

# **TOWN OF PAXTON**

## **FINANCIAL MANAGEMENT AND OPERATIONS POLICIES**

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## INTRODUCTION

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The Town of Paxton engaged the services of the Edward J. Collins, Jr. Center at the University of Massachusetts Boston to develop proposed financial policies and procedures to guide the Town in its decision-making and financial management. This project was funded by a Best Practices grant from the Community Compact Cabinet (CCC) initiative, whose goal is to encourage best practices that promote efficiency, accountability, and transparency in municipal government. In addition to guiding local decision makers, the proposed policies and procedures are intended to provide local officials with a means to demonstrate to townspeople their commitment to stewardship of the Town's municipal assets and to demonstrate to bond rating agencies that the Town recognizes the need to identify the impact of current decisions on the future and plan accordingly.

Furthermore, these policies and procedures are intended to be complementary to any existing Acts, laws, or by-laws that govern the operations of the Town. They are not proposed as substitutes for such Acts, laws, or by-laws. It is recognized that circumstances may arise that may require action that might deviate from any given policy or procedure and that any decision to deviate from them – to the extent allowed under existing state law and regulation, or local by-law - is the purview of the Town and its local officials.

It is important to point out that this is not a static document; conditions and the environment in which municipalities operate can change. Consequently, these policies and procedures should be reviewed periodically to determine if modifications are warranted.

### OBJECTIVES:

The objectives of the proposed Financial Management and Operations Policies included herein are as follows:

- A. *To guide elected and appointed officials in evaluating and implementing decisions that have significant impact on the Town;*
- B. *To set forth planning and operating principles which require that the cost of government be clearly identified, and that financial risk be minimized.*
- C. *To regularly evaluate the Town's financial capacity to meet present and future needs.*
- D. *To promote credible and sound financial management by providing accurate and timely information on the Town's financial condition to elected officials, staff, the public and external interests.*
- E. *To ensure that current and future capital needs are addressed in a comprehensive and financially-sound manner.*
- F. *To promote improvement in the Town's credit rating and provide financial resources sufficient to meet the Town's obligations on all municipal debt and other long-term obligations; and*
- G. *To establish an effective system of internal controls that ensures the proper use of financial resources.*

## **A. FINANCIAL MANAGEMENT POLICIES**

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### **A-1 ANNUAL BUDGET PROCESS**

#### **PURPOSE**

The purpose of this policy is to articulate the principles to be followed in the formulation of the recommended annual budget, formalize the steps that culminate in the adoption of the annual budget, and identify the parties responsible for preparing and presenting the budget.

#### **APPLICABILITY**

This policy applies to the Finance Committee regarding its role in the development of the annual operating budget, the Selectboard, the Town Administrator, the Town Accountant, the Assessor, and Town Meeting.

#### **DEFINITIONS**

Annual Operating Budget - comprised of requests for funding for general fund operations, enterprise fund operations, capital projects, and revolving funds requiring Town Meeting approval.

Enterprise Fund - a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

General Fund - the primary fund used by a government entity to account for general government services. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise funds and grant funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

#### **POLICY**

The following principles shall guide Town officials in the preparation of the recommended annual operating budget for presentation to Town Meeting:

- As required by Massachusetts General Law (M.G.L. c.44, §31 and M.G.L. c.59, §§ 21C-23), the recommended annual operating budget shall be balanced based on the most current information available at the time of its transmittal to Town Meeting; that is, total recommended appropriations shall be supported by estimates of revenue equal to those appropriations. There shall be an exception for any proposed expenditures that are contingent on a referendum to finance them outside the limits of Proposition 2 ½.
- As a general rule, recommended appropriations shall be realistically budgeted; that is sufficient to cover expenditures required to deliver services deemed to meet the needs of the Town as articulated in the recommended budget.

- As a general rule, conservative estimated revenues to support recommended appropriations shall be based on a review of the history of actual receipts for each class of revenue and shall be reasonably expected to recur annually to sustain recurring annual expenditures.
- The document presenting the recommended annual budget shall include a presentation of estimated revenues and the assumptions underlying the estimates.
- The Town will seek to avoid using budgetary relief offered by statute or regulation that balances the budget at the expense of future years, such as amortizing deficits over multiple years.
- The Town shall maintain reserves for emergencies and other purposes (See Financial Reserves Policy) and shall maintain liquidity sufficient to pay bills on time to preclude the need to borrow in anticipation of revenue.

## PROCEDURES

The following procedures shall be followed in the development and presentation of the recommended annual operating budget:

- The annual General Fund operating budget recommended to Town Meeting shall be the responsibility of the Finance Committee. The annual operating budget of the Water Department recommended to Town Meeting shall be the responsibility of the Water Commissioners.
- Prior to the beginning of the budget process, the Finance Committee with support from the Town Administrator shall develop a calendar outlining the steps to be followed in the development of the annual operating budget and the proposed dates they are scheduled to occur. The calendar shall be distributed to the Selectboard, the Finance Committee and the Capital Improvement Planning Committee for their review and comment.

The calendar shall include, but not be limited to, target dates for the following:

- Departmental submissions, including the Water Department, of operating budget requests to the Town Administrator and Finance Committee.
- Development of estimates of general fund revenue for the upcoming fiscal year by the Town Administrator and staff, submitted to the Finance Committee Chair.
- Presentations to a joint meeting(s) of the Selectboard and Finance Committee by the Wachusett Regional School District and the Bay Path Regional Vocational Technical High School of their proposed annual operating budgets.
- Budget hearings by the Finance Committee on departmental operating budget requests, including interviews with department heads to review their budget requests.
- Preparation by the Assessors of a new growth estimate on or about March 1<sup>st</sup>, which will inform the final budget figure for use in the Annual Budget Process.

- Joint Meeting of the Finance Committee and the Selectboard to discuss the annual operating budget and non-capital financial articles, including final revenue estimates, to be recommended by the Finance Committee to the Annual Town Meeting.
- Preparation and transmittal of the Finance Committee’s report to Town Meeting on the recommended annual operating budget for the ensuing fiscal year. The report shall include but not be limited to the following:
  - A description of the important features of the budget
  - A description of any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes
  - A summary of the Town’s debt position
  - Other material the Finance Committee deems appropriate

**REFERENCES**

M.G.L. c. 41, §108

M.G.L. c. 44, §31

M.G.L. c. 44, §53E ½

M.G.L. c.59, §§ 21C-23

Town of Paxton, Capital Planning policy

Town of Paxton, Financial Reserves policy

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-2 CAPITAL PLANNING**

### **PURPOSE**

Capital assets – such as roads and bridges, utility infrastructure, equipment, vehicles, parks, buildings, and technology – are critical components in supporting the delivery of municipal services and contributing to the quality of life in the town.

The purpose of this policy is to define an annual capital planning process to identify the need for the acquisition of new capital assets, the replacement of existing assets, and the proposed financing of each.

### **APPLICABILITY**

This policy applies to all Town departments, boards, and committees that maintain an inventory of capital assets including the Water Commissioners and Wachusett Regional School District; to the Capital Improvements Planning Committee (CIPC) with responsibility for creating an annual Capital Improvements Plan; to the Finance Committee with responsibility to review and take positions on capital expenditures proposed for funding and for integrating CIPC recommendations into the recommended annual operating budget; to the Town Administrator, as a member of the CIPC and in his/her capacity as support to the CIPC in developing the annual Capital Improvements Plan; and, the Select Board in its role to review and make recommendations on capital projects proposed for funding.

### **DEFINITIONS**

Annual Operating Budget: comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Annual Levy Limit: The amount of property taxes a municipality can raise in a given fiscal year governed by rules promulgated under Proposition 2 ½. Any amounts raised over and above the annual levy limit are subject to fund additional operating costs (override) or capital spending (debt exclusion or capital outlay exclusion) are subject to approval by town wide referendum.

Available Funds: Funds established through previous appropriations or results of favorable operating results at fiscal year-end, e.g., Free Cash, Stabilization Fund(s), Overlay Surplus, and Enterprise Fund Retained Earnings.

Capital Improvements Plan: a 6-year plan prepared annually as part of the annual operating budget process which is comprised of the Capital Budget proposed for consideration for funding in the upcoming fiscal year (year 1 of the Plan), and years 2-6 including capital expenditures identified as candidates for funding in future fiscal years.

Capital Expenditure: a major, non-recurring expenditure that generally meets the following criteria:

- A proposed project or asset to be acquired that has a useful life of 5 years or more including but not limited to:

- New public buildings, or additions to existing buildings, including land acquisition costs and equipment needed to furnish the new building or addition for the first time.
  - Alterations, renovations, or improvements to existing buildings.
  - Land acquisition and/or improvements, unrelated to public buildings, but necessary for conservation, recreation or off-street parking.
  - Major equipment acquisition, replacement or refurbishment, including but not limited to vehicles, furnishings, and information technology systems' hardware and software or other items that combined in purpose together make it a Capital acquisition.
  - New construction or major improvements to Town's physical infrastructure, including streets, sidewalks, stormwater drains, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a Capital Project.
  - Feasibility studies, engineering design services, or consultant services which are ancillary to a future Capital Project.
- Massachusetts General Law permits the Town to issue bonds to finance the capital project or asset acquisition.
  - Project cost is \$10,000 or greater.

## **POLICY**

The following shall be the policy of the Town:

- To maintain its capital assets by providing funding in the annual operating budget to protect its capital investments and minimize future maintenance and replacement costs.
- To pursue a program of preventive maintenance as a cost-effective approach to protecting its capital investments and maximizing the useful life of its capital assets including the procurement of outside services where Town staff capacity or expertise appears insufficient to perform such preventative maintenance.
- To endeavor to provide and preserve the infrastructure and equipment needed for achieving the highest levels of public services and quality of life possible by annually developing a six-year Capital Improvements Plan to ensure adequate investment in the Town's capital assets.
- The following shall be considered in the identification of financing of capital assets or projects:
  - Town Budgeted General Operating Revenues, Enterprise Fund revenues, Available Funds, (e.g., Special Purpose Stabilization Funds, Free Cash, Retained Earnings and Overlay Surplus), and grant funds from the federal and state governments.

- Long-term debt shall be considered an appropriate funding source for capital requests whose costs cannot be accommodated within the annual operating budget without adversely affecting the financing of services.
- The term for which debt is issued shall comply with the limits in Massachusetts General Law. Notwithstanding these limits, debt maturities should be equal to or less than the useful life of the asset being financed.
- To the extent practicable, assets with short useful lives that are replaced regularly, e.g., police cruisers, shall be funded in the operating budget.

## **PROCEDURES**

- The CIPC shall have responsibility for coordinating the development of a proposed annual Capital Improvements Plan, to be delivered on a timeline that supports the Annual Budget Process. The Town Administrator shall, on behalf of the Committee, create the form on which capital expenditure requests are submitted.
- On or about December 1st, the CIPC shall develop and transmit to the Selectboard and the Finance Committee a calendar identifying dates in the development of the plan including:
  - a schedule for the submission to the Town Administrator of capital expenditure requests by Town departments for years 1 through 6 of the Capital Improvements Plan (CIP).
  - Date(s) for departments requesting capital funding to appear before the Selectboard to respond to Board questions about the requests, and to provide and answer questions regarding cost estimates and scope for any requests proposed for the Capital Budget (Year 1 of the CIP).
  - Dates for deliberations, discussions, interviews of requestors of capital funding, and others, as appropriate, by the CIPC.
  - Date(s) for the CIPC to present its recommended Capital Improvements Plan to the Selectboard and the Finance Committee.
  - a joint meeting of the CIPC, Finance Committee and Selectboard at which the CIPC will present its final recommended Capital Improvements Plan, and the Select Board and Finance Committee will vote on its recommendations to the Annual Town Meeting.
- The Capital Improvements Plan shall include:
  - capital expenditure requests recommended for funding in the upcoming fiscal year (the Capital Budget)
  - identification of prospective sources of funding of capital expenditure requests in the Capital Budget (see the Town's Financial Reserves and Debt Management Policies)

- current debt service and projected annual debt service based on capital expenditure requests in the Capital Budget identified as candidates for debt financing.
- a list of capital expenditure requests by department with estimated costs and indication of departmental priority for years 2 through 6 of the Capital Improvements Plan
- Only capital expenditure requests that have gone through the annual capital planning process will be considered for funding unless required by an emergency, which may be determined based on their hazard to public safety, potential damage to people or property, regulatory requirements, grant availability, or other factors. Emergency requests will be submitted to the Town Administrator, in a form prescribed by the Town Administrator, for review and consideration. If the Town Administrator deems the request constitutes an emergency, he/she shall transmit the request, including a recommendation of the source of funding, to the CIPC, the Finance Committee and the Selectboard for consideration.
- In prioritizing each capital request, the CIPC shall determine how the capital expenditure request addresses the following criteria:
  - Eliminates a hazard to public health and safety
  - Required by state or federal laws or regulations
  - Uses outside financing sources, such as grants
  - Supports adopted plans, goals, objectives, and policies
  - Stabilizes or reduces operating costs
  - Makes better use of a facility or replaces a clearly obsolete one
  - Maintains or improves productivity or existing standards of service
  - Directly benefits the Town's economic base by increasing property values
  - Provides new programs having social, cultural, historic, economic, or aesthetic value
  - Increases operational or personnel costs
- Generally, in consultation with the Town Administrator, within six months after the completion of a capital project or acquisition financed through a special article approved by a prior Town Meeting, the Town Accountant shall close out the capital account for that project or acquisition so any unexpended balance financed with cash or bond proceeds can be reallocated for other purposes pursuant to Massachusetts General Law or regulation.

## REFERENCES

M.G.L. c. 41, § 106B

M.G.L. c. 44, §§ 7-8

M.G.L. c. 44, § 20

M.G.L. c. 44, § 33B

By-Laws of the Town of Paxton. Section: Boards, Committees and Officers creating the Capital Improvement Committee

Division of Local Services Best Practice: Presenting and Funding Major Capital Projects

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-3 DEBT MANAGEMENT**

### **PURPOSE**

Pursuant to Massachusetts General Law, municipalities may issue debt to finance capital projects and, under extraordinary circumstances, for non-capital purposes. The purpose of this policy is to guide the Town of Paxton in making decisions regarding the issuance of debt needed to maintain capital assets, yet at a level that recurring revenue can support without adversely affecting the delivery of local services.

