Cash less Enterprise Fund revenues.

Free Cash: Free Cash as of July 1st in each fiscal year as determined and certified by the MA Department of Revenue.

Reference:

Belmont Free Cash Guideline (signed 4/17/2015 by BOS Chair, Warrant Committee Chair, Town Administrator, and Town Treasurer)

Free Cash, MA DOR Division of Local Services Best Practice.

Appropriate Level of Unrestricted Fund Balance in the General Fund, Government Finance Officers Association Best Practice, September 2015.

Reserve Policies, MA DOR Division of Local Services Best Practice.

Adopted by:

Date Adopted:

C-3 General Stabilization Fund

Background:

A stabilization fund allows a Town to maintain a reserve to enhance the Town's fiscal stability. By state law, it allows a town to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose.

Under State law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into and from them in any year. Generally, a majority vote of town meeting is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund. The total of all stabilization fund balances shall not exceed 10% of a municipality's equalized values.

Policy:

The Town shall strive to maintain a General Stabilization Fund of 2-4% of the General Fund Operating Budget, creating essential liquidity, for the purpose of extraordinary or unforeseen expenditures. The liquidity level (defined as General Stabilization Fund balance plus Undesignated Fund Balance) is a main factor that bond rating agencies use to determine bond ratings. The most commonly used source of funding to build the liquidity level is to appropriate Free Cash into the General Stabilization Fund. Another source is the appropriation of a portion of tax levy supported revenues into this fund.

The Town will endeavor to leave the stabilization fund balance unspent, except in the event of an emergency or extraordinary or unforeseen events. If it is necessary to draw down from the General Stabilization Fund, the Town will ensure that it is restored through the appropriation of revenues such as free cash and/or one-time revenues.

References:

M.G.L. c. 40 §5B Stabilization Funds

Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.

Adopted by:

Date Adopted:

C-4 Major Capital Stabilization Fund

Background:

The Town established this fund at the annual Town Meeting in June, 2015 with no appropriation. The intention was to place proceeds from the sale of the Cushing Square parking lot and the Woodfall Rd. parcel into this fund for use as start-up money for capital projects. At that time the Belmont High School project, library, police station and DPW facility were all identified as uses for the funds. The goal was that other capital money would follow. That never happened. This Major Capital Stabilization Fund may serve as a funding source for major capital projects including any associated debt service.

Policy:

The Town shall have a goal to maintain this fund at a level equal to between 3-4% of the General Fund Operating Budget.

References:

Article 19, Annual Town Meeting, June, 2015.

Adopted by:

Date Adopted:

C-5 Major Capital Endowment Fund

Background:

MGL Ch. 15A Sec. 15E encourages private fundraising by the public institutions of higher education and assists fundraising through a matching program that is known as the public higher education endowment incentive and capital outlay contribution program which shall not result in direct or indirect reductions in the commonwealth's appropriations to the institutions for operations or for capital support.

Policy:

The town will cooperate and encourage efforts to maximize private contributions and monitor state budget appropriations for potential state matching funds.

References:

MGL Ch. 15A Section 15E: Public higher education endowment incentive and capital outlay contribution program; matching formula; termination of program

Town Meeting Vote 1994-1995

Adopted by:

Date Adopted:

D. CAPITAL IMPROVEMENT PLAN

Background:

Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sound 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. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment.

Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

Policy:

Each year, the Town Administrator shall submit a six year capital improvement plan to the Selectmen and Capital Budget Committee by the end of October. The Capital Budget Committee responsibilities are described in Article 4, Section 40-415 of the Belmont General By-laws. As stated in the By-law, "The Capital Budget Report shall be submitted to the Town Clerk in sufficient time to be distributed to Town Meeting Members at least 14 days prior to the commencement of the session at which the Capital Budget is to be considered."

To qualify as a capital expenditure, a proposed capital item or project must have a useful life of five years or more, and must exceed \$10,000 in cost. All Officers, Boards, Commissions, and Committees shall, by the end of September of each year, submit to the Town Administrator information concerning all anticipated Capital Projects and Purchases requiring Town Meeting action.

At a minimum the following principles will guide the development of the CIP.

- The Town Administrator will prepare forms and instructions and coordinate development of the capital improvement budget.
- Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts, as appropriate.
- Federal, state, or private grants or loans shall be used to finance only those capital improvements that are consistent with the Town's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.
- All assets shall be maintained at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.
- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.
- Capital projects shall be prioritized based upon criteria established by the Town.
- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to Board of Selectmen and Town Meeting for appropriation.

