



**TOWN OF DARTMOUTH
ADDENDUM TO OVERALL FINANCIAL POLICIES
RESERVE FUND POLICY AND PRACTICES**

Purpose

The purpose of this policy is to identify the criteria the Finance Committee will use to rule on requests for transfers from the Reserve Fund, which is a key element of the financial stability of the Town. The creation and use of the Reserve Fund is governed by Chapter 40, Section 6 of the Massachusetts General Laws.

The Reserve Fund is a sum of money appropriate at Town Meeting to be used at the discretion of the Finance Committee to cover “extraordinary or unforeseen expenditures” that arise during the year. If the Finance Committee determines that a request is neither unforeseen nor extraordinary as defined below, it will not be eligible for a Reserve Fund transfer. Moreover, budgets are expected to be fully utilized for any expenditure, including those unforeseen or extraordinary, before a Reserve Fund transfer request is made. It will be important for Department Heads to be aware of this policy before making these requests.

Definitions

1. *Extraordinary: a) Beyond what is usual, ordinary, regular, or established; a cost not arising from normal activities in the course of business. b) Exceptional in character, amount, extent, degree, etc.; noteworthy, remarkable*
2. *Unforeseen: unexpected, unanticipated; not able to be predicted at the time the budget was set.*

Considerations

This policy comes after the Finance Committee reviewed several years of requests for Reserve Fund transfers. Although most of these requests have fit the definitions of “extraordinary or unforeseen”, some requests have not. Three areas of concern arose in the Committee’s review. First, there is a concern that some requests are made early in the budget year, when there may be funds available to cover those requests once the year progresses. In those situations, a Reserve Fund transfer may not be needed. The Committee was also concerned when a request for a Reserve Fund transfer was made, denied and then purchased through the Department Budget. Finally, there were concerns when there was a pattern of Reserve Fund requests, which indicated an expense which ought to be anticipated and included in the development of the Department’s budget. The Committee’s concerns all arise from the expectation that town funding comes from the taxpayer and should be appropriated at Town Meetings, excepting those expenses which meet the above definitions.

Policies

1. Compliance with Open Meeting Law

Requests for Reserve Fund transfers should be submitted in a manner that allows for the Finance Committee to post a meeting agenda in compliance with Open Meeting Law to address the request. If there is an immediate emergency, the Committee is allowed to convene an emergency meeting under Open Meeting Law.

2. Expenses in Excess of Appropriation

Massachusetts General Law strictly forbids expenditures in excess of appropriation (except for snow and ice removal). Therefore, departments should never incur expenses in excess of appropriation anticipating approval of a Reserve Fund transfer. The Finance Committee may require that the requesting department deplete other funds before the transfer request is considered.

3. Approval at Town Meeting

Reserve Fund transfers are intended to minimize the need for Special Town Meetings but are not intended to replace the Town Meeting. If a Town Meeting is held between the event prompting the transfer request and submission of the request, the Finance Committee will be justified in rejecting the request. In order to approve a transfer request, the Committee should be of the opinion that the request would be approved by a Town Meeting.

4. Requests that Have Been Denied at Town Meeting

The Finance Committee cannot approve any Reserve Fund requests for a purpose that Town Meeting has already voted against; in other words, the Committee cannot “overrule” Town Meeting. The receiving accounts must not have had its appropriation level explicitly set by the Town Meeting at a level below the budget recommendation. Such action by the Town Meeting will be deemed as an indication to limit the respective account.

5. Requests that Can Be Accommodated with Existing Budget Appropriation

It is the bottom-line total, not each line item, which is voted in the operating budget (Schedule A) at Town Meeting for each department or board. Departments or boards are expected to cover expenditures, including those of extraordinary or unforeseen nature, within their existing bottom-line budget appropriation until no such funds are available. Hence, Reserve Fund transfers should not be requested if the money can be accommodated within the existing budget appropriation. However, should the department or board believe such an expenditure will result in a bottom-line deficiency later in the fiscal year, then the Finance Committee should be alerted to the possible need for a Reserve Fund transfer, if at all possible before the expenditure is made, and in accordance with Practice #3 as espoused below. It should be stressed that departments should not utilize monies from Personnel Services (salaries) to cover Expense or vice versa without first informing and gaining permission to do so from the Director of Budget & Finance.

6. Line Item Transfers in lieu of Reserve Fund Transfers

Massachusetts General Laws allows non-School transfers between departments/appropriations to occur during the last two months of any fiscal year or during the first 15 days of the fiscal year to apply to the previous fiscal year, with a majority vote of the Select Board and Finance Committee. As the Committee desires the greater scrutiny and accountability that comes with Select Board also reviewing the transfer request, it shall be the policy of the Finance Committee to favor line items transfers in lieu of Reserve Fund transfers during the aforementioned time period, assuming sufficient funds exists in the budget to be transferred and the Select Board is also scheduled to meet before the July 15th cutoff.. While there is no requirement that the line item transfer be unforeseen nor extraordinary, line items transfers like Reserve Fund transfers should not be done as replacement for Town Meeting or to “overrule” Town Meeting, as is espoused above in Policy #3 and #4.

Practices

1. Submission of Request

All requests for Reserve Fund transfers (or line items transfers) should first be submitted to the Director of Budget & Finance and/or Town Administrator. The Finance Committee shall not act on any transfer request unless it has been first discussed and reviewed by the Director and/or Town Administrator.

2. Assistance of the Director of Budget and Finance

The Director of Budget and Finance shall work with the department or board in assisting in the preparation of the request to the Committee. Before any request is presented to the Committee, the Director will first verify that monies for the requested expenditure have not been appropriated elsewhere in the budget.

3. Prior Notice

Should a department or board believe that a developing situation may necessitate a Reserve Fund transfer in the future, the department or board should alert the Finance Committee of this fact through e-mail or memo, especially for large amounts, after first discussing with the Director of Budget & Finance and/or Town Administrator. This will help the Committee to forecast overall needs, ensure funds are available for the most critical needs, and advise departments and boards in advance whether the Reserve Fund may or may not be available. Depending on the particulars of the need, the department or board may then be asked to a Finance Committee meeting to further discuss prior to any subsequent meeting held to hear an actual Reserve Fund transfer request.

4. Presentation of Request

A representative of the requesting organization should plan to be present at the meeting to defend and explain the request. This will ensure that questions from the Finance Committee can be answered and prevent a denial or delay of approval. If being present is a hardship, please contact a member of the Committee to try and answer any questions in advance.

5. Reserve Fund Requests that Repeat over a Number of Years

If a budget line item in a department or special article requires multiple Reserve Fund transfers over several years, that department or board should increase the amount requested in its operating budget request for the Spring Annual Town Meeting. After several years of additional Reserve Funds needed, it may be difficult for the Finance Committee to consider another request for the same reason as “extraordinary or unforeseen”.

6. Additional Conditions

- The transfer request must be for a legal expenditure.
- No transfer request will be approved after July 15th (fifteen days after the end of the fiscal year for which the transfer would be effective).
- The total Reserve Fund recommended appropriation for any fiscal year may not exceed five percent of the tax levy for the pending fiscal year, based on recommendations by the Massachusetts Department of Revenue.
- No direct expenditures may be made from the Reserve Fund. Funds may only be transferred from the Reserve Fund to other operating accounts. A majority vote of the Finance Committee is required to approve such a transfer. For the purpose of this policy, this is defined as a majority of the committee members present at a posted, legal meeting of the Finance Committee.
- Forms for Reserve Fund transfer requests (and line item transfer requests) are available from the Director of Budget & Finance.