### **APPLICABILITY**

This policy applies to the Selectboard, Town Administrator, Finance Committee and the Capital Improvements Planning Committee in their capacity as budget decision makers, and to the Treasurer/Collector in regard to his/her responsibility to manage the issuance of debt.

### **DEFINITIONS**

Annual Budget: comprised of requests for funding for general fund operations, enterprise fund operations and capital projects.

Arbitrage: investing funds borrowed at a lower interest cost in investments providing a higher rate of return.

Betterment or Special Assessment: a special property tax that is permitted where real property within a limited and determinable area receives a special benefit or advantage, other than the general advantage to the community, from the construction of a public improvement.

Bond anticipation note (BAN): a short-term note issued to provide cash for initial project costs. BANs may be issued for a period not to exceed five years but require a reduction of principal after two years. At maturity a BAN can be retired in full or converted to a long-term bond.

Bond counsel: special legal counsel with expertise in the issuance of municipal bonds hired to ensure that all aspects of a bond issue - from Town Meeting authorization to bond sale to post-sale reporting and disclosure - conforms to all applicable state and federal law and regulation.

Capital Outlay Expenditure Exclusion: authorized by Massachusetts General Laws (M.G.L. c. 59, § 21C (i1/2)) is a mechanism that allows a community to raise the total dollar cost of a capital purchase or capital project through a one-year increase in the tax levy. In this way, the municipality avoids long-term interest costs, if it were to borrow the needed funds. A capital exclusion can only be used to fund purposes, specified in Ch. 44 Sec. 7 and Sec. 8, for which a community may incur debt.

Debt service: the annual amount of principal and interest paid on a bond, typically twice a year with one payment for principal and interest and the other for interest only.

Enterprise Fund: a separate accounting and financial reporting mechanism for which revenues and expenditures are segregated into a fund with financial statements separate from all other governmental activities. An enterprise fund identifies the total direct and indirect costs to provide the service and the

sources and amounts of revenues that support a service for which a fee is charged in exchange for the service, an example being the delivery of sewer services.

Exempt debt: authorized by Massachusetts General Laws (M.G.L. c. 59, § 21C (j)) is General Fund debt financed outside the limits of Proposition 2 ½ pursuant to a debt exclusion vote approved by a majority vote of registered voters in the town.

Financial Advisor: hired by a municipality to advise on the structure of a bond issue, finalize bond financing plans, develop offering documents, prepare for any rating agency and investor presentations, market the bond offering to investors, price the bonds, close the transaction and assist with any post-closing disclosure requirements.

General Fund: the primary fund used by a governmental entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds. e.g., enterprise funds, grant funds and revolving funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Non-exempt debt: General Fund debt financed within the limits of Proposition 2 ½

Official Statement: a document containing information about a prospective bond issue or a note issue which contains information about the issue and the issuer and is intended for the potential investor. The official statement is sometimes published with a notice of sale. It is sometimes called an offering circular or prospectus.

Proposition 2 ½: pursuant to Massachusetts General Law (M.G.L. c. 59, § 21C (f)), a limit in the annual increase in a municipality's property tax levy to 2 ½ percent plus an increase attributable to new construction in the town. In addition, upon voter approval property taxes may increase beyond the limits of Proposition 2 ½ on a permanent basis to fund increases in the operating budget or on a temporary basis to fund capital improvements.

Revenue Anticipation Note (RAN): pursuant to authority granted by MGL Ch. 44 s 4, a short-term loan issued to provide operating cash in anticipation of estimated revenue yet to be received, such as tax collections and state aid.

## **POLICY**

The Town's policy regarding debt management shall be as follows:

- It is recognized that multiple capital investments (capital projects and asset acquisitions) may not be able to be financed on a pay-as-you go basis in a given fiscal year without the risk of adversely affecting general fund or enterprise fund operating budgets. Therefore, it shall be policy that any capital project may be a candidate for financing through the issuance of debt.
- The means of identifying capital investments that are candidates for debt financing shall be part of an annual capital improvements planning process (see the Town's Capital Planning and Financial Reserves policies).

- Major new construction projects or significant renovations and capital expenditures to be funded with General Fund revenue, where the Town's share is in excess of \$250,000, shall be candidates for funding through a Proposition 2 ½ debt exclusion.
- The Town will endeavor to structure non-exempt, exempt and enterprise fund debt in a manner that will minimize the impact on taxpayers and ratepayers.
- Projects recommended for funding through the issuance of debt shall not be approved without an estimate of the annual debt service that will result from bonds issued and consideration of the impact the debt service will have on the Town's annual budget. In this regard, the Town will endeavor to manage debt so as not to exceed the following target:
  - Total General Fund, non-exempt, long term debt service as a percentage of the Town's projected General Fund revenue shall not exceed 10 percent with a target of 5 percent. In addition, as a general rule, the Town shall strive to maintain a debt service floor of 2 percent of projected General Fund revenue representing a commitment to maintaining its capital assets from the use of recurring revenue.
- Annual debt service shall not, in any fiscal year, grow at a rate that exceeds the projected percentage increase in General Fund revenue for that year.
- Notwithstanding the maximum terms allowed by Massachusetts General Law (M.G.L. c. 44, §§ 7-8) for the issuance of bonds, the Town will (1) seek to limit the term so that it is equal to or less than the Town's estimate of the useful life of the asset being financed; (2) for a given purpose, strive to issue debt for a shorter period than the maximum term allowed when that term exceeds 10 years; and, (3) except for major buildings, water projects and land acquisition, limit bond maturities to no more than 10 years.
- In an effort to free up capacity within the annual general fund debt service budget to accommodate proposed capital investments to be financed through the issuance of debt, The Town will (1) attempt to maintain a long-term debt schedule so that at least 50% of the outstanding principal will be retired at the end of 10 years; and, (2) where possible, issue debt on a level principal/declining interest basis (so that annual debt service will decline over the term of the bond).
- The Town, with advice from its Financial Advisor, as defined above, shall endeavor to issue debt with call dates to facilitate refunding if the interest rate environment changes to the Town's advantage.
- The Town will strive to maintain, if not enhance, its bond rating through the development of policies and procedures that address the following evaluative criteria used by rating agencies in evaluating a municipality's creditworthiness.
  - Debt Factors: debt per capita, debt as a percentage of equalized valuation, rate of debt amortization and the amount of exempt versus non-exempt debt.

- Financial Factors: Operating surpluses or deficits, free cash as a percentage of revenue, state aid reliance, property tax collection rates, unfunded pension liability.
  - Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.
  - Management Factors: governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.
- Short-term borrowing through the issuance of grant anticipation notes for reimbursable state or federal grants (M.G.L. c. 44, § 6A), or bond anticipation notes for capital investments (M.G.L. c. 44, § 16) approved by Town Meeting, is appropriate upon approval by the Selectboard; or, through internal borrowing (M.G.L. c. 44, § 20A) requiring the approval of the Selectboard.
  - Short-term borrowing in anticipation of revenue (M.G.L. c. 44, § 4) is appropriate subject to approval by the Selectboard
  - Notwithstanding the maximum terms for the issuance of debt prescribed by Massachusetts General Laws (M.G.L. c. 44, §§ 7-8 ), it shall be the policy of the Town to limit the term of a bond issued to finance a project that yields a special benefit or advantage to property owners within a limited and determinable area, and whose costs will be recovered through the assessment of a betterment pursuant to Massachusetts General Laws (M.G.L. c. 80, § 13), to 15 years or less.

## **PROCEDURES.**

It shall be the responsibility of Treasurer to:

- Assist the Town Administrator in the development of a recommended annual debt service budget for transmittal to the Finance Committee to cover the costs of principal and interest on long and short-term debt and the costs of issuance of such debt.
- Assist the Town Administrator, as needed, in working with bond counsel to draft motions for review by the Selectboard for transmittal to Town Meeting for approval of debt authorizations.
- Work with the Town Administrator to project the cash flow needs of individual capital investments approved by Town Meeting for funding with debt and schedule bond and bond anticipation note sales, and internal borrowings, accordingly.
  - Internal borrowing shall be based on the Treasurer's assessment of the Town's cash flow position and the availability of surplus cash, and the current interest rate environment for (1) the investment of Town funds, and (2) rates for short and long-term borrowing, with the understanding that an internal borrowing not retired by June 30 (of the fiscal year in which it occurred) through the issuance of a short-term note, a bond or the receipt of grant funds may adversely affect the Department of Revenue's certification of the Town's free cash. If the Treasurer concludes an internal borrowing is appropriate, he/she shall notify the Town Administrator of such recommendation accompanied by a

cash flow analysis supporting it for the Town Administrator's review, which shall, in turn, accompany any request of the Selectboard to approve such internal borrowing,

- Monitor the timing of revenue collections and expenditures (cash flow) to identify the adequacy of cash to cover accounts payable and payroll for the purpose of identifying the need, if any, to borrow in anticipation of revenue and the amounts needed to be borrowed.
  - If the Treasurer's analysis concludes the issuance of revenue anticipation notes is needed, he/she shall notify the Town Administrator of such recommendation accompanied by (1) a cash flow analysis supporting it, (2) an estimate of the debt service cost of the borrowing, and (3) the adequacy of the current adopted debt service budget to finance the debt service. If the Town Administrator corroborates the Treasurer's assessment, a request shall be forwarded to the Selectboard to approve such internal borrowing,
- Coordinate, with support of the Town Administrator - the compilation of information from town departments and, where applicable, regional school districts for transmittal to the Town's financial advisor for inclusion in the Official Statement.
- Identify Town staff to participate in presentations to bond rating agencies, lead the presentation, and coordinate timely responses to any questions raised by a rating agency.
- Work with bond counsel and the Town's Financial Advisor to draft motions required to be voted by the Selectboard at the time of the award for the sale of bonds or notes.
- In order to avoid arbitrage penalties for capital investments authorized to be funded through the issuance of debt, ensure that the amount borrowed at any given time for individual bond authorizations can be expended on a schedule that complies with Internal Revenue Service requirements.
- To ensure that bond proceeds are segregated and ensure that they are expended for the purpose for which they were borrowed.
- To ensure that the investment of bond proceeds complies with limitations imposed by the Internal Revenue Service.
- In consultation with the Town's Financial Advisor, ensure that all debt-related filings with the federal government (the Internal Revenue Service and the Municipal Securities Rulemaking Board) and the Massachusetts Department of Revenue be done timely.

## REFERENCES

M.G.L. c. 41, § 59  
M.G.L. c. 44, § 4  
M.G.L. c. 44, § 6A  
M.G.L. c. 44, § 8  
M.G.L. c. 44, § 17

M.G.L. c. 41, § 61  
M.G.L. c. 44, § 6  
M.G.L. c. 44, § 7  
M.G.L. c. 44, § 16

M.G.L. c. 44, § 19  
M.G.L. c. 44, § 20A  
M.G.L. c. 59, § 21C (f)  
M.G.L. c. 59, § 21C (j)  
26 USC § 148

M.G.L. c. 44, § 20  
M.G.L. c. 44, § 21A  
M.G.L. c. 59, § 21C (i1/2)  
M.G.L. c. 80, § 13

Massachusetts Department of Revenue, Division of Local Services - DLS Best Practice: Understanding Municipal Debt

Massachusetts Department of Revenue, Division of Local Services - DLS Borrowing Guidelines: Asset Useful Life - Borrowing Limits

Massachusetts Department of Revenue, Division of Local Services - DLS Informational Guideline Releases 17-21: Borrowing and 17-22: Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt

Massachusetts Department of Revenue, Division of Local Services - DLS Informational Guideline Releases 92-105: Revised Municipal Borrowing Procedures

Massachusetts Department of Revenue, Division of Local Services – Bulletin 2019-1: FY20 Budget Issues and Other Related Matters/ page 8 Internal Borrowing.

Government Finance Officers Association Best Practice: Refunding Municipal Bonds

Internal Revenue Service Guidance: Arbitrage Guidance for Tax-Exempt Bonds

Town of Paxton By-Laws – Boards, Committees and Officers: Capital Improvement Planning Committee

Town of Paxton, Capital Planning policy

Town of Paxton, Financial Reserves policy

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-4 ENTERPRISE FUNDS**

### **PURPOSE**

Massachusetts General Law provides for municipalities to establish – for accounting purposes – a separate fund (or funds) classified as Enterprise Funds to record the revenues and expenditures of municipal operations that deliver services on a business-like basis; that is, the users of the service are charged fees intended to cover most if not all the costs of delivering the service.

The purpose of this policy is to establish principles that govern the accounting and financing of operations that deliver these kinds of services. At the time of adoption of this policy, the Town of Paxton operates one enterprise fund for the delivery of water services.

### **APPLICABILITY**

For any enterprise fund, this policy shall apply to those appointed or elected officials with responsibility for estimating annual enterprise fund revenue, and annual operating and capital budgets; the Finance Committee with responsibility for recommending annual enterprise fund budgets to Town Meeting; the Board with responsibility for setting annual user charges; and, the Capital Improvements Planning Committee, with responsibility for recommending enterprise fund capital projects to the Finance Committee and Selectboard.

### **DEFINITIONS**

Direct costs – expenses that comprise the recommended budget of an enterprise and are voted as appropriations by Town Meeting to finance the operations of the enterprise. These expenses are accounted for in the Enterprise Fund.

Enterprise Fund - An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

Fund – a separate accounting entity used to segregate the revenues and expenditures of a single municipal activity or multiple activities, record the annual financial results of that operation, segregate any resulting surplus and facilitate financial reporting of the Fund’s assets and liabilities.

General Fund - the primary fund used by a government entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise funds and grant funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Indirect costs – those expenses that are part of the annual operating budget accounted for in the General Fund, a portion of which can be identified as supporting the operations of an enterprise.