References:

Belmont Capital Improvement Program

Belmont General By-laws Article 4, Section 40-415 Capital Budget Committee

Massachusetts DOR/Division of Local Services, Developing a Capital Improvement Program

Financial Management Assessment, Standard and Poor's, June 2006.

Adopted by:

Date Adopted:

E. CAPITAL IMPROVEMENT FINANCING AND DEBT MANAGEMENT

Background:

The funding of a municipal capital improvement program may come from many different sources. These funding sources can include current revenues, enterprise funds, grant funds, trust funds, user fees, special reserve funds and borrowing. In Massachusetts, the municipality also has the ability to borrow funds that are outside the property tax limitations of Proposition 2 ½ by holding a town wide vote. Debt management is essential to the overall financial planning of any municipality. Borrowing allows the Town to finance projects that the town could not afford to pay from current operating dollars and also spreads the cost to citizens who will benefit in the future from the capital investment.

It is critical to develop policies and guidelines for the issuance, timing and tax impact of current and future debt. For those projects supported by user fees, it is important to identify the impact on user rates as a result of debt service costs.

Policy:

Belmont shall have a goal of maintaining its capital infrastructure by establishing a “capital investment” benchmark of between 5% and 7% of its general fund operating budget, excluding exempt and enterprise debt.

The Belmont capital improvement program (CIP) shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- Debt Exclusion – Projects, based upon cost, urgency of the project, long term benefit of the project, or other large projects being simultaneously considered shall be funded by a Proposition 2 ½ debt exclusion vote in order to collect annual revenues sufficient to pay the new debt costs and not impact funds necessary to maintain the annual town and school operating budgets.
- General Fund Debt – Smaller projects may be funded by non-exempt debt with a careful review of the timing and impact on the operating budget while also maintaining the town’s investment in its capital infrastructure and equipment.
- Enterprise Fund Debt – Enterprise departments operate as self-sufficient entities and all costs (direct, indirect and debt service) shall be covered by revenues. Projects funded by debt shall have a careful review of the timing and impact on rates.
- General Fund Debt Service as % of General Fund Budget – The annual Debt Service requirement should not exceed 10% of the town’s general fund annual revenues (excluding exempt debt and enterprise funds).

Pay As You Go/Discretionary Capital Funding – After establishing a base of approximately \$1.4 million, the Town shall increase its capital investment by the same rate as regular budget growth.

Debt-Financing/Borrowing -

- The term of borrowing for a capital project shall not exceed its estimated useful life.
- The Town will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years to 15 years.
- As General Fund Non-Proposition 2 ½ Debt Service is paid, the Town shall maintain its investment in capital projects by utilizing this pay-off in planning debt service costs for new necessary projects.

- The Town will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source. For any capital item funded by debt, cost of borrowing, including estimated principal and interest by fiscal year shall be projected in the Town Administrator’s Capital Improvement Program document.
- The strategy of utilizing “level debt service” versus “level principal and declining interest cost” shall be analyzed before borrowing is authorized.

References:

Belmont Five Year Financial Forecast model, Edward J. Collins Center for Public Management 2018

Benchmarking and Measuring Debt Capacity, Government Finance Officers Association

Adopted by:

Date Adopted:

F. GRANTS MANAGEMENT POLICIES

Background:

DLS recommends analyzing the current and future impact of grants on the operating budget, capital improvement program, and debt management.

The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

F-1 Grant Administration

Policy:

The Town shall ensure that grants are efficiently and appropriately managed by the respective Boards/Commissions/Committee/Departments who receive the grant. The Town Administrator shall be notified by departments of all grant applications. Prior to acceptance of a grant award, the Town shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. Effective grant management helps promote the pursuit of grants that are in the Town's best interest and assure the timely reimbursements to optimize cash flow, and to guard against year-end account deficits. As a legal contract, every grant agreement must be fulfilled in accordance with its prescribed terms and conditions, as well as applicable federal, state, and local regulations. Failure in this regard exposes the Town to legal and financial liabilities and compromises future grant funding.

No department shall expend grant funds, until a fully executed agreement has been accepted and approved for expenditure by the Board of Selectmen (or by the School Committee and/or School Department, when applicable). Further, no grant funds shall be used to supplant an existing expense for the purpose of diverting current funds to another use.

