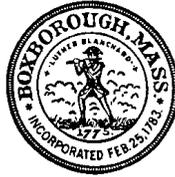


Town of Boxborough



Finance Committee

RULES AND GUIDELINES FOR BOXBOROUGH RESERVE FUND TRANSFERS

The creation and use of the Reserve Fund by municipalities in Massachusetts is authorized and governed by Chapter 40 § 6 of the Massachusetts General Laws (MGL). Depending on the government structure of a municipality, various town entities are involved in the administration and management of its Reserve Fund. The general statutory rule of MGL Chapter 40 § 6 may be further supplemented by individual towns, through their own guidelines. MGL Chapter 40 § 6 states:

To provide for extraordinary or unforeseen expenditures, a town may at an annual or special town meeting appropriate or transfer a sum or sums not exceeding in the aggregate five per cent of the levy of the fiscal year preceding the fiscal year for which the fund, to be known as the reserve fund, is established. No direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the finance or appropriation committee of the town, in towns having such a committee, and in other towns by the selectmen; and the town accountant in towns having such an official, and in other towns the auditor or board of auditors, shall make such transfers accordingly.

The Massachusetts Department of Revenue's Division of Local Services, in February 2016, has explained the "extraordinary or unforeseen expense" requirement as follows:

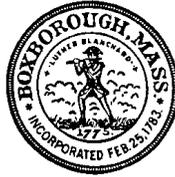
Extraordinary or unforeseen expenditures are expenses that could not be anticipated before the setting of the tax rate or could not be determined when the budget was approved. Generally, if a diligent budget process could have anticipated the cost, it does not qualify as unforeseen.

In the town of Boxborough, the Reserve Fund is a sum of money appropriated at Town Meeting to be used, on a case by case basis, through individual applications for reserve funds transfers by town departments, boards and committees throughout the fiscal year. Not specifically addressed in Boxborough's town bylaws, the town's reserve fund transfer procedure follows directly the precise delegation of authority to the Finance Committee that is contained in the Massachusetts statute, MGL Chapter 40 § 6, specifically: "transfers from the fund may from time to time be voted by the finance or appropriation committee of the town, in towns having such a committee..."

Town departments, boards or committees, should they face an emergency justifying a request for a reserve fund transfer, must complete the Reserve Fund Transfer Request Form, which should be signed by the chair or head of that department, board or committee, and by the Board of Selectmen's liaison to that particular department, board or committee. Then the completed and signed request form, with all supporting documentation attached, should be sent to the chair of the Finance Committee, who will put the request on the agenda for the Committee's next available meeting, for consideration and approval or rejection.

Below are four basic rules for reserve fund transfers. The Finance Committee has derived these rules from Massachusetts law and the DOR's interpretation of it, along with the DOR's suggested best practices, as described above, and after having reviewed guidelines of other Massachusetts towns. These rules should aid Boxborough departments, boards and town committees in determining whether a reserve fund request is appropriate.

Town of Boxborough



Finance Committee

FOUR RULES OF RESERVE FUND TRANSFERS

1. TOWN FUNDS MUST BE PROPERLY APPROPRIATED BEFORE BEING SPENT, AND RESERVE FUND TRANSFERS ARE TRANSFERS FOR UNPAID EXPENSES, NEVER REIMBURSEMENT FOR EXPENSES ALREADY PAID.

Requests should always be worded to request funds for unpaid or future expenses, not to reimburse an account for expenses that have already been paid. Town departments, boards and committees must have funds already appropriated and available to them before they can spend them. Massachusetts state law strictly forbids expenditures in excess of appropriations, under penalty of fine or imprisonment (except for snow and ice removal). Therefore, town departments, boards and committees should never incur or pay expenses in excess of Town Meeting appropriations before approval of a reserve fund transfer. The Finance Committee is not a “rubber stamp.”

2. RESERVE FUND TRANSFERS ARE FOR “EXTRAORDINARY OR UNFORESEEN EXPENSES.”

The reserve fund is used for “extraordinary or unforeseen expenses” as determined by, and according to, the discretion of the Finance Committee, and if the Committee finds that an expense does not meet the above criteria, then it will reject the request and the reserve fund transfer will not be implemented.

3. RESERVE FUND TRANSFERS ARE FOR EXPENSES THAT WOULD LIKELY BE APPROVED AT A SPECIAL TOWN MEETING.

The Finance Committee in approving reserve fund transfer requests often acts in place of a special town meeting, thus helping the town spare the expense and delay of such a meeting; the Finance Committee will therefore consider the likelihood that such a request would pass if presented at a special town meeting. This consideration is in addition to the basic statutory requirement that the request is for “extraordinary or unforeseen expenditures” and is a practical one, related to the fact that the Finance Committee should defer to the Town, as the legislative body, on substantive decision-making that is required to be within the direct control of the citizens. The Finance Committee, furthermore, cannot “overrule” Town Meeting by approving any reserve fund request for a purpose that town meeting has already explicitly voted against.

4. RESERVE FUND TRANSFERS ARE TRANSFERS TO SPECIFIC TOWN DEPARTMENTS, BOARDS OR COMMITTEES FOR SPECIFICALLY DESIGNATED AND LIMITED PURPOSES.

No funds are spent directly from the reserve fund, but rather are transferred from the reserve fund to the appropriate department by specific budget line item. Although the reserve fund is not *itself* designated by Town Meeting for one specific purpose, individual reserve fund transfers are themselves earmarked for specific purposes as stated on the reserve fund transfer forms. Any unexpended balance of a reserve fund transfer will remain designated and limited for that particular purpose, and should not be used for another purpose or be transferred back into the reserve fund.

Town of Boxborough



Finance Committee

FOUR GUIDELINES FOR SUBMITTING REQUESTS

There are four basic guidelines for town departments, boards and committees to use when planning to submit requests for reserve fund transfers:

- 1.) Be prepared to explain why the expense needs to be paid now, why it cannot be met from the existing budget, and why it is extraordinary or unforeseen. Attention should be paid to why this expenditure is extraordinary or unforeseen, why this is a necessary expense that cannot be met from the existing budget, and why it cannot wait until the next Town Meeting.
- 2.) Provide detailed, written documentation supporting the request. Written, detailed documentation supporting the request for an expenditure should be provided with the request. For example, related written documentation, including email or other correspondence, estimates, evidence of compliance with MGL 30B (uniform procurement), legal opinions, and all other helpful explanatory documentation, should be included.
- 3.) Attend the Finance Committee meeting where your request will be considered. The Finance Committee requires that a representative of the department, board or committee making the request attend the Finance Committee meeting when the request is scheduled for consideration.
- 4.) Avoid or replace multiple, year-after-year, reserve fund requests with a regular annual budget increase where appropriate. If a budget line item in a department or special article has required multiple reserve fund transfers over three consecutive years, that department, board or committee should undertake a careful analysis of its true budget needs.