Retained Earnings -

the surplus of an enterprise fund budget at the close of a fiscal year resulting from revenues realized in excess of estimates and expenditures less than appropriations. Use of retained earnings as a financing

source for operating or capital expenditures is subject to an appropriation by a majority vote of Town Meeting. The amount of retained earnings available for appropriation must be certified annually as of a July 1<sup>st</sup> certification date by the Massachusetts Department of Revenue after a municipality has closed its books for the fiscal year just ended. If there is an unused balance of a prior year's certification at the end of the fiscal year, it is not available for use until it becomes part of the certified retained earnings as of the next annual July 1<sup>st</sup> certification date.

## **POLICY**

The Town will adhere to the following policies regarding Enterprise Funds:

- For any service delivered on a business-like basis, the Town shall consider establishing an Enterprise Fund in order to affect the following:
  - To clearly identify the total cost of delivering a specified service – direct, indirect and capital - and the source(s) of funding of the service.
  - To make important financial and management information readily accessible for rate setting purposes and financial reporting.
  - To provide a mechanism for the segregation of any surplus at fiscal year-end that is generated by the specified operation and to reserve that surplus for future use in support of the operation, subject to appropriation by Town Meeting.
- The annual budget of any enterprise shall be included in the Finance Committee's annual recommended budget as described in the Town's Annual Budget Process policy.
- Capital requests of any enterprise for the ensuing fiscal year and future years shall be included in the Capital Improvement Planning Committee's recommended annual Capital Improvement Plan as described in the Town's Capital Planning policy.
- User charges shall be set at a level to cover all costs, direct and indirect and capital-related.
- The enterprise's share of the Town's annual cost of financing its Other Post-Employment Benefits (OPEB) liability shall be included in the total costs to be financed by user charges as described in the Town's Other Post-Employment Benefits policy.
- Enterprise Fund user charges shall be reviewed annually and presented annually to the Board responsible for their adoption for review and approval. If changes in charges are recommended, the Board, pursuant to its fee-setting duties, shall act on such recommendations. If new rates are approved, they shall take effect upon a date in the motion approving such rates.
- A reserve of retained earnings shall be maintained at a level described in the Town's Financial Reserves policy, including an amount to cover emergency circumstances.

- Mid-year adjustments of rates will be sought only under extraordinary circumstances in response to emergencies that cannot be accommodated through an appropriation of available retained earnings.

## **PROCEDURES**

Determination of Indirect Costs – Indirect costs of an enterprise shall be updated annually to serve two purposes:

- As part of the budget process, to identify the amount of enterprise fund revenue proposed to be transferred to the General Fund to finance those costs to be incurred by the General Fund in support of the operations of the enterprise.
- To include as a component of total annual cost of the enterprise – in addition to direct and capital costs – for the purpose of determining rates that will result in the enterprise being self-supporting; that is total estimated revenue equal to total costs.

Indirect costs (those costs borne by the General Fund in support of an enterprise) may include but not be limited to a portion of the salaries and expenses of the following as determined by the Town Accountant:

- Town Accountant
- Treasurer/Collector
- Audit (Contracted Service)
- Information Technology (IT)
- DPW Director
- DPW Admin
- Selectboard
- Town Administrator

Note that the following - if not budgeted for in an enterprise fund budget adopted at Town Meeting - shall also be candidates for identification as indirect costs to serve as the basis for the transfer of enterprise fund revenue to the General Fund to support these costs and, to be identified as components of total cost for rate-making purposes.

- Benefits for active and retired employees, including insurances, Medicare tax, unemployment, and workers' compensation
- Pension costs – the Town's share of its annual pension assessment attributable to employees of the enterprise
- Vehicle insurance

- Property and liability insurance covering buildings, equipment and operations of the enterprise
- Legal services
- Debt service

The Town Administrator or his/her designee, working with the Board or department responsible for the development of the annual budget of an enterprise shall develop, in writing, methodologies for the calculation of indirect costs.

#### **REFERENCES**

M.G.L. c. 44, § 53F½

Massachusetts Department of Revenue, Division of Local Services: Enterprise Fund G.L. c. 44, § 53F½ Manual

Town of Paxton By-Laws – Boards, Committees and Officers: Water Commissioners, Board of (Special Town Meeting – April 26, 1915)

Town of Paxton – Annual Budget Process policy

Town of Paxton– Financial Reserves policy

Town of Paxton – Capital Planning policy

Town of Paxton – Other Post-Employment Benefits policy

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-5 FINANCIAL RESERVES**

### **PURPOSE**

The creation and maintenance of financial reserves is a critical component of sound and prudent financial management. Reserves serve multiple functions:

- As a source of funding for selected, planned future capital expenditures to reduce the need to issue debt thus avoiding interest and borrowing costs.
- As a source of funding for significant and extraordinary, unforeseen expenditures.
- As a source of funding to substitute for lost revenue during a time of economic downturn thus precluding, or minimizing, cuts to municipal and educational services.
- As evidence to credit rating agencies of a municipality's strong financial management in that the maintenance of significant reserves indicate a commitment to comprehensive long-term planning, a positive factor in credit rating determinations.

### **APPLICABILITY**

This policy pertains to the Finance Committee, the Capital Improvements Planning Committee (CIPC), the Selectboard and Town Administrator to guide them in their roles in making short and long-term budget recommendations.

### **DEFINITIONS**

**Enterprise Fund:** Pursuant to Massachusetts General Law (M.G.L. c. 44, § 53F½), municipalities can establish enterprise funds to account for services that are delivered on a business-type basis, e.g., water, sewer, trash disposal, golf courses, etc. A municipality adopts an enterprise by a vote of Town Meeting. The enterprise fund establishes a separate accounting and financial reporting mechanism for a municipal service for which a fee is charged in exchange for goods or services. Under enterprise accounting, the service's revenues and expenditures are segregated into a separate fund with its own financial statements, rather than being commingled with the revenues and expenses of all other governmental activities.

**Free Cash:** -Also known as Unassigned Fund Balance represents the surplus of the general fund operating budget at the close of a fiscal year resulting from revenues realized in excess of estimates and expenditures less than appropriations. Use of free cash as a financing source for operating or capital expenditures is subject to an appropriation by a majority vote of Town Meeting. The amount of free cash available for appropriation must be certified annually as of a July 1<sup>st</sup> certification date by the Massachusetts Department of Revenue after a municipality has closed its books for the fiscal year just ended, generally between August and October. If there is an unused balance of the prior July 1 certification at the end of a fiscal year, it is not available for use until it becomes part of the certified free cash as of the upcoming July 1<sup>st</sup> certification date. Unpaid property taxes and certain deficits reduce the amount of remaining funds that can be certified as free cash.

General Fund: The primary fund used by a government entity. This fund is used to record all resource revenues and expenditures that are not associated with special-purpose funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Other Post Employee Benefits (OPEB): Other post employee benefits are benefits, other than pension distributions, paid to employees during their retirement years. The major post-employment benefit in Massachusetts is health insurance.

Overlay Surplus: Excess overlay that is determined to be over and above what is needed to cover abatements and exemptions of property taxes in a given fiscal year. It is determined, certified, and transferred by vote of the Board of Assessors. The use of overlay surplus as a funding source is subject to appropriation by Town Meeting and can be used for any lawful purpose. Any unused balance of overlay surplus at the end of a fiscal year is closed to general fund balance and becomes part of free cash available for appropriation in the subsequent fiscal year.

Reserve Fund: Pursuant to Massachusetts General Law (M.G.L. c. 40, § 5A), to provide for extraordinary or unforeseen expenditures in each fiscal year, a Town may - at an annual or special Town Meeting - appropriate or transfer a sum or sums not exceeding in the aggregate five percent 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 Committee. At the end of each fiscal year, any unused amount of the Reserve Fund is closed to the surplus of the general fund.

Retained Earnings: Similar to free cash, retained earnings is the surplus of an enterprise fund budget at the close of a fiscal year resulting from revenues realized in excess of estimates and expenditures less than appropriations. Use of retained earnings as a financing source for operating or capital expenditures is subject to an appropriation by a majority vote of Town Meeting. The amount of retained earnings available for appropriation must be certified annually as of a July 1<sup>st</sup> certification date by the Massachusetts Department of Revenue after a municipality has closed its books for the fiscal year just ended generally between August and October. If there is an unused balance of the prior July 1 certification at the end of a fiscal year, it is not available for use until it becomes part of the certified retained earnings as of the upcoming July 1<sup>st</sup> certification date.

Stabilization Funds: Pursuant to Massachusetts General Law (M.G.L. c. 40, § 5B), a municipality, through a vote of Town Meeting, may establish one or more stabilization funds and designate the purpose for which each fund is established. The creation of a stabilization fund requires a majority vote of Town Meeting. Appropriation of funds into a stabilization fund is by majority vote. Appropriation of funds out of a stabilization fund requires a two-thirds vote of Town Meeting. Any interest that is earned from the investment of stabilization fund monies accrues to the stabilization fund. There is no limit on the cumulative balance of all stabilization funds in a municipality.

## **POLICY**

It shall be the general policy of the Town to:

- Strive to maintain reserves to provide the capacity to respond to the costs of unanticipated and extraordinary events, significant reductions in annual revenue streams due to economic disruption, and to provide a source of available funds for future capital expenditures.

- Strive to maintain and manage multiple types of reserves, including stabilization funds, free cash, retained earnings, and overlay surplus.
- Strive to maintain overall general fund reserves including the Town's combined stabilization funds and free cash between 5% and 10% of the Town's projected General Fund operating revenue.

The following policies shall govern the administration of the following reserves.

- **Reserve Fund** - Annually, the annual operating budget recommendation shall include an appropriation into the Reserve Fund. Every year, the Finance Committee shall review the history of Finance Committee transfers to determine if the annual appropriation into the Reserve Fund is adequate.
- **Free Cash** – It is recognized that the Town has historically appropriated free cash to support its annual operating budget out of necessity. Further, it is recognized that the amount of free cash certified annually by the Department of Revenue can vary significantly and therefore is an unreliable source of financing of the Town's annual general fund operating budget.

Notwithstanding the historical practice, it shall be the goal of the Town to develop a schedule over a 10-year period that will eliminate the use of free cash to support the annual general fund operating budget. If circumstances arise that call into question the feasibility of following this schedule, the Finance Committee shall consult the Selectboard and the Capital Improvements Committee about the need for modifications to the schedule.

Upon the elimination of the operating budgets dependence on free cash to finance recurring expenditures per the schedule above, the use of free cash - as a general rule - will be limited to non-recurring expenditures including but not limited to:

- The financing of non-recurring items in the annual operating budget that are deemed significant in amount.
- The financing of capital expenditures, e.g., capital projects or the acquisition of capital assets
- Appropriations into the General Stabilization Fund as a source of financing the operating budget during periods of economic downturn as described below.
- Appropriations into other stabilization funds to support future non-recurring expenditures.
- Appropriations to finance unfunded liabilities, e.g., other post-employment benefits (OPEB).

The allocation of free cash for the purposes described above, shall be based on an annual review of competing needs and a prioritization of those needs by the Finance Committee in consultation with the Capital Improvements Planning Committee and the Selectboard.

- **General Stabilization Fund** - The Town shall maintain a general stabilization fund whose primary purpose is to offset declines in general fund revenue due to economic downturn in order to avoid a disruption in the delivery of services. The target level of the fund shall be 5% of the Prior Year's General Fund operating budget, an amount estimated to support the operating budget through three years of economic downturn.

Once the target level of the fund is reached, if any use of the fund reduces the balance below the target level, a plan for replenishment of the Fund shall be developed per the procedure described below.

- **Special Purpose Stabilization Fund(s)** – The Town shall maintain one or more specialized Stabilization Funds to finance future needs. Sources of financing appropriations into special purpose stabilization funds shall include each, or some combination of, taxation; available funds including but not limited to free cash and overlay surplus; and other non-recurring or potentially inconsistent revenue sources. Such Stabilization Funds shall include but not be limited to the following.
  - Capital Stabilization Fund(s) - to finance selected future capital needs as identified through the Town's annual capital improvements planning process (see Capital Planning policy) on a pay-as-you-go basis or to subsidize debt service of large capital projects, (e.g., municipal or school construction) to mitigate the impact on taxpayers. Use of a Capital Stabilization Fund(s) to finance projects on a pay-as-you-go basis can serve to preserve the Town's debt capacity for major capital projects.

The Town will strive to appropriate at least 0.2% of the Town's projected General Fund operating revenue into a capital stabilization fund(s) annually.

- **Overlay Surplus** - Overlay surplus shall be reserved for non-recurring costs such as direct capital expenditures, contributions to the general stabilization fund or a special purpose stabilization fund, or to finance unfunded liabilities, e.g., OPEB.
- **Retained Earnings** - In the development of the proposed annual budget for its Enterprise Fund(s), the Town shall strive to estimate revenue and recommend appropriations at a level that will generate retained earnings at fiscal year-end adequate to address the following:
  - To cover potential revenue shortfalls in any given fiscal year
  - To finance unanticipated, extraordinary expenditures not provided for in the adopted annual budget
  - To provide cashflow for the fund to preclude the use of the Town's pooled cash to fund enterprise operations which would have a negative impact on general fund interest income.

- For rate stabilization

In addition, Boards or Commissions with responsibility for oversight of enterprise fund operations shall consider - consistent with guidance from the Department of Revenue (Division of Local Services (DLS) Departmental Procedure Manual: Enterprise Funds) - adding to Enterprise Fund budgets a line-item (“budget surplus”) whose unexpended balance at fiscal year-end would accrue to retained earnings of its Enterprise Fund and be available to finance selected future capital needs as identified through the Town’s annual capital planning process. These amounts could accumulate as unappropriated retained earnings until the capital need arises or could be appropriated annually into a Special Purpose Stabilization Fund created to fund capital projects.

## PROCEDURES

The following procedures are adopted pursuant to this policy.