The Town Accountant is responsible for consulting with departments on grant budgetary matters, accounting for grants in the general ledger, monitoring grant expenditures in excess of revenues and distributing monthly reports of grant expenditures to departments. The Town Accountant will also maintain a database of all grants and grant activity from inception to closure. The Boards/Commissions/Committees/Departments are responsible for ensuring consistency with award requirements and tracking the timeliness of reimbursement requests.

Adopted by:

Date Adopted:

F-2 Impact on Operating Budget

Policy:

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, (such as health insurance and Medicare payroll tax), should be included in the grant budget to cover the Town's cost for providing those benefits.

Adopted by:

Date Adopted:

F-3 Impact on Capital Improvement Program

Policy:

When grants are accepted for capital purposes, the Town shall include in its capital improvement program any share of costs associated with the grant and project the Town's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the Town's revenue /expenditure forecast.

References:

Administering Grants Effectively, Government Finance Officers Association Best Practice, May 2013.

Adopted by:

Date Adopted:

G. POLICIES REGARDING ESTABLISHMENT OF FEES

G-1 Fees and Charges

Background:

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or other subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

Policy:

Town fees and charges shall be reviewed periodically in relation to the cost of providing the service. The Town will compare rates with nearby and comparable communities to determine if the fees established are reasonable. The Town may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where: the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

References:

Belmont Financial Task Force Consolidated Fee Schedule

Emerson College v. Boston, 391 Mass. 415 (1984).

Costing Municipal Services: Workbook and Case Study, MA DOR Division of Local Services' workbook.

Establishing Government Charges and Fees, Government Finance Officers Association Best Practice, February 2014

Division of Local Services, A Guide to Financial Management for Town Officials, p. 20-21.

Adopted by:

Date Adopted:

H. USE OF ONE TIME REVENUE

H-1 Use of One Time Revenue

Background:

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize services disruptions due to the non-recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as nonrecurring revenue.

Policy:

The Town strive to shall reduce its use of free cash for the operating budget each year until it ceases using one-time revenue sources for recurring costs in the annual Town operating budget. Other one-time revenues shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

Adopted by:

Date Adopted:

I. UNFUNDED LIABILITIES

Background:

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Belmont and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

I-1 Pensions/Retirement

Background:

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State. The Town of Belmont maintains its own Retirement System and appropriates funds as voted by the Belmont Retirement Board based upon the funding schedule adopted by the Board and approved by PERAC.

Policy:

In accordance with state law, PERAC regulations and government accounting standards, the Town shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the Belmont Retirement Board. Upon the completion of meeting the Town's funding liability according to the adopted funding schedule, a portion of the drop off in the annual pension appropriation shall be utilized to fund the Town's OPEB liability.

References:

M.G.L. c.32

Adopted by:

Date Adopted:

I-2 Other Post- Employment Benefits (OPEB)

Background:

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Belmont has established an OPEB Liability Trust Fund. This Trust Fund is an irrevocable trust and its assets can only be used to fund the OPEB liability for retiree health insurance benefits. The establishment of the trust allows the town to make contributions to fund OPEB liability.

Policy:

The following is a recommended policy to provide an annual contributions to the OPEB Liability Trust Fund to address the liability.

The annual appropriation is calculated based on the following formula:

1. General Fund Revenues
2. Undesignated General Fund Balance (100%)
3. Stabilization Fund Balance (100%)
4. Sum General Fund Revenues to Adjusted Reserve Ratio (ARR) Numerator (2+3)
5. ARR before Capital Endowment Fund (4+1)
6. Capital Endowment Fund (100%).
7. Numerator of ARR (including Capital Endowment Fund at 100%) (4+6)
8. ARR, including Capital Endowment Fund at 100% (7+1)
9. 10% of General Fund Revenues
10. Excess in ARR Numerator over 10% target (7-9)
11. 5% charge against excess Reserve Level for unfunded OPEB Liability

The appropriation is allocated based on the latest Unfunded Actuarial Accrued Liability Study as of July 1, 2010:

Town	92.1%
Light	4.7 %
Sewer	.8 %
Water	<u>2.4 %</u>
Total	100%

The appropriation for the next fiscal year is determined annually by January 1 after the Town's Free Cash has been certified by the Department of Revenue and the prior fiscal year audit report has been issued by December 15.

The minimum annual appropriation is \$50,000.

This policy is reviewed every three years by the Town Treasurer and Town Administrator and approved by the Chairman of the Board of Selectmen and Chairman of the Warrant Committee.

References:

Belmont OPEB ANNUAL APPROPRIATION POLICY document January 2013

MGL c. 32B, §20 Other Post Employment Trust Fund

Statement No. 43, Reporting for Postemployment Benefit Plans Other than Pension Plans, Governmental Accounting Standards Board, April 2004

Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2004.

GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.

Adopted by: *Chairman of Board of Selectmen, Chairman of Warrant Committee, Town Administrator, Town Treasurer*

Date Adopted: *January 2013*

I-3 Compensated Absences

Background:

Another unfunded liability, not frequently monitored by cities and towns, is the cost of accumulating sick leave and vacation buy-backs payable to employees upon retirement. These benefits are typically defined in the labor agreements and personnel policies of municipalities. While it is difficult to precisely forecast the expenditures to be made in any one fiscal year, a state statute can be adopted and local practices can be established to set aside funds for this liability.

Policy:

Belmont shall establish a Reserve Fund in accordance with MGL ch.40, sec.13D and shall annually determine the amount of monies to be deposited to this reserve fund

References:

MGL Ch. 40, Sec.13D Reserve Fund for Future Payment of Accrued Liabilities for Compensated Absences

Adopted by:

Date Adopted:

J. RISK MANAGEMENT AND FRAUD PREVENTION POLICIES

J-1 Risk Management Program

Background:

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

Policy:

The Town's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the Town is exposed to on a regular basis.

The Town shall develop and maintain a risk management program to protect the Town against the financial consequences of accidental loss of property, liability, fraud and personal injury to the extent possible through effective prevention and loss control policies and practices.

References:

Creating a Comprehensive Risk Management Program, Government Finance Officers Association Best Practice, March 2009.

Adopted by:

Date Adopted:

J-2 Anti-Fraud Policy and Response Program

Background:

The Town of Belmont is committed to its duty to ensure effective stewardship of public money and other assets and resources for which it is responsible. It is the policy of the Town of Belmont to prevent and deter all forms of fraud that could threaten the security of its assets or its reputation. The Town is committed to the prevention, detection, investigation and corrective action relative to fraud.

Belmont adopted its original risk management and fraud prevention policy in December, 2017 and minor changes are included in the below sections.

What is Fraud?

Fraud is a violation of trust that is defined as a deception deliberately practiced to secure unfair or unlawful gain. The term includes but is not limited to such acts as deception, bribery, forgery, extortion, theft, embezzlement, misappropriation of money or assets, false representation, the concealment of material facts relating to any of the above and collusion or conspiracy to commit any or all of the above.

Antifraud Processes

The Town is committed to ensure that the opportunity to commit fraud is eliminated. Most important is that an ethical environment is created from the top and flows through the organization. All cases of suspected fraud will be investigated and appropriate action will be taken.

The Town recognizes there may only be a suspicion of fraud - thus any concerns should be reported to the Town Accountant. If the concern involves the Town Accountant, any concerns should be reported to the Town Administrator.

The Town Accountant is the logical point person for investigation of financial fraud. However, fraud, as defined in this policy could be attempted by voters, candidates for employment, contractors, etc. It is recommended that all fraud be reported to the Town Administrator (or the Superintendent of Schools in circumstances related to the School Department), who will designate the appropriate individual(s) to investigate the matter and report back to the Town Administrator (and/or Superintendent of Schools).

Anti-Fraud Policy and Response Program

Applicability

This Policy applies to all employees of the Town of Belmont.