- **Reserve Fund** - requests of the Finance Committee for Reserve Fund transfers shall be based on requests from department heads submitted to the Town Administrator for initial review, who will then bring those requests to the Finance Committee for review and a vote.
- **General Stabilization Fund** - Pursuant to the policy governing the General Stabilization Fund, if use of the Fund results in a balance that falls below the target of 5% of the Prior Year’s General Fund operating budget, the Town Administrator, in consultation with the Selectboard, shall develop a plan for transmittal to and consideration by the Finance Committee to bring the balance of the Fund back to its target level.
- **Overlay Surplus** - Pursuant to the policy governing the use of overlay surplus, the Selectboard shall periodically request that the Board of Assessors conduct an analysis of the overlay to determine the amount, if any, that can be declared overlay surplus. The analysis shall consider the following:
  - Current cumulative balance in the overlay accounts of all fiscal years after reconciling with the Town Accountant’s records
  - Balance of property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
  - Estimated amount of potential abatements, including any cases subject to State Appellate Tax Board hearings or other litigation

Upon determining any excess in the overlay account, the Board of Assessors shall present the analysis to the Selectboard for its review. If the Selectboard determines that the excess is needed to support proposed spending, it shall, pursuant to Massachusetts General Laws (M.G.L. c. 59, § 25), formally request that the Board of Assessors convene to consider a vote to transfer overlay to overlay surplus within 10 days of such request. Notification of that vote shall be made to the Selectboard, Town Administrator, Town Accountant, and Finance Committee.

- **Appropriations from Reserves** - The overall level of financial reserves is critical to maintaining the Town’s bond rating and ensuring sufficient funds to manage unanticipated needs. Funds

shall be recommended for appropriation from reserves only after an initial review by the Town Administrator and their presentation to the Selectboard and Finance Committee for their consideration. Consideration of the use of reserves shall include an assessment of whether the balance of relevant reserve accounts after their proposed appropriation does not have an adverse effect on the Town's financial condition.

**REFERENCES**

M.G.L. c. 40, § 6

M.G.L. c. 40, § 5A

M.G.L. c. 40, § 5B

M.G.L. c. 59, § 25

M.G.L. c. 44, § 53F½

DLS Best Practices: Free Cash and Special Purpose Stabilization Funds

DLS Departmental Procedure Manual: Enterprise Funds

DLS Informational Guideline Releases 17-20: Stabilization Funds and 17-23: Overlay and Overlay Surplus

Government Finance Officers Association Best Practices: Fund Balance Guidelines for the General Fund and Working Capital Targets for Enterprise Funds

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-6 INVESTMENTS**

### **PURPOSE**

It pertains to the investment of revenue of a variety of funds (e.g., General, Enterprise, Revolving, Special Revenue, Agency), as well as trust funds including but not limited to Stabilization Funds. It does not pertain to investment of pension funds for Paxton employees, which is invested and managed by the Worcester County Regional Retirement System.

### **APPLICABILITY**

This policy applies to the Treasurer/Collector regarding his/her duties to invest and manage Town funds and to the Town Accountant regarding his/her role accounting for investment activities.

### **DEFINITIONS**

Arbitrage - investing funds borrowed at a lower interest cost in investments providing a higher rate of return.

Capital Project Fund Revenues – funds segregated to finance an approved capital project.

General Fund Revenues - all unrestricted revenues, including real and personal property taxes, other local taxes, such as excises, special assessments and betterments, unrestricted local aid, investment and rental income, voluntary and statutory payments in lieu of taxes and other receipts not expressly dedicated by statute.

Liquidity – the degree to which invested cash is readily accessible to finance the cost of current operations ready access to cash to finance the cost of current

Massachusetts Municipal Depository Trust (MMDT) – established pursuant to M.G.L. c. 29, § 38A, an investment pool for state, local, county governments and other independent governmental authorities under the auspices of the Treasurer of the Commonwealth.

Repurchase agreement (Repo) - a form of short-term borrowing for dealers in government securities. In the case of a repo, a dealer sells government securities to investors, usually on an overnight basis, and buys them back the following day at a slightly higher price.

Safety – the degree to which investment principal is protected which is achieved through the mitigation of credit risk and interest rate risk.

Special Purpose Revenue Funds - Statutory funds to account for allocation of general revenues or other financing sources reserved by the appropriating authority for particular purposes. Examples would be Stabilization Fund (M.G.L. c. 40, § 5B), Unemployment Compensation Fund (M.G.L. c. 40, § 5E), and the Conservation Fund (M.G.L. c. 40, § 8C Overlay G.L. c. 59, § 25).

Special Revenue Fund Revenues - Particular revenues segregated from the general fund into a separate fund and earmarked for expenditure for specified purposes by statute. Special revenue funds include annual revenue funds, receipts reserved for appropriation and revolving funds. They also include gifts

and grants from governmental entities and private individuals and organizations. Special revenue funds must be established by statute.

Trust Funds - Fiduciary funds segregated from the general fund to account for assets held in a trustee capacity. Examples would include a Scholarship Fund (MG.L. c. 60, § 3C), a Veteran Assistance Fund (M.G.L. c. 60, § 3F) and a Cemetery Perpetual Care Fund (M.G.L. c. 114, § 25)

Yield – the interest rate on an investment.

## **POLICY**

It shall be the policy of the Town of Paxton as follows:

- That the Treasurer/Collector shall have the authority and responsibility to invest all Town funds subject to the requirements of all federal and state law and regulations governing the expenditure and investment of municipal funds, including arbitrage restrictions on the investment of bond proceeds.
- That the Treasurer/Collector will invest funds in a manner that meets the Town’s daily operating cash flow requirements.
- That the Treasurer/Collector, and any assistant Treasurer, act in strict adherence with the state conflict of interest law.
- That the Treasurer/Collector will make overall investment decisions in accordance with “prudent person” standards under MGL c. 203C, or as otherwise allowed by state law.
- That the Treasurer/Collector shall seek the highest possible return on investment taking into consideration the following in the priority order shown when investing Town funds:
  - Liquidity
  - Safety
  - Yield
- That the Treasurer/Collector may invest General Fund, Special Revenue Fund, Enterprise Fund and Capital Project Fund revenues in the following instruments:
  - The MMDT
  - U.S. Treasuries up to one-year maturity from the date of purchase
  - U.S. Agency obligations up to one-year maturity from the date of purchase
  - Bank accounts and certificates of deposit up to three years fully insured by the FDIC and in some cases also Depository Insurance Fund of Massachusetts (DFIM)

- Unsecured bank deposits such as checking savings and money market accounts and certificates of deposits (with maturities not greater than 12 months) not covered in the categories above, with the amount invested limited to no more than 5 percent of an institution's assets and no more than 25 percent of a municipality's cash. This percentage may be increased for not more than 30 days during times of heavy collection or anticipation of large payments that will be made by the entity in the near future. The credit worthiness of the institution shall be tracked by a credit worthiness reporting system such as Veribanc or Sheshunoff.
- Repurchase agreements
- That the Treasurer/Collector may invest Trust Funds as follows unless otherwise provided or directed by the donor:
  - In savings banks or trust companies pursuant to limitations prescribed by the Legal List issued annually by the Massachusetts Division of Banks pursuant to Massachusetts General Laws chapter 167, sections 15A-15K, inclusive.
  - MMDT
  - invested in bonds or notes which are legal investments for savings banks. (M.G.L. c. 44, § 54) Cities or towns with a fund aggregate in excess of \$250,000 may also invest such funds in securities which are legal for the investment of funds of savings banks, provided that (a) not more than 15% of such trust monies shall be invested in bank or insurance company stocks and (b) not more than 1½% of such monies shall be invested in the stock of any one bank or insurance company
  - That not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance company stocks
  - Trusts fund may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments. Each Trust Fund must be accounted for separately.
- That the Treasurer/Collector may invest Special Purpose Revenue Fund proceeds in the following:
  - a trust company, co-operative bank, or savings bank, if the trust company or bank is organized or exists under either the laws of the Commonwealth of Massachusetts, or of any other state, or may transact business in the Commonwealth, and has its main office or a branch office in the Commonwealth.
  - a national bank, federal savings bank or federal savings and loan association, if the bank or association may transact business and has its main office or a branch office in the Commonwealth. Any state-chartered or federally chartered bank used to deposit stabilization funds must be insured by the Federal Deposit Insurance Corporation (or its successor).

- the MMDT.
- securities that are legal investments for savings banks under Massachusetts law. Savings banks may legally invest in securities included in the annual legal list of investments established by the Commissioner of Banks under M.G.L. c. 167, §§ 15A-15K, and permitted by M.G.L. c. 167F, § 3. All investments in securities that are legal investments for savings banks must still meet the investment standard in M.G.L. c. 44, § 55B governing a treasurer's investment of public funds generally, which means those investments must be prudent.
- That the Treasurer/Collector shall seek to diversify the Town's investments in terms of maturity as well as instrument type and issuer. Diversification should include prohibition against the over-concentration of maturities and investments in a single institution. With the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and state pools (e.g., the MMDT), no more than 25 percent of the Town's investments shall be invested in a single financial institution.

## **PROCEDURES**

The following procedures shall be followed by the Treasurer/Collector in executing his/her investment responsibilities:

- Upon receipt of statements of interest earned, timely post to the Treasurer's cash book and timely transmit earnings information to the Town Accountant for posting to the general ledger.
- For any Brokerage houses and brokerage dealers wishing to do business with the Town, the Treasurer/Collector will require submittal of the following information for review:
  - Audited financial statements
  - Proof of National Association of Security Dealers certification
  - A statement from that the dealer has read the Town's investment policy and will comply with it
  - Proof of credit worthiness (minimum standards at least 5 years in operation and minimum capital of 10 million dollars)
- No later than 30 days after fiscal year-end, the Treasurer/Collector will prepare a report for transmittal to the Town Accountant and to the Town Administrator and to the Select Board as deemed appropriate to include the following:
  - A listing of the individual accounts and individual securities held as of June 30
  - A listing of the short-term investments portfolio by security type and maturity to demonstrate compliance with the diversification and maturity guidelines of this policy

- A summary of income earned on a monthly basis and at fiscal year-end.

## REFERENCES

M.G.L. c. 29, § 38A  
M.G.L. c. 44, § 55  
M.G.L. c. 44, § 55B  
M.G.L. c. 203C

M.G.L. c. 44, § 54  
M.G.L. c. 44, § 55A  
M.G.L. c. 167, §§ 15A-15K  
M.G.L. c. 268A

Massachusetts Office of the Commissioner of Banks: [List of Legal Investments](#)

Governmental Accounting Standards Board Statement 40: [Deposit and Investment Risk Disclosures](#)

Massachusetts Collectors' and Treasurers' Association - [Investment Policy Statements](#)

Internal Revenue Service - Complying with Arbitrage Requirements: A Guide for Issuers of Tax-Exempt Bonds <https://www.irs.gov/pub/irs-pdf/p5271.pdf>

Massachusetts Department of Revenue, Division of Local Services – [Overview of Statutory Treatment of Municipal Revenues](#), November 2016

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-7 OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

### **PURPOSE**

At retirement, in addition to eligibility for a pension - funded in whole or in part by an employee's regular contributions to a pension fund while an active employee - municipal employees in the Commonwealth are entitled to receive what is referred to as Other Post-Employment Benefits (OPEB) which include post-retirement health insurance and may also include dental and life insurance. The Town's share of this future benefit for current retirees, as well as the future benefit for current active employees (future retirees), if not funded annually results in an ever-increasing unfunded liability, that when it comes due can have severe impacts on a municipality's operating budget.

To ensure fiscal sustainability, this policy sets guidelines for a responsible plan to meet the Town's obligation to provide other post-employment benefits for current and future retirees.

### **APPLICABILITY**

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment for the Town's OPEB Plan and applies to the Finance Committee in its role to recommend the proposed annual budget; to the Selectboard in its role as participant in the annual budget development process; the Treasurer, pursuant to M.G.L. c. 32B, § 20, as custodian of the "OPEB Trust Fund"; and, to the Town Administrator and Town Accountant with responsibility for OPEB-related activities.

This policy does not apply to the OPEB Plan of the Paxton Municipal Light Department (PMLD) which is under the custody of the Massachusetts Municipal Wholesale Electric Company (MMWEC) of which the PMLD is a member. The MMWEC maintains an investment policy for the OPEB Plan assets it manages which seeks to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct investment asset classes.

### **DEFINITIONS**

Annual Required Contribution – an actuarially calculated amount which if appropriated annually will retire a municipality's unfunded OPEB liability over a prescribed schedule.

Governmental Accounting Standards Board (GASB) - is an independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

OPEB Trust Fund - a trust fund established by a governmental unit for the deposit of appropriations, gifts, grants and other funds for the benefit of retired employees and their dependents; payment of required contributions by the governmental unit for the group health insurance benefits provided to employees and their dependents after retirement; and reduction and elimination of the unfunded liability of the governmental unit for those benefits. It is an expendable trust fund, subject to appropriation, which is managed by a trustee or board of trustees.

The Town of Paxton created this trust fund under Article 15 of the May 5, 2014, Annual Town Meeting. The State Retiree Benefit Trust Fund (SRBTF) - an investment vehicle established by Massachusetts law that enables political subdivisions of the Commonwealth to invest funds set aside to fulfill other-post-

employment-benefits (OPEB) for retirees such as healthcare or dental coverage in retirement. Governmental accounting regulations prevent commingling these assets with traditional retirement investment funds, but the SRBTF allows for these eligible state and municipal entities a “turn-key” option to set aside money to be invested through the Pension Reserves Investment Management Board (PRIM).

## **POLICY**

It shall be the policy of the Town as follows:

- The Town is committed to a disciplined and methodical annual funding of the long-term cost of OPEB due its current and future retirees.
- The Town will engage the services of an actuary every year to perform an updated actuarial valuation of its OPEB liability as a source of information for decision makers about progress toward funding of the liability and to comply with reporting requirements promulgated by GASB.
- The Town will periodically assess strategies to mitigate its OPEB liability by evaluating the structure of benefits offered and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

## **PROCEDURES**

- Accounting for and Reporting the OPEB Liability

Every year, the Town Treasurer will engage the services of an actuary to conduct a valuation or interim update of the Town’s OPEB liability to be transmitted to the Town’s independent auditor for integration into the Town’s annual financial statements in compliance with guidelines of the Governmental Accounting Standards Board.