Fraud

Fraud can cover many activities; however this Policy is directed primarily at financial matters. It may include, but is not limited to:

Misappropriation of Assets

- 1) Forgery, alteration or misappropriation of checks, drafts, promissory notes or securities
- 2) Unauthorized use, or disposition of funds or property (for example, misuse of city owned computer hardware, software, data and other records; use of city owned equipment, vehicles or work time for non-city purposes)
- 3) Embezzlement
- 4) Theft
- 5) Falsifying time sheets or payroll records
- 6) Falsifying travel or entertainment expenses and/or utilizing city funds to pay for personal expenses or for personal benefit
- 7) Fictitious reporting of receipt of funds

Fraudulent Financial Reporting

- 1) Improper revenue recognition
- 2) Improper expense/expenditure recognition
- 3) Overstatement of assets
- 4) Understatement of liabilities

Expenditures and Liabilities for Improper Purposes

Payments in money or other property, including but not limited to such things as jobs for families and friends, use of vacation properties, discounted or free services in exchange for benefits and other things of value, bribes and kickbacks

General Policy and Responsibilities

The Town will investigate any suspected acts of fraud, or misappropriation of property. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the Town of any person, group or organization reasonably believed to have committed fraud. Each Department Head is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities.

Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.

All department heads or individuals, upon discovery of any violation of this policy, must notify the Town Accountant of the violation. If it is determined by the Town Accountant that corrective action may be provided for internally within the department, the department head or individual will notify the Town Accountant as to the steps taken to correct the violation.

Upon conclusion of the investigation, the results will be reported to the Town Administrator (or School Superintendent, as applicable). All significant findings will also be reported to the Chairman of the Board of Selectmen (or Chairman of the School Committee, as applicable). Where there are reasonable grounds to believe that a fraud may have occurred, the town shall pursue appropriate legal remedies for recovery of the assets.

Adopted by:

Date Adopted:

K. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES

K-1 Annual Audit

Background:

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the Town chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

Policy:

The Town will utilize accounting practices that best conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB).

The Town shall have an independent outside audit performed by a certified public accountant each year. The Board of Selectmen shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the Town government or of any of its officers or employees. The Town will require that each year, a Management Letter be provided as part of the independent public accounting firm as a companion document to the annual audit. The Town will either re-advertise for auditing services every five to eight years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The Town will strive to have the annual audit completed by the end of November.

References:

MGL Chapter 40, Section 44I Annual Audit
Annual Audits, MA DOR Division of Local Services Best Practice.

Adopted by:

Date Adopted:

K-2 Audit Committee

Background:

The following statement is provided by the Government Finance Officers Association concerning the establishment and purpose of an audit committee. "An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices."

Policy:

The Town will maintain a "Permanent Audit Committee" as required under its general by-laws and shall perform its duties as prescribed in said by-law.

References:

Town of Belmont By-Laws Article 4, Section.40-415 Permanent Audit Committee

Audit Committees, Government Finance Officers Association Best Practice, October 2008.

Adopted by:

Date Adopted:

K-3 Comprehensive Annual Financial Report

Background:

A Comprehensive Annual Financial Report (CAFR) is a set of Government financial statements comprising the financial report of the municipal entity that complies with the accounting requirements promulgated by the General Accounting Standards Board (GASB). GASB provides standards for the content of a CAFR in its annual updated publication *Codification of Government Accounting and Financial Reporting Standards*. A CAFR is compiled by the municipal accounting staff and audited by an external Certified Public Accounting firm utilizing GASB requirements. It is comprised of three sections: Introductory, Financial, and Statistical. It combines the financial information of fund accounting and Enterprise Authorities accounting.

Policy:

The Town shall work towards the preparation of a Comprehensive Annual Financial Report (CAFR) that meets the criteria established by the GFOA's Certificate of Achievement in Financial Reporting Program. This program encourages the preparation of a comprehensive report that goes beyond the annual audit report and presents information that enhances government transparency and disclosure.

Adopted by:

Date Adopted:

K-4 Monthly Reporting

Background:

Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing. It enables the Town to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges.

Policy:

The Accounting Department shall produce and distribute to Department heads monthly budget-to-actual reports. If financial problems are indicated, the Accountant will review with the Town Administrator a monthly report of revenues and expenditures at the line item level.

Adopted by:

Date Adopted:

K-5 Cash Collections

Background:

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Treasurer/Collector's office, accounting office, legal counsel, tax assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

Policy:

The Town shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before September 1, the Town shall commence tax title proceedings against all properties that owe property taxes to the Town.

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other Town officials to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the Town.

References:

Belmont By-Laws: Ch.XXV Delinquent Taxpayers: License and Permits

Revenue Collection, Government Finance Officers Association Best Practice.

Adopted by:

Date Adopted:

K-6 Reconciling Cash and Receivables

Background:

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the Accountant. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and an Accountant is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

Policy:

Within thirty days after the end of each month, the Treasurer/Collector shall internally reconcile the cashbook to all bank statements, and the Treasurer/Collector shall internally reconcile all receivable balances with the receivable control. The results of these activities shall be forwarded to the Accountant's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Accountant shall reconcile the variances (e.g., missing information, errors, and timing differences).

The Town shall reconcile revenues and expenditures for each fiscal year within two months of the end of the fiscal year.

References:

Treasurer's Manual 2009 and Collector's Manual 2008: Massachusetts Collectors & Treasurers Association

Reconciling Cash and Receivables, MA DOR Division of Local Services Best Practice February 2016

Adopted by:

Date Adopted:

K-7 Cash Flow Forecasting and Budgeting

Background:

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may require temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessarily coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as ensure sufficient liquidity.

Policy:

The Treasurer/Collector will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

References:

Cash Flow Forecast in Treasury Operations, Government Finance Officers Association Best Practice, February 2011.

Adopted by:

Date Adopted:

L. PROCUREMENT AND PURCHASING POLICIES

L-1 Procurement and Purchasing Policy

Background:

The Commonwealth of Massachusetts establishes municipal purchasing regulations under MGL:

- Chapter 30B (Supplies and Services)
- Chapter 149 (Building Construction)
- Chapter 30, §39M (Non-building Construction)
- Chapter 7 §§ 44-57 (Design Services for Public Building Projects)

The State Inspector General's office has oversight of public purchasing laws and has published comprehensive guides to purchasing requirements.

Policy:

The Town shall follow the guidance contained in the Inspector General's publications, including, but not limited to "*The Chapter 30B Manual: Procuring Supplies, Services and Real Property*" in order to comply with state purchasing requirements. To supplement this guidance, the Town Purchasing Coordinator will maintain a concise manual on purchasing procedures for department heads or others involved in Town purchasing or procurement.

References:

Belmont Purchasing Procedures Manual

Belmont By-Laws: Article XXIV Procurement Contract

Belmont By-Laws Article X Town Administrator Powers and Duties

MGL Ch. 30B Uniform Procurement Act

Adopted by:

Date Adopted:

M. TREASURER INVESTMENT POLICIES

M-1 Investment Policies – General Fund, Stabilization Fund, OPEB Trust Fund, Other Town Funds

Background:

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks.

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

Policy:

TOWN OF BELMONT INVESTMENT POLICY

SECTION 1: The Investment of General Funds, Special Revenue Funds, and Capital Projects funds.

A. Scope

This section of the policy applies only to short term operating funds such as general funds, special revenue, enterprise funds and capital project funds. Section Two will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. The Town Retirement Board is responsible for the investment of the pension funds.

B. Objectives

Massachusetts General Law, Chapter 44, section 55B requires the municipal treasurer to invest all public funds except those required for the purpose of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system. The state law further requires that invested funds be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of Town's business.

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit and interest rate risk. These risks shall be lessened by diversification and prudent selection of investments, and choice of bank or brokerage house. Credit risk is the risk of loss due to the failure of the security issuer

or backer. Interest risk is the risk that the market value of the security will fall due to changes in general interest rates.

Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

C. Investment Instruments

Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the town of lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

The Treasurer may invest in the following instruments under Massachusetts General Law, Chapter 44, Section 55B:

1. Massachusetts State pooled fund: Unlimited amounts (pool is liquid). The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U.S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass through insurance on the C.D.s and takes delivery on the Repos and Treasuries.
2. U.S. Treasuries that will be held to maturity: Unlimited amounts (up to one year maturity from date of purchase).
3. U.S. Agency obligations that will be held to maturity amounts (up to one year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, termed C.D.'s. Unlimited amount (up to one year) which are fully collateralized through a third party agreement.
5. Bank accounts and C.D.'s (up to one year) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and C.D.'s in one institution are considered in the \$250,000 aggregate to receive the insurance coverage.
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments will be limited to no more than 5% of an institution's assets and no more than 10% of the Town's cash. Their credit worthiness will be tracked by Veribanc or other bank reporting systems. They will be diversified as much as possible. As a general rule, C.D.s will be purchased for no more than three months and will be reviewed frequently. These limits do not apply to fully insured deposits.
7. Repurchase Agreements ("Repos"), not to exceed ninety days.
8. Certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996.