Upon completion of an actuarial valuation, the Treasurer shall transmit the document to the Town Administrator, who, in turn, shall transmit it to the Selectboard and Finance Committee for their information and consideration.

- Trust Management and Investment

Appropriations by Town Meeting into the Town’s OPEB Trust Fund, are to be invested by the Treasurer. The Treasurer will manage the Fund in conformance with the Town’s investment policy and the state’s prudent investor laws.

On an annual basis, the Town will evaluate its option to invest the OPEB trust with the State Retiree Benefits Trust Fund.

- Mitigation

On an ongoing basis, the Town will assess health care cost containment measures and evaluate strategies to mitigate its OPEB liability. The Town Administrator will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts.

The Treasurer/Collector will regularly audit the group insurance and retiree rolls and terminate any participants found to be ineligible based on work hours, active Medicare status, or other factors.

- OPEB Funding Strategies

To address the Town's OPEB liability, the Town Administrator and Town Treasurer will annually recommend a funding schedule for the Town OPEB Trust Fund to the Selectboard, and Finance Committee based on the most recent actuarial valuation.

Potential sources of funding for the annual appropriation to the OPEB Trust Fund may include, but not be limited to general fund revenue, free cash, and overlay surplus. In addition, the Finance Committee's recommended enterprise fund budget(s) shall include a line item to fund all or part of the enterprise operations' annual share of the Town's OPEB liability, to be funded through user charges.

To move toward full funding of the actuarially derived Annual Required Contribution to the OPEB Trust Fund, the Finance Committee, with assistance from the Town Administrator, shall periodically evaluate the potential of the following:

- Determine and commit to appropriating an annual portion of free cash.
- At a future time when the pension reserve for Paxton employees as managed by the Worcester County Retirement Board is fully funded, direct any reduction in the Town's annual pension assessment to the OPEB Trust Fund.

## REFERENCES

M.G.L. c. 32B, § 20  
M.G.L. c. 44, § 54  
M.G.L. c. 203C

M.G.L. c. 32B, § 20A  
M.G.L. c. 44, § 55

Town of Paxton, Investment Policy

Town of Paxton, Financial Reserves Policy

GASB Statements 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Government Finance Officers Association Best Practices: Ensuring Other Postemployment Benefits (OPEB) Sustainability and Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)

Article 15 of the May 5, 2014, Annual Town Meeting creating the Town's OPEB Trust Fund

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**  
**DATE ADOPTED: AUGUST 8, 2022**

## **A-8 ANNUAL AUDIT**

### **Purpose**

The purpose of this policy is to recognize the value and importance of conducting an annual audit of the Town's finances by an external, independent certified public accountant (CPA).

An annual audit performed by an external, independent auditor serves multiple purposes.

- It provides an opinion that a municipality's year-end financial statements are complete, accurate and in conformance with accounting rules established by the Governmental Accounting Standards Board (GASB)
- It provides an opportunity to review the internal controls of the Town to ensure operational procedures are in place to ensure the protection of public assets.
- It serves as a tool to foster taxpayer confidence in the Town's management of its resources.
- It provides valuable information to credit rating agencies used in its determination of the Town's credit rating. (The absence of an annual audit can have a negative effect on the rating assigned to the Town, resulting in higher interest costs over the life of bonds issued).

### **APPLICABILITY**

This policy shall apply to the Selectboard with the responsibility to award a contract for audit services and to receive the results of the annual audit, and the Town Administrator or his/her designee with responsibility for administering this policy.

### **DEFINITIONS**

Governmental Accounting Standards Board (GASB) – The Governmental Accounting Standards Board (GASB) is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States. The GASB is subject to oversight by the Financial Accounting Foundation (FAF), which selects the members of the GASB and the Financial Accounting Standards Board. GASB's mission is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

Government Finance Officers Association (GFOA) - founded in 1906, it represents public finance officials throughout the United States and Canada. GFOA's mission is to advance excellence in public finance.

Internal Control – Procedures put in place to safeguard assets, promote accountability, increase efficiency, and prevent fraudulent behavior.

Management Letter – a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control, which were identified during the audit and were not required to be included in the auditor's report on internal control, and other management issues.

## **POLICY**

It shall be the policy of the Town that:

an audit of the Town's finances shall be performed annually by a CPA.

- The CPA selected shall have no personal interests, direct or indirect, in the fiscal affairs of the Town of Paxton or of any of its officers or employees.
- The annual audit shall conform to the requirements of GASB and other authority entities.
- The term of a contract for audit services shall conform to the requirement of M.G.L. c. 30B, § 12
- If, at the time a contract for audit services expires, the Town elects to renew its contract with the same firm, it shall seek to have the firm assign a different audit team to bring a fresh perspective that otherwise would have resulted from engaging a different firm.
- Each contract for the annual audit shall include a provision that a Management Letter be included as a companion to the presentation of financial statements and the auditor's opinion regarding the statements.
- February of each year is established as the target for completion of the annual audit for the preceding fiscal year.
- The Town Administrator shall have the responsibility to:
  - oversee the competitive procurement of audit services
  - recommend the firm to be awarded an audit contract to the Selectboard, who shall make the final selection
  - review the results of the annual audit (financial statements and management letter) and report to the Selectboard and Finance Committee regarding the audit

## **PROCEDURES**

The Town Administrator, or his/her designee, shall:

- ensure that information required by the auditor from Town departments and other relevant entities is transmitted timely
- transmit timely the completed annual audit and Management Letter to the Selectboard and Finance Committee

**REFERENCES**

M.G.L. c. 40, § 44I

MA DOR Division of Local Services Best Practice: Annual Audits

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **A-9 USER FEES**

### **PURPOSE**

One source of revenue to finance the operations of municipalities in Massachusetts is the broad category of “local receipts”. A subset of local receipts is user fees which encompasses excises and charges for services. The amount that can be charged for certain user fees, excises and charges for services is established by statute, e.g., motor vehicle excise, hunting licenses, and firearms permits. Other fees and charges are determined by each municipality, e.g., building permit fees, recreation fees, and utility charges, to name a few.

The purpose of this policy is to guide the Town in making determinations of the amount to be set as a user fee for a particular service.

### **APPLICABILITY**

This policy shall apply to Town boards and commissions with responsibility for setting user fees not fixed by statute and the Town Administrator for duties described herein.

### **DEFINITIONS**

Direct costs –the costs to deliver a service that are funded by Town Meeting appropriations to a Town department that delivers the service.

User Fees – The Emerson College case (Emerson College v. Boston, 391 Mass. 415 (1984)) established that fees imposed by a municipality tend to fall into one of two categories: user fees, based on the rights of the municipality as proprietor of the instrumentalities used, or regulatory fees (including licensing and inspection fees), founded on the police power to regulate particular businesses or activities. Further, such fees are distinguishable from taxes in that: 1) they are charged in exchange for a particular governmental service which benefits the party paying the fee in a manner "not...shared by other members of society"; 2) they are paid by choice, in that the party paying the fee has the option of not utilizing the governmental service; and 3) the charges are collected not to raise revenues but to compensate the governmental entity providing the services for its expenses.

Indirect costs – the costs incurred by Town departments in support of a service delivered by another Town department, e.g., pension costs, accounting, payroll, employee benefits, etc.

### **POLICY**

It shall be the policy of the Town’s Boards and Commissions with authority to set user fees to:

- identify those services that are candidates for the establishment of a user fee because they benefit a party in a manner not shared by the broader community.
- establish a user fee based on the total cost of delivering the service including direct costs and indirect costs

- Identify factors to be considered in determining whether a user fee shall recover the full or pro-rated cost of delivering a service.
- Regularly review, though not more than every three years, existing user fees to determine if they are capturing the total cost of delivering the service. An exception will be utility charges that shall be reviewed annually (see Enterprise Fund policy).
- waive fees for programs, use of public facilities and use of public spaces based on formally adopted criteria for waiving such fees. Waivers shall be granted by the Board or Commission that adopted the fee, or by a Town employee authorized to do so (e.g., the Town Administrator in the case of fees established by the Selectboard, or a Department Head reporting to a Town Commission) granted authority by the Board or Commission to waive a fee pursuant to adopted criteria. In the case where authority is granted to a Town employee, that employee shall report monthly to its respective Board or Commission of individual fees waived in the prior month, the basis for the waiver and the amount waived.

## PROCEDURES

It shall be the responsibility of the Town Administrator, or his/her designee, to:

- compile an inventory of all user fees charged by the Town including a reference to the authority for charging such a fee, the current fee, whether it recovers all or part of the total cost of the service, and the date it was last reviewed.
- provide technical assistance to all Boards and Commissions with fee setting responsibility in determining the total cost of delivering the services under their jurisdiction for which a fee is currently or is proposed to be charged.
- call for the periodic review of user fees as established by this policy to determine if they are capturing the total cost of the service being delivered.

## REFERENCES

M.G.L. c. 40, § 22F (authority to fix reasonable fees for licenses, permits, or certificates issued pursuant to statutes or regulations)

M.G.L. c. 44, § 53G (employment of outside consultants)

M.G.L. c. 41, § 69B (water commissioners; powers and duties)

M.G.L. c. 45, § 14 (fee setting authority – recreation commissions)

M.G.L. c. 83, § 16 (charges for use of sewers)

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

Town of Paxton, [Enterprise Fund policy](#)

[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

Massachusetts Department of Revenue, Division of Local Services February 2016. [DLS Guidance on User Fees.pdf](#)

Best Practices: Establishing Government Charges and Fees. Government Finance Officers' Association. <https://www.gfoa.org/materials/establishing-government-charges-and-fees>

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**  
**DATE ADOPTED: AUGUST 8, 2022**

## **A-10 RISK MANAGEMENT**

### **PURPOSE**

The purpose of this policy is to heighten the importance of acknowledging potential liabilities that can affect public and employee safety, Town property, the Town's delivery of services and its financial condition; and to develop strategies and programs to identify, minimize, or reduce risk associated with these liabilities.

### **APPLICABILITY**

The Town Administrator shall have overall responsibility for the risk management program with assistance from a Risk Management Committee comprised of members selected by the Town Administrator.

### **DEFINITIONS**

Risk Management - Risk management encompasses identifying risks, evaluating potential losses, and ultimately planning and developing a risk management program to mitigate these risks to an acceptable level.

### **POLICY**

It shall be the responsibility of the Town Administrator, on an ongoing basis, to identify, analyze, and evaluate risks associated with the delivery of Town services and develop programs to mitigate these risks. Such programs shall include but not be limited to the following:

- The procurement of property, liability, automobile and workers' compensation insurance at levels adequate to protect the Town against loss and litigation.
- At minimum, every five years the Town Administrator shall seek competitive bids to replace existing property and liability coverages.
- The evaluation of Town property to identify unsafe conditions that could jeopardize employee and/or public safety; the identification of modifications to property to address such conditions; and the promulgation of protocols governing the use of property that will protect employee and public safety.
- The evaluation of Town services to identify risks associated with service delivery, and the identification of changes in service delivery to mitigate such risks.
- Work with Town Counsel to develop language for construction and service contracts that, where appropriate, results in the transfer of risk to other parties.
- The development of training programs for Town employees to protect against accident and injury on the job.

- The evaluation of the Town’s information technology infrastructure to identify the potential for damage to the integrity of the Town’s data from internal and external intrusion and to develop systems and protocols to protect against such damage.

## **PROCEDURES**

The Town Administrator shall create a Risk Management Committee to assist in the implementation of this policy. The Committee shall be chaired by the Town Administrator, or his/her designee as approved by the Selectboard. Candidates for consideration to serve on the Committee shall include but not be limited to heads of departments whose activities expose the Town to liability through injury to employees, patrons or damage to Town assets, e.g., the DPW Director, the Fire Chief, the Police Chief, the Emergency Manager and the Senior Center Director.

Upon recommendation of the Risk Management Committee, the Town Administrator shall seek to engage the services of its current insurance provider to undertake an assessment of risk in the operations of the Town and delivery of services, and to make recommendations for its mitigation. If the current insurance provider is unable to perform such an assessment, the Town Administrator shall seek funding to engage the services of an outside consultant to conduct such an assessment annually, the Town Administrator shall schedule a meeting with the Town’s insurer(s) to review outstanding claims against the Town and the materiality of such claims on the Town’s financial condition.

## **REFERENCES**

Government Finance Officers Association Best Practice: [Creating a Comprehensive Risk Management Program, March 2009](#)

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED:**

## **A-11 ENFORCEMENT OF PROPERTY TAX COLLECTIONS**

### **PURPOSE**

The purpose of this policy is twofold: (1) to communicate clearly to all taxpayers the procedure the Town will follow to preserve its rights and fulfill its duties to collect taxes and (2) to contribute to the stability of the Town's financial condition by maximizing the collection of taxes.

The property tax levy comprises most of the annual revenues, approximately 74%, that support the Town's operating budget. On average, the Town collects approximately 98% of the amount billed by June 30 of the year in which it is levied. As a matter of fairness to those who pay their taxes timely, the Town should pursue all legal remedies available to it in order to ultimately collect from those taxpayers who are delinquent.

### **APPLICABILITY**

This policy applies to the taxpayers of the Town, the Treasurer/Collector who has the primary responsibility for the collection of taxes and enforcement of collections, the Principal Assessor in supporting the enforcement of collection of personal property taxes and the Town Accountant regarding accounting for transactions resulting from enforcement. Secondary enforcement responsibility rests with Town departments responsible for the issuance of licenses and permits, and outside legal counsel, as needed.

### **DEFINITIONS**

Real Property - for local tax purposes is defined as land, buildings and things thereon or affixed thereto.

Personal Property - Personal property is composed of goods, merchandise, equipment, tools, machinery, furniture, furnishings and effects and other movable property.

Demand Letter - a letter to taxpayers issued after a fiscal year's last tax payment is due informing taxpayers that their taxes are delinquent and need to be paid.

Tax Taking - real estate taxes which remain unpaid after the issuance of a Demand Letter are subject to the tax taking process, which, if carried to its conclusion, results in a municipal tax lien being placed on the property that secures ultimate payment of the delinquent tax.

Tax Title - a lien placed on property to enforce the collection of property taxes and is removed when the property tax account is paid in full. If the property taxes are not paid, the Town may file at Massachusetts Land Court to foreclose and take possession of the property.

### **POLICY**

It shall be the policy of the Town regarding collections of property taxes as follows:

- to pursue all legal remedies available to it under law and by-law
- to maximize the payment of taxes by the end of the fiscal year in which the taxes were levied.

- to expedite the payment of those accounts that are delinquent beyond the end of the fiscal year in which the taxes were levied; and,
- for those accounts that continue to be delinquent, to secure the right of the Town to ultimately collect taxes outstanding.

Further, it shall be the policy of the Town that among these remedies will be the withholding, suspension or revocation of licenses and permits of delinquent taxpayers per Town By-Law adopted pursuant to the authority granted under (M.G.L. c. 40, §57).

## **PROCEDURES**

- Taxes Due

The Town issues quarterly tax bills consisting of 2 preliminary bills due August 1 and November 1, respectively. Typically, the actual tax bill for a fiscal year is issued on December 31 and is due in two quarterly installments due on February 1 and May 1, respectively.

- Demands

After the 4<sup>th</sup> quarter tax bills are due, demand letters shall be issued to the assessed owners of properties whose tax payments are overdue. These demands shall apply to unpaid real property and personal property taxes. Demand letters shall not be issued to those who have been granted full exemptions of taxes due. The demand letters shall be sent to the assessed owners' last or usual place of residence or business, or alternatively, to the address best known to the collector.

The Treasurer/Collector shall, as a matter of law, allow a minimum of fourteen (14) days for payment before pursuing additional enforcement remedies for unpaid real property taxes, i.e., a tax taking, provided for by statute. (Per Massachusetts General Laws, issuance of a demand is a prerequisite to a valid tax taking (see below)).

- Tax Taking

After the expiration of 14 days from the date of issuance of a demand letter, a municipality can, pursuant to Massachusetts General Laws, initiate a tax taking which "perfects and secures" the municipality's lien on the real estate.

Pursuant to M.G.L. c. 60, § 37, a municipality has 3 1/2 years from the end of the fiscal year for which the taxes were assessed to "secure", or "perfect", the tax liens. It shall be the policy of the Town to initiate tax takings as soon as possible after the end of the fiscal year for which such taxes were assessed, but not later than 3 years from the end of that fiscal year

Though not required by law, as a courtesy prior to the initiation of a tax taking, it shall be the policy of the Town, to issue at least one courtesy enforcement letter to delinquent property owners describing the Town's intent to initiate a tax taking and give the owner the opportunity to pay overdue taxes to avoid such taking. The letter shall be issued by the Treasurer/Collector approximately one month prior to the initiation of the tax taking.

Further, in addition to the courtesy enforcement letter issued one month prior to the initiation of a tax taking, in each fiscal year following the end of the fiscal year for taxes were assessed and in which a tax taking is not initiated, a courtesy letter shall be sent to each delinquent taxpayer reminding the taxpayer that taxes are delinquent, requesting payment of delinquent taxes, and stating that:

- Per state statute, delinquent taxes are accruing penalty interest at the rate of 14% per annum
- That the property is subject to a tax taking at which time, per state statute, penalty interest on delinquent taxes will increase to 16% per annum

If the courtesy enforcement letter issued one month prior to a proposed tax taking does not result in full remittance of amounts due, the Treasurer/Collector shall pursuant to M.G.L. c. 60, § 53, publish a Notice of Tax Taking in the local newspaper and post the notice in two or more convenient, public places.

No earlier than 14 days after the publication of the Notice of Tax Taking but no more than 60 days after the publication, the Treasurer/Collector shall prepare an Instrument of Taking form for each delinquent property and record it at the Registry of Deeds, the recording of which “perfects” the tax lien.

After performing the takings, the Collector shall prepare, in triplicate, a list of Recorded Takings to be set up as tax title accounts, giving one to the Treasurer, one to the Town Accountant, and retaining one for the Collector's records. The Town Accountant shall adjust the general ledger by reducing property taxes receivable and increasing tax titles receivable.

The Treasurer shall set up a separate Tax Title Account for each parcel of real estate included in a list of recorded takings. Each Tax Title Account must contain the following information:

- Name and address of person assessed.
  - Name(s) of subsequent owner(s).
  - Date of taking.
  - Legal description and location of property.
  - Book and page of the recording of the Instrument of Taking or, in the case of registered land, certificate and document number.
  - Unpaid tax amount for the year(s) for which the property was taken.
  - Other additional costs, such as betterments, utility charges, district taxes etc.
  - Collector's interest to the date of taking.
  - Collector's fees and charges, as outlined in Ch. 60 §15.
  - Subsequently certified taxes.
- Personal Property

Unlike real property taxes, there is no statutory mechanism to record a lien against personal property to secure collection of outstanding personal property taxes. Notwithstanding this fact, the Treasurer/Collector, with the assistance of the Principal Assessor, shall take the following measures to pursue collection of delinquent personal property taxes.

If, following the issuance of a demand letter for unpaid personal property taxes as described above, personal property accounts remain unpaid, the Treasurer/Collector shall explore the costs and benefits of the following collection remedies:

- By bringing a civil action against the assessed owner. G.L. c. 60, § 35. Actions to collect personal property taxes may be brought in the small claim's session of district court. G.L. c. 218, § 21.
- By withholding any money owed by the municipality to the taxpayer and set it off against the obligations of the taxpayer under G.L. c. 60, § 93.

The Treasurer/Collector shall periodically review delinquent accounts with the Principal Assessor to determine if the taxes are uncollectible because the taxpayer is deceased, absent, bankrupt, insolvent or otherwise unable to pay. If it is determined that such is the case, the Collector shall notify the Board of Assessors in writing that the delinquent taxes are uncollectible. Within 30 days of such notification the Board of Assessors must review the request and certify to the Treasurer/Collector its agreement with the Collector's recommendation and notify the Treasurer/Collector and the Town Accountant accordingly.

Upon determination that an account is deemed uncollectible, the Principal Assessor shall reduce the account receivable recorded in the Assessor's commitment for the year of levy and the Town Accountant shall reduce the personal property receivable in the general ledger by the amount of the unpaid tax and post an offsetting entry to the Allowance for Abatements and Exemptions (the Overlay account).

In any case, if an account remains delinquent following the end of five fiscal years after the tax is levied, it shall be deemed uncollectible and written off per the procedure described above.

- Subsequent Taxes

Once a lien is recorded on a parcel for unpaid taxes in a given year, there is no need, nor is there a provision in the law, to record an additional lien on the parcel.

If in a fiscal year subsequent to the taking of a parcel, a taxpayer is delinquent on that year's taxes after the issuance of a demand bill, the Collector shall certify to the Treasurer - no later than September 1<sup>st</sup> of the year following the assessment of the taxes – that the unpaid real property taxes be applied to that parcel's tax title account. Such certification shall be reported to the Town Accountant so that adjustments to property tax receivables and tax titles receivable can be made to the general ledger.

- Interest, Fees, and License and Permit Denials, Suspensions and Revocations

All delinquent taxpayers are subject to charges, which the Treasurer will add to their accounts. These include interest accrued to the date of tax taking, advertising fees, certified mailing costs, legal fees, and all recording fees.

If a real or personal property tax remains unpaid by the end of the fiscal year following the year of levy, the Collector shall notify each department, board, commission or division of the municipality that issues licenses and permits of the delinquent party, and such notification shall, pursuant to M.G.L. c. 40, § 57 and in accordance with Town By-Laws, serve as the basis for the denial, revocation or suspension of any license or permit.

- Redemption or Foreclosure

At least once every year, the Treasurer shall review all tax title properties that are older than 180 days and do not have or bankruptcy recordings.

From this list, the treasurer shall identify tax title accounts that are potential candidates for foreclosure. Histories of the properties shall be compiled to determine their prior use and any potential liabilities that may arise from their histories. Upon completion of a review of the candidate properties, selected properties be discussed with the Town Administrator before referral to a tax title attorney for pursuit of foreclosure in Land Court.

The Treasurer, as manager of the service contract with the tax title attorney, will work with the attorney to prepare parcels in tax title status for foreclosure, beginning by providing each Instrument of Taking. The attorney will research the tax title properties and will mail new collection enforcement letters to the taxpayers informing them of the initiation of foreclosure proceedings and the opportunity to preclude foreclosure by redeeming the property.

If a taxpayer or other party pays the outstanding amount on a tax title property, the Treasurer will prepare an Instrument of Redemption and file it at the Registry of Deeds, which removes the lien. Redemption can only be done prior to the property being foreclosed. If the obligation remains unpaid, the tax title attorney will proceed with foreclosure action in Land Court, possibly resulting in auctioning of the property.

In addition to Land Court foreclosure referrals, the Treasurer/Collector is responsible for completing foreclosures on any properties below the “Land of Low Value” threshold, which is annually updated each spring by the Division of Local Services (DLS).

**REFERENCES**

|                    |                    |                     |                    |
|--------------------|--------------------|---------------------|--------------------|
| M.G.L. c. 60, § 6  | M.G.L. c. 60, § 16 | M.G.L. c. 60, § 37  | M.G.L. c. 60, § 37 |
| M.G.L. c. 60, § 50 | M.G.L. c. 60, § 53 | M.G.L. c. 60, § 54  | M.G.L. c. 40, § 57 |
| M.G.L. c. 60, § 61 | M.G.L. c. 60, § 62 | M.G.L. c. 60, § 62A | M.G.L. c. 60, § 63 |
| M.G.L. c. 60, § 76 | M.G.L. c. 60, § 77 | M.G.L. c. 60, § 79  | M.G.L. c. 60, § 80 |
| M.G.L. c. 40, § 57 |                    |                     |                    |

Paxton By-Laws – Adoption of M.G.L. c. 40, § 57, Denial or Revocation of License or Permit for Nonpayment of Local Taxes, Fees or Other Charges, (Article 7. October 27, 2014, Special Town Meeting)

Department of Revenue, Division of Local Services Best Practice: Enforcing Collections

DLS Informational Guideline Releases 05-208: Payment Agreements and Tax Receivable Assignments and Land of Low Value Foreclosure Valuation Limit updated annually

Massachusetts Collectors & Treasurers Association: Treasurer’s Manual and Collector’s Manual

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **B. FINANCIAL OPERATIONS POLICIES**

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### **B-1 CASH AND RECEIVABLES RECONCILIATIONS**

#### **PURPOSE**

The purpose of regular reconciliations of cash and accounts receivable is to ensure revenue transactions are in balance, mitigate fraud, and safeguard general ledger accuracy. Failure to reconcile cash and accounts receivable hampers the Town's ability to produce reliable revenue reports, maintain accurate records, close its books, make timely submissions to the Massachusetts Department of Revenue, Division of Local Services (DLS), and complete audits. In addition, unresolved variances can reduce the amount of free cash certified by DLS and may result in significant deficiency findings by the Town's independent auditor.

#### **DEFINITIONS**

Accounts receivable – outstanding amounts owed to the Town resulting from the issuance of bills for property taxes, motor vehicle excise taxes and charges for services, i.e., utility bills. (Accounts receivable resulting from invoices issued for police details are addressed in a separate policy.)

Accounts Receivable Control Account – a record of original entry in which the record-keeper for the department issuing the bills reduces the total amount committed by amounts collected and abatements and exemptions granted and increases it by refunds issued.

Cashbook – a ledger maintained by the Treasurer that tracks the Town's running balance of cash-on-hand in which is recorded all cash receipts, disbursements, and interest earned on investment of Town funds.

Commitment – for each billing cycle, (1) in the case of a real estate tax commitment, a list of land parcels in the Town subject to the property tax, showing for each parcel the amount of the tax due and the name and address of the person liable for payment, and (2) in the case of a motor vehicle excise tax or utility commitment, a list of the individual accounts, the amount charged for each account and the name and address of the person liable for payment.

General ledger - a bookkeeping ledger that serves as a central repository for accounting data for an organization. Each account maintained by the organization is known as a ledger account, and the collection of all these accounts is known as the general ledger. The general ledger is the backbone of any accounting system which holds financial and non-financial data for the organization.

#### **APPLICABILITY**

This policy applies to any Town department with the responsibility for the issuance of bills for taxes or charges for services, and/or for the collection of fees; the Town Accountant, or his/her designee; and Treasurer/Collector, or his/her designee.

## POLICY

- No later than 30 days after the end of each month the following shall occur. A department responsible for the issuance of bills shall reconcile the sum of all receivable balances from the commitment with the accounts receivable control account. Any variance shall be researched and resolved. Upon resolution, the department shall forward the receivables balance to the Town Accountant for comparison with the receivables control account in the general ledger. If the amounts do not match, the department and the Town Accountant shall determine the reasons for any variance (e.g., missing information, errors, and/or timing differences).
- The Treasurer/Collector shall timely reconcile the cashbook to the bank statements and reconcile any differences between the two. The Treasurer/Collector shall then transmit the reconciled balance to the Town Accountant for comparison to the cash control account in the general ledger. If the amounts do not match, the Treasurer/Collector and the Town Accountant shall determine the reasons for any variance (e.g., missing information, errors, and/or timing differences).

## PROCEDURE

The following internal controls shall be followed to implement this policy:

- For any billing cycle, a department responsible for the issuance of bills establishes an accounts receivable control account equal to the total Commitment by tax or charge.
- Concurrent with the department's establishment of the accounts receivable control account, the Town Accountant posts the total commitment of tax or charge to an accounts receivable control account in the general ledger.
- Each subsequent collection, abatement/exemption, refund or transfer (e.g., to tax title in the case of property taxes), by parcel or account, is posted by the department to the commitment book and the department's accounts receivable control account with concurrent notification to the Town Accountant for posting to the accounts receivable control account in the general ledger.
- On a regular basis as described in the Town of Paxton, Revenue Processing policy, all departments receiving payments, whether pursuant to the issuance of bills or for fees, shall transmit to the Treasurer such amounts collected under the cover of a Schedule of Departmental Payments to Treasurer (a turnover sheet), or equivalent, showing the amounts by category of tax, charge or fee for the period just ended; a copy of which shall concurrently be transmitted to the Town Accountant for posting to the general ledger's revenue accounts and cash control accounts.
- In a timeframe not to exceed a week since the last posting to the cash book, payments received, disbursements made, and interest earned shall be posted by the Treasurer to the cash book.

## REFERENCES

Massachusetts Collectors & Treasurers Association: Treasurer's Manual 2017 and Collector's Manual 2017

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

Town of Paxton, Revenue Processing policy

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **B-2 EMPLOYEE REIMBURSEMENTS**

### **PURPOSE**

To establish a policy that sets out procedures for a uniform method for approval, payment and accounting of reimbursements to employees for legitimate business-related expenses.

### **APPLICABILITY**

This policy shall apply to all employees, elected officials, appointed officials, and volunteers of the Town. The term employee will be used throughout the policy for all to whom this policy applies.

### **DEFINITIONS**

Business Mileage - Mileage incurred by an employee in a personal vehicle as part of business travel from Town offices to an outside destination. For in-town business travel by employees - using their personal vehicles - between Town buildings, or about Town, in the performance of their duties, mileage shall be the actual mileage recorded on the vehicle's odometer. If the person is traveling from their home to an outside business location, only the mileage incurred in excess of their normal round-trip commute to the Town office shall be reimbursable.

Business travel expenses – expenses incurred for either in-state and out-of-state travel e.g., plane tickets, airport parking, shuttle fees, hotel accommodations, meals, conference/training fees, parking, tolls, taxis and ride sharing (e.g., Uber or Lyft). This does not include mileage incurred by an employee for in-town travel or travel to other Massachusetts municipalities in the performance of regular, daily tasks.

Approved Business Meals – The limit on the amounts authorized to be expended, inclusive of taxes and tip, for breakfast, lunch and dinner that will be paid for with Town funds per a schedule that is established by the Selectboard and is subject to periodic modification. Reimbursement for alcoholic beverages is prohibited by M.G.L. c. 44 Section 58.

In-State Travel – an employee's travel to other locations in the state other than in-town travel or travel to other Massachusetts municipalities in the performance of regular, daily tasks.

IRS Mileage Rate – a rate published annually by the Internal Revenue Service that reflects the average cost per mile of operating a motor vehicle capturing the costs of gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation.

Job related expenses – pre-authorized expenses incurred in purchasing items required for the performance of an employee's duties. Reimbursement of expenses incurred by employees pursuant to provisions of collective bargaining agreements shall be governed by such agreements.

### **POLICY**

- Town employees are expected to make every effort to prepay all business travel expenses (e.g., plane tickets, hotel accommodations, conference/training fees, etc.) using a Town credit card or by check through the accounts payable process.

- Business travel expenses incurred during in-state travel require the pre-approval of the employee's department head or his/her designee. Evidence of advance approval must be included with an employee's request for reimbursement. The Town Administrator shall determine the form by which approvals are obtained. In the case of elected officials, appointed officials and volunteers, approving authorities shall be the chairperson of the respective Boards and Committees on which the individual serves.
- Out-of-State business travel requires the pre-approval of the employee's department head and the Town Administrator. Evidence of advance approval must be included with an employee's request for reimbursement. The Town Accountant shall determine the form by which approvals are obtained. In the case of elected officials, appointed officials and volunteers, approving authorities shall solely be the chairperson of the respective Boards and Committees on which the individual serves.
- For business travel requiring the use of a vehicle, including travel between Town buildings in the course of a day, employees shall make reasonable efforts to use municipal vehicles instead of their personal vehicles.
- Before paying for job-related expenses out-of-pocket (e.g., office supplies, public works materials, food) Town employees should make every effort to procure such items from businesses where the Town has an account, and the business will invoice the Town for purchases.
- Prior to the purchase of job-related expenses out-of-pocket, an employee shall obtain the authorization of his/her supervisor. Such authorization may be verbal or written.
- An employee may not be reimbursed for sales tax incurred. To avoid incurring sales tax, an employee shall obtain a certificate from the Town Accountant stating the Town is exempt from sales tax for presentation to a business at the time of purchase of a job-related item.
- When reserving overnight accommodations for business-related travel, employees are expected to stay at "average rate" facilities utilizing a conference rate or a group rate when available.
- Employees shall be reimbursed for room rates and basic internet service only. Examples of charges that will not be reimbursed include, but are not limited to, "wet-bar" expenses, gym fees, laundry and movies.
- Reimbursement for eligible expenses incurred for overnight accommodations will be only for actual expenses incurred.
- When making travel reservations, employees are expected to secure the lowest available fares for airplane, train, or other vehicle transportation. Airplane travel should be at economy, coach, or other lower travel rates.
- Rental cars should be limited to mid-class or smaller vehicles, unless the number of persons attending requires a larger vehicle.

- The Town will reimburse employees for approved business meals per a schedule authorized by the Selectboard. Reimbursement for alcoholic beverages is prohibited by M.G.L. c. 44 Section 58.
- The following expenditures incurred by an employee in the course and scope of their duties shall not be reimbursed:
  - Massachusetts sales tax not including hotel/motel and meals excise taxes
  - Alcoholic beverages including liquor, beer and wine
  - Flowers and gifts for employees or others, in certain cases (see Municipal Expenditures: Proper Public Purposes in City and Town, Volume 19, No.2, a publication of the Massachusetts Department of Revenue, Division of Local Services)
  - Charitable contributions
  - Political contributions
  - The personal portion of any trip
  - Family expenses, including those of a partner when accompanying employee on Town business, childcare or pet care
  - Entertainment expenses, including theatre, shows, movies, sporting events, sightseeing tours, golf, spa treatments, etc.
  - Non-mileage personal automobile expenses including repairs, insurance, gasoline, traffic citations
  - Personal losses incurred while on Town business
  - Expenses paid for by any other organization
  - Valet services
  - Mileage while traveling as a passenger in a privately-owned car
  - Personal travel insurance
  - Medical or hospital expenses
  - Theft, loss or damage to personal property while on Town business
  - Personal toilet articles, reading material, or personal telephone calls while on Town Business
- If it is determined that an employee knowingly and purposefully falsified a request for reimbursement, the Town may take disciplinary action up to and including termination.

## **PROCEDURES**

- Requests for reimbursement shall be on a form prescribed by the Town Administrator accompanied by required supporting documentation.
- Expenses incurred that are eligible for reimbursement shall include
  - Business mileage
  - Business travel expenses
  - Job-related expenses

- On January 1 of each year, the Town Administrator shall distribute to all employees a schedule of the limits on the amount of reimbursement for travel-related expenses as established by a schedule adopted by the Selectboard.
- Mileage reimbursement for authorized use of a personal vehicle for the performance of regular, daily tasks or travel to attend other activities (e.g., conferences, training or seminars) shall be based on the IRS Mileage Rate in effect at the time the vehicle is used unless governed by terms of an existing collective bargaining agreement. Requests for reimbursement shall be accompanied by a map, - Google maps or equivalent – showing the beginning and ending destinations and the mileage.
- Requests for reimbursement must be accompanied by original, itemized receipts. When an employee uses his/her credit card or debit card, the customer copy of the credit/debit card receipt or a copy of the credit/debit card statement showing the charge must also accompany the request for reimbursement.
- Original receipts must indicate the date and time, name of business, location, amount paid and business purpose (handwritten by the employee).
- A request for reimbursement form must be signed by the employee and submitted to the department head or his/her designee for review, approval and signature.
- Prior to signing the reimbursement form, the department head or his/her designee shall review the request for reimbursement form to ensure that the costs incurred comply with this policy. If questions arise, the department head shall seek clarification and additional documentation, if needed, from the employee before signing the form.
- Requests for reimbursement should be submitted no later than one month after expenses have been incurred. Requests for reimbursement for June expenses must be made by July 14<sup>th</sup>.
- Upon signing the request for reimbursement form, the department shall submit the reimbursement form and its attachments to the Town Accountant to be paid in the next accounts payable cycle.

## REFERENCES

M.G.L. c. 41, §52  
M.G.L. c. 268A, § 3

M.G.L. c. 44, §58

Municipal Expenditures: Proper Public Purposes in City and Town, Volume 19, No,2, a publication of the Massachusetts Department of Revenue, Division of Local Services

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **B-3 PROCUREMENT**

### **PURPOSE**

The purpose of this policy is to formalize the process the Town must follow to comply with state statutes that govern a municipality's procurement of goods and services and to identify parties that are subject to such compliance.

### **APPLICABILITY**

This policy applies to all employees, boards and commissions of the Town.

### **DEFINITIONS**

Chief Procurement Officer – pursuant to MGL Chapter 30B, §2, the purchasing agent appointed by the Selectboard, or otherwise designated by charter or local by-law for the appointment of a Chief Procurement Officer, to procure all supplies and services for the Town.

Pursuant to M.G.L. c. 30B, § 19, the Chief Procurement Officer of a governmental body is authorized to delegate procurement powers and duties to other employees of the governmental body.

Sound business practice – practice that ensures the receipt of favorable prices by periodically soliciting price lists or quotes.

Encumbrance – triggered by the issuance of a purchase order to a vendor; the reservation of a portion of an appropriation to ensure that funds are available to pay an invoice from the vendor upon receipt for the good or service ordered.

Internal Control - Procedures put in place to safeguard assets, promote accountability, increase efficiency, and stop fraudulent behavior.

### **POLICY**

It shall be the policy of the Town as follows:

- The Town Administrator shall serve as the Chief Procurement Officer of the Town.
- With the exception of those requiring the Selectboard's signatures, the Town Administrator shall be the signatory on all Town contracts including any purchase orders issued.
- As Chief Procurement Officer of the Town, the Town Administrator may delegate his/her powers and duties to one or more employees of the Town. Such delegation shall be in writing, signed by the Chief Procurement Officer, and state the activity or function authorized and the duration of the delegation. A delegation may be in specific or general terms, may be limited to a particular procurement or class of procurements, and may be conditioned upon compliance with specified procedures. A delegation may be revoked or amended whenever the Chief Procurement Officer determines that revocation or amendment is in the best interests of the Town. A delegation of powers or duties by the Chief Procurement Officer and any revocation or amendment thereof

shall not take effect until a copy of the same has been filed with the Office of the Inspector General of the Commonwealth pursuant to MGL Chapter 30B, § 19.

- It shall be the policy of the Town that all employees shall procure goods and services pursuant to sound business practices and in compliance with all applicable laws and regulations of the Commonwealth and Town By-Laws, including ethics provisions that govern the conduct of public officials and employees.
- It shall be the policy of the Town that all current department heads and their staff designated by the Chief Procurement Officer to solicit bids for goods and services shall, within 6 months of the implementation of this policy pursue - if they have not already done so - all training opportunities and certifications offered by the Commonwealth in the area of procurement that is pertinent to their daily operations including the following:
  - MGL Chapter 30B – procurement of supplies and services
  - MGL Chapter 149 – building (vertical) construction
  - MGL Chapter 7C, §§ 44-58 – designer services
  - MGL Chapter 30, §39M --Non-building (horizontal) Construction
- It shall be the policy of the Town that all new employees designated by the Chief Procurement Officer to solicit bids for goods and services shall, within 6 months of their date of hire, pursue all training opportunities and certifications offered by the Commonwealth in the area of procurement that is pertinent to their daily operations including those described in the bullet point above.
- The Town shall comply with all purchasing-related record retention requirements as promulgated by state statute and regulations.

## **PROCEDURES**

The following procedures shall be followed in the procurement of goods and services.

- Subject to delegation of authority by the Chief Procurement Officer, each Town department head shall be responsible for the procurement of goods and services of the department.
- If a good or service is on order and anticipated to be delivered and/or invoiced after the close of a fiscal year, each department must initiate a request to the Town Accountant to encumber funds from the current year's budget, so they are available to pay invoices when submitted.
- For all purchases, vendors shall be instructed to transmit invoices to the department that generated the order.
- Pursuant to Massachusetts General Laws, the solicitation of bids for any good or service in an amount less than that requiring competitive procurement, must be made on the basis of sound business practices, i.e., to the extent practicable be made competitively by seeking at least 3 quotations based on a common specification.

- The solicitation of bids for goods or services in excess of thresholds established by Massachusetts General Laws that require competitive procurement, except those that are exempt from competitive bidding by statute, must adhere to the requirements of such laws.
- In the case of procurement of those goods or services exempt from competitive bidding by statute, to the extent practicable, efforts shall nonetheless be made to solicit competitive quotations from at least three vendors/firms.
- The procurement of a good or service which is estimated to cost in excess of thresholds requiring competitive bidding pursuant to Massachusetts General Laws may not be split into multiple procurements in order to evade the requirements of such laws.
- A department head shall submit a request to the Chief Procurement Officer to award a bid that requires competitive procurement pursuant to Massachusetts General Laws, and such request shall be accompanied by evidence that competitive quotes were sought in compliance with such laws governing the good or service being procured.
- If a procurement is for a good or service that calls for the signing of a contract, that contract shall include signature blocks for the Town Accountant (to certify the availability of funds), and for the Town Administrator, unless the signatures of the Selectboard is required.
- The Town Administrator, in consultation with Town Counsel, shall develop a template for a standard contract for the procurement of goods and services that shall include provisions that will protect the interests of the Town and will be subject to modification to meet the needs of any particular procurement.
- Pursuant to MGL Chapter 30B, § 7, competitive bids may be waived in instances where it is demonstrated that only one vendor can provide a good or service at or less than the threshold amount established by statute, referred to as a sole source procurement. In such a case, a department head seeking to make a sole source procurement shall seek approval from the Chief Procurement Officer in the form of a memorandum presenting evidence that there is only one vendor who can provide the good or service.
- Pursuant to MGL Chapter 30B, § 8, whenever the time required to procure a good or service would endanger the health or safety of the people or their property due to an unforeseen emergency, the Chief Procurement Officer may authorize an emergency procurement that does not comply with statute. A record of each emergency procurement shall be maintained, documenting the basis for the determination that an emergency exists, the name of the vendor providing the good or service, the amount and type of contract, and a list of the supplies or services purchased under the contract. The record of the emergency procurement must be submitted as soon as possible to the Secretary of State for publication in Goods and Services Bulletin.

## REFERENCES

MGL Chapter 30B  
MGL Chapter 7C, §§ 44-58.  
M.G.L. Chapter. 268A

MGL Chapter 149  
MGL Chapter 30, §39M  
MGL Chapter 66, § 8

Publications of the Commonwealth of Massachusetts, Office of Inspector General:

- The Chapter 30B Manual: Procuring Supplies, Services and Real Property
- Designing and Constructing Public Facilities,
- Charts on Procurement Procedures
- Model Designer Selection Procedures for Municipalities and Other Local Public Agencies
- Code of Conduct for Public Employees

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: AUGUST 8, 2022**

## **B-4 REVENUE PROCESSING**

### **PURPOSE**

The purpose of this policy is (1) to safeguard Town assets by ensuring that payments to the Town in the form of cash, check, credit card, and other forms of payment for property taxes, excise taxes, charges for services, fees, and federal and state government receipts are properly and timely secured, recorded, and deposited in Town bank accounts; and, (2) to maximize cash flow to finance Town expenditures and maximize interest income.

### **APPLICABILITY**

This policy applies to the head of each Town department that receives payments including but not limited to, fees, taxes, charges for service; the Treasurer/Collector; and the Town Accountant. For the purposes of this policy, the titles of department head or Treasurer/Collector shall refer to that position, or his/her designee unless specified otherwise. It also applies to a role for the Town Administrator's regarding surety bonds.

### **POLICY**

- The head of each department that receives payments is responsible for adhering to procedures established by this policy to ensure that all receipts are recorded accurately, kept secure from loss or theft, and turned over timely to the Treasurer/Collector.
- The Town Administrator shall ensure that surety bonds are maintained for all individuals responsible for handling payments to indemnify the Town from potential loss or theft.
- Each department must turn over payments at a minimum on a weekly basis and must do so immediately whenever cash receipts exceed \$250. Notwithstanding the above, at month-end, departmental staff will turn over all revenues no later than [11:00 am] on the last business day of the month.

### **PROCEDURE**

The following internal controls shall be followed to implement this policy:

- Receipt of Payments
  - Upon the receipt of a payment by cash or check, the receiving department shall compare the amount paid to the amount shown on the remittance and any discrepancy shall be noted at that time.
  - All departments must identify the form of payment (cash or check) on the remittance accompanying the payment.
  - Each department receiving payments shall insure that they are placed in a secure location until turned over to the Treasurer/Collector.

- Notwithstanding any delegation of responsibility, each department head is accountable for insuring that the processing, recording, record retention, and turnover of payments to the Treasurer/Collector is performed in accordance with this policy. To the extent practicable, segregation of duties should be adhered to with separate individuals responsible for: 1) receiving payments, 2) recording payments, and 3) turning payments over to the Treasurer/Collector.

- Turning Over Revenues

- All payments received by a Department shall be turned over to the Treasurer/Collector in the timeframe prescribed in this policy under the cover of a Schedule of Departmental Payments to the Treasurer (also known as a Turnover Sheet consisting of the Treasurer's copy, Form AD-9 and the Accountant's copy, form AD-10), or equivalent, with each form signed solely by the head of the Department. An employee so authorized by the head of the department shall deliver the turnover package to the Treasurer/Collector's office in person. At no time shall the employee leave a turnover package in the Treasurer/Collector's office unattended.

- Receiving Turnovers

- Upon the receipt of a turnover package, the Treasurer/Collector shall count the payments, to the extent practicable in the presence of the authorized employee. Any variance between the amount counted and the amount on the turnover sheet shall be reconciled and corrections to the Turnover Sheet shall be made and initialed by both parties.
- Following the reconciliation of any discrepancies between the count and the Turnover Sheet, the Treasurer/Collector shall sign and date each of the forms AD-9 and AD-10, or equivalent. The Treasurer/Collector's office shall provide a copy of the signed form AD-9 to the department that generated the turnover to be retained by that department as a record of the transaction. In turn, the department shall transmit the signed form AD-10 to the Town Accountant. The Town Accountant shall not accept any turnover that is not signed by a Treasurer/Collector.
- Not to exceed monthly, the Treasurer/Collector will complete a turnover of all the collections processed for taxes and other committed receivables. The turnover form will report all the collections summarized by receipt type, which must reconcile to the bank deposits for the same period.
- In a timeframe not to exceed a week since the last bank deposit and posting to the cashbook, the Treasurer/Collector shall post payments on hand to the cash book and deposit the payments at the bank. The Town Accountant shall not post the entries to the accounting module unless the forms AD-10 supporting those entries are signed by the Treasurer/Collector. Until the deposit is completed, the Treasurer/Collector will ensure that all receipts are secured at all times, either in a cash drawer, or in a safe overnight until deposit is made.

- Insufficient Funds

- Upon notification from the bank of the deposit of a check with insufficient funds, or an invalid or otherwise unpaid electronic funds transfer (EFT), the Treasurer/Collector will enter a reversal of

the amount in question to the appropriate account in the general ledger and notify the department responsible for the turnover. The Treasurer/Collector will also make an entry to the cashbook reversing an earlier posting of the receipt.

- The Treasurer/Collector, pursuant to M.G.L. c. 60, § 57A, will notify the payer in writing of the bounced check or rejected EFT and require payment of the original amount plus a \$25.00 penalty to be due in 10 days and in the form of cash, money order, or certified check.
- The head of the department receiving the original payment shall, if requested, assist the Treasurer/Collector in pursuing the amount owed. If the original payment was for a license or permit, the department shall suspend the license or permit until the original amount and penalty has been paid pursuant to M.G.L. c. 40, § 57.

- **Reconciliation**

- In accordance with the Town of Paxton, Cash and Receivables Reconciliations policy, the Treasurer/Collector will reconcile the cashbook with bank statements and provide a summary of cashbook balances to the Town Accountant monthly.
- Audit
- All cash management activity is subject to review by the Town Accountant and Paxton's independent auditor at any time deemed necessary.

## **REFERENCES**

M.G.L. c. 40, § 57

M.G.L. c. 41, § 35

M.G.L. c. 41, § 57

M.G.L. c. 44, § 69

M.G.L. c. 60, § 57A

Town of Paxton, Cash and Receivables Reconciliations Policy

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

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**

**DATE ADOPTED: August 8, 2022**

## **B-5 DISBURSEMENTS**

### **PURPOSE**

To mitigate the risk of fraud and ensure the Town disburses cash only for valid legal liabilities, this policy establishes guidelines for the expenditure of Town funds.

### **APPLICABILITY**

This policy shall apply to Town Department heads, Chairs of Boards and Committees who submit requests for expense and/or payroll disbursements; the Town Accountant with responsibility for reviewing invoices to be paid and preparing accounts payable warrants; the Treasurer/Collector, support from the Executive Assistant to the Town Administrator and Selectboard, with responsibility for administering payroll including maintaining data on employees' compensation and pay rates, and posting accounts payable and payroll transactions to the cash book; and the Town Administrator serving as personnel officer of the Town per the Paxton Government Act;, and the Selectboard with responsibility to review, approve and sign payroll and accounts payable warrants.

### **DEFINITIONS**

Accounts Payable – Money owed by an organization to its suppliers or contractors shown as a liability on the organization's balance sheet.

Accounts Payable Warrant - A written order by one party that instructs or authorizes another party to pay a specified recipient a specific amount of money for goods or services rendered.

Balance Sheet – A statement of financial position or statement of financial condition. It is a summary of the assets, liabilities and net equity of an organization as of a specific date, such as the end of its fiscal year.

Encumbrance - The reservation of a portion of an appropriation to ensure that funds are available to pay an invoice from the vendor upon receipt for the good or service ordered.

General ledger - A bookkeeping ledger that serves as a central repository for accounting data for an organization. Each account maintained by the organization is known as a ledger account, and the collection of all these accounts is known as the general ledger. The general ledger is the backbone of any accounting system which holds financial and non-financial data for the organization.

IRS Form W-9 – An Internal Revenue Service form most commonly used in a business–contractor arrangement. Businesses (e.g., municipalities) can use Form W-9 to request information from contractors they hire. When a business pays a contractor in excess of \$600 during a tax year, the business is required to file IRS Form 1099.

Payroll Warrant – - A written order by one party that instructs or authorizes another party to pay a wages and salaries to employees.

## POLICY

The following shall be policy of the Town:

- Prior to payment, all disbursements of the Town shall be subject to review and approval by the Town Accountant in the case of accounts payable, and by the Treasurer/Collector with support from the Executive Assistant to the Town Administrator and Selectboard, in the case of payroll, to ensure that they are:
  - for a legitimate public purpose.
  - in compliance with applicable federal and state statutes and regulations.
  - In the case of vendor payments, authorized by adopted operating or capital budgets, revolving funds, grant agreements or state statute.
  - in the case of payroll expenditures, only for employees occupying positions that are authorized by the annual operating budget, adopted capital budgets, revolving funds or grant agreements.
  - in the case of payroll expenditures, based on time and attendance records reviewed and approved by the appropriate department head or chair of a Town Board or Committee, and supported by provisions of existing collective bargaining agreements or the adopted annual compensation schedule for non-union personnel; and
  - if applicable, supported by language in underlying contracts.
- Every disbursed check shall include language on its face that reads “Void if not cashed after 90 days of issuance.”
- No check or wire transfer shall be issued until accounts payable and payroll warrants are signed by the Town Accountant and the Selectboard.
- A majority of Selectboard members must approve the warrant unless the Selectboard designates one of its members to review and approve bills or payment warrants, with a report provided at the next scheduled meeting of the Board. They may sign the warrant in advance of a duly posted meeting, during the meeting, or Selectboard members may alternatively travel to Town Hall individually to sign the warrant on non-meeting days.
- Vendor payments must be based on original invoices and made only to entities with valid IRS Form W-9s on file.
- As a tax-exempt organization, the Town will not pay sales tax on any expense, including reimbursement of sales tax to an employee for costs incurred in the performance of his/her duties (see Town of Paxton, Employee Reimbursements policy). (If employees expend their own funds in the performance of their duties, they should obtain from the Town Accountant - for

presentation to a vendor - a copy of a certificate showing the Town is an organization exempt from sales tax.)

## PROCEDURES

- Accounts Payable

The following procedures shall be followed in processing accounts payable disbursements:

- If a good or service of any amount is on order and anticipated to be delivered and/or invoiced after the close of a fiscal year, each department must initiate a request to the Town Accountant to carry forward funds from the current year's budget, so they are available to pay invoices when submitted.
- Accounts Payable warrants are to be prepared by the Office of the Town Accountant on a weekly basis.
- The Town Accountant shall determine the schedule by which departments shall transmit invoices for inclusion in each weekly warrant.
- The transmittal of invoices to the Town Accountant shall be made under a standard coversheet prescribed by the Town Accountant.
- An original invoice shall be required for payments to be made. The Town Accountant shall have the authority to set standards by which electronic transmittals from vendors will be acceptable in lieu of hard-copy original invoices.
- No invoice shall be paid prior to the delivery of the good or service reflected in the invoice.
- Each invoice shall be reviewed and signed by the head of the department transmitting the invoice indicating it is approved for payment. In the case of a Board or Committee, in lieu of signature by the full membership, the invoice may be signed solely by the Chair, if authorized to do so on an annual basis by the Board's or Committee's members.
- Upon receipt of invoices, the Office of the Town Accountant shall review them. An invoice that does not comply with the policies and procedures described herein shall be removed from the batch.
- Upon completion of review by the Office of the Town Accountant, all batches shall be compiled under the cover of an accounts payable warrant for final review, approval, and signature by the Town Accountant, the Town Administrator and the Selectboard.
- A signed copy of the accounts payable warrant shall be transmitted to the Treasurer/Collector. Upon receipt of the signed warrant the Treasurer/Collector shall issue checks and wire transfers (when applicable) to pay invoices included in the warrant. The Treasurer/Collector shall, within the timeframe prescribed in the Town of Paxton - Cash and Receivables Reconciliations policy, post the disbursements to the Treasurer's cash book.

- Payroll

The following procedures shall be followed in processing payroll disbursements:

- Payroll shall be processed bi-weekly by the Office of the Treasurer/Collector – with assistance from the Executive Assistant to the Town Administrator and Selectboard - for all employees with the exception of the employees of the Fire Department who shall be paid monthly.
- Bi-weekly payroll shall be based on time and attendance records reviewed and approved by the appropriate department head or Board or Committee Chair and supported by provisions of existing collective bargaining agreements or the adopted annual compensation schedule for non-union personnel.
- Employees shall be paid bi-weekly by direct deposit.
- For payroll purposes, the work week runs from 12:01 a.m. Sunday through the following Saturday at 11:59 p.m.
- The Town’s Office of Treasurer/Collector – with assistance from the Executive Assistant to the Town Administrator and Selectboard - shall be responsible for maintaining a database of active town employees and all retirees, including salaries, pay rates, stipends, weekly work hours, earned leave time, benefit options, and withholdings. Any change to an employee’s employment status, work hours, leave accrual rate, or compensation rate requires written authorization of the Town Administrator.
- All data required to run a bi-weekly payroll must be transmitted to the Executive Assistant to the Town Administrator and Selectboard no later than 10 a.m. on the Monday following the end of the bi-weekly period. If Monday is a holiday, the deadline is Tuesday by 10 a.m., or as otherwise directed by the Treasurer/Collector.
- Upon satisfactory review of the payroll report by the Town Administrator, the Executive Assistant to the Town Administrator and Selectboard will generate a payroll warrant requiring the signature of the Selectboard.
- A signed copy of the payroll warrant shall be transmitted to the Treasurer/Collector. Upon receipt of the signed warrant, checks shall be issued and/or direct deposits shall be made to pay employees included in the warrant. Each employee shall receive a pay stub that, at a minimum show gross and pay net of withholding and deductions for the week and year-to-date, accrued leave time, and leave time used for the week and year-to-date.
- The Treasurer/Collector shall, within the timeframe prescribed in the Town of Paxton