D. Diversification

Diversification should be interpreted in two ways: in terms of Maturity, as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. With the exception of U.S. Treasuries or agencies, and State pools (MMDT), no more than 10% of the Town's investments should be invested in a single financial institution.

E. Authorization

The Treasurer has authority to invest the Town's funds, subject to the statutes of the Commonwealth cited above.

F. Ethics

The Town Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Administrator any material financial interest in financial institutions that do business with the town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the town's investments.

G. Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply the following information to the Treasurer:

- Audited financial statements
- Proof of National Association of Security Dealers certification.
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

H. Reporting Requirements

An annual report containing the following information will be prepared by the Treasurer and given to the Town Administrator. The report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.

- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this investment Policy.

The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.

The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

SECTION 2: The Investment of the Trust Funds and Bonds Proceeds

A. Scope

This section of the policy applies only to funds that could be invested long term (i.e.: bond proceeds, trust funds, and stabilization funds).

B. Bond Proceeds

Investment of Bond proceeds is governed by the same restrictions as general funds, with additional requirements for compliance with arbitrage regulations.

C. Trust Funds

Trust Funds may be co-mingled and invested in any instruments allowed by the Legal List issued by the Banking Commissioner. Each trust fund must be accounted for separately.

D. Stabilization Funds

The Stabilization Fund shall not exceed ten per cent of the equalized valuation of the town, and any interest shall be added to and become a part of the fund. The Treasurer may invest the proceeds in the following:

- National Banks Savings Banks
- Cooperative banks or trust companies organized under Massachusetts laws Securities legal for savings banks (i.e. those on the Legal List described above)
- Federal Savings and Loan Associations situated in the Commonwealth Massachusetts Municipal Depository Trust
- Approved Money Market funds

SECTION 3: The Investment of OPEB Trust Funds.

A. Scope

OPEB Trust by special legislation and approval by IRS for tax exempt status will grant Town Treasurer authority to invest with Town of Belmont Retirement Board in a separate fund.

The Treasurer-Collector is responsible for developing and maintain the policies for investing Town funds and will make all decisions regarding their management. The Treasurer/Collector shall invest Town funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer/Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer Collector will submit a report of investments on a regular basis to the Town Administrator.

References:

M.G.L. Ch. 40, §5; M.G.L. Ch. 44, §54, §55A, §55B; and M.G.L. c. 44B, §7

Belmont Investment Policy Statement for General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds 2017

Belmont OPEB Trust Investment Policy Statement 2017

Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

Creating an Investment Policy, Government Finance Officers Association Best Practice, October 2010.

Financial Management Assessment, Standard and Poor's, June 2006.

Adopted by:

Date Adopted:

M-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations

Background:

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

These post-issuance compliance procedures of the Town of Belmont, Massachusetts (the "Town") are designed to provide for the effective management of the Town's post-bond issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

Policy:

The Treasurer/Collector shall review post-issuance compliance procedures and the disclosure statement provided by the Municipal Advisor at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel and/or the Municipal Advisor.

The Treasurer of the Town shall be the primary bond compliance officer responsible for each issuance by the Town of tax-exempt (or otherwise tax-benefited) bonds, notes, financing leases, or other obligations. All information related to each bond issue and the facilities, equipment and other assets financed by such issue shall be maintained by or on behalf of the Treasurer.

References:

Belmont Post-Issuance Tax Compliance Procedures for Tax-Exempt Obligations and Other Tax-Benefited Obligations

Municipal Advisor Disclosure Statement

Adopted by:

Date Adopted:

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APPENDIX 1: SELECTED GLOSSARY OF TERMS

Available Funds – Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

Betterments (Special Assessments) – Whenever part of a community benefits from a public improvement, or betterment (e.g., water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost which may be paid in full, or apportioned over a period of up to 20 years. In this case, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

Block Grant – A Block Grant is a Federal grant of money awarded by formula under very general guidelines that allow grantees broad latitude in spending activities. Recipients are normally state or local governments.

Bond – A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

Bond and Interest Schedule Record (Bond Register) – The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date and all other pertinent information concerning the bond issue.

Bond Anticipation Note (BAN) – Short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal

repayment begins after two years (MGL Ch. 44§17). Principal payments on school related BANs may be deferred up to seven years (increased in 2002 from five years) if the community has an approved project on the Massachusetts School Building Authority (MSBA) priority list. BANs are full faith and credit obligations.

Bond Authorization – The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor, or selectmen. (See Bond Issue)

Bond Buyer – A daily trade paper containing current and historical information of interest to the municipal bond business.

Bond Counsel – An attorney or law firm engaged to review and submit an opinion on the legal aspects of a municipal bond or note issue.

Bond Issue – The actual sale of the entire, or a portion of, the bond amount authorized by a town meeting or city council.

Bond Rating (Municipal) – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poor's, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

Bonds Authorized and Unissued – Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes, but must be rescinded by town meeting or the city council to be removed from community's books.

Capital Assets – All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in

terms of a minimum useful life and a minimum initial cost. (See Fixed Asset)

Capital Budget – An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy or rates, and identify those items that were not recommended. (See Capital Asset, Fixed Asset)

Capital Improvements Program – A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Capital Outlay – The exchange of one asset (cash) for another (capital asset), with no ultimate effect on net assets. Also known as "pay as you go," it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

Capital Outlay Expenditure Exclusion – A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a community-wide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling

Chapter 90 Highway Funds – State funds derived from periodic transportation bond authorizations and apportioned to communities for highway projects based on a formula under the provisions of MGL Ch. 90 §34. The Chapter 90 formula comprises three variables: local road mileage (58.33 percent) as certified by the Massachusetts Highway Department (MHD), local employment level (20.83 percent) derived the Department of Employment and Training (DET), and population estimates (20.83 percent) from the US Census Bureau. Local highway projects are approved in advance. Later, on the submission of certified expenditure reports to MHD, communities receive cost reimbursements to the limit of the grant.

Contingent Appropriation – An appropriation that authorizes spending for a particular purpose only if

subsequently approved in a voter referendum. Under MGL Ch. 59 §21C (m), towns may make appropriations from the tax levy, available funds or borrowing, contingent upon the subsequent passage of a Proposition 2½ override or exclusion question for the same purpose. If initially approved at an annual town meeting, voter approval of the contingent appropriation must occur by September 15. Otherwise, the referendum vote must occur within 90 days after the town meeting dissolves. The question may be placed before the voters at more than one election, but if not approved by the applicable deadline, the appropriation is null and void. If contingent appropriations are funded through property taxes, DOR cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

Debt Authorization – Formal approval by a two-thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL Ch. 44 §§1, 2, 3, 4a, 6-15.

Debt Burden – The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion – An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit – The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, cities and towns can receive approval to increase their debt limit to 10 percent of EQV.

Debt Policy – Part of an overall capital financing policy that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing. Debt policies should be submitted to elected officials for consideration and approval.

Debt Service – The repayment cost, usually stated in annual terms and based on an amortization schedule, of

the principal and interest on any particular bond issue.

Enterprise Fund – An enterprise fund, authorized by MGL Ch. 44 §53F¹/₂, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. See DOR [IGR08-101](#)

Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

General Obligation Bonds – Bonds issued by a municipality for purposes allowed by statute that are backed by the full faith and credit of its taxing authority.

Levy Limit – A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2¹/₂). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2¹/₂ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion. (See Levy Ceiling)

Massachusetts School Building Authority (MSBA) – Administers the state program that reimburses cities, towns, and regional school districts varying percentages

of their school construction costs depending on the wealth of the community or district and the category of reimbursement. Projects that received their first reimbursement payment prior to July 26, 2004 will continue to get annual state payments to offset the related annual debt service. Thereafter, cities, towns, and regional school districts will receive a lump sum amount representing the state's share of the eligible project costs... (See DOR [IGR06-101](#))

New Growth – The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

Non-Recurring Revenue Source – A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year. (See Recurring Revenue Source)

Principal – The face amount of a bond, exclusive of accrued interest.

Receipts Reserved for Appropriation – Proceeds that are earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, parking meter proceeds may be appropriated to offset certain expenses for parking meters and the regulation of parking and other traffic activities.

Sale of Cemetery Lots Fund – A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

Sale of Real Estate Fund – A fund established to account

for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL Ch. 44 §63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the city or town is authorized to borrow for a period of five years or more

Short-Term Debt – Outstanding balance, at any given time, on amounts borrowed with a maturity date of 12 months or less.

Special Exclusion – For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest apportioned over a period of time, not to exceed 20 years

Special Revenue Fund – Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

Stabilization Fund – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.

ABOUT THE CENTER

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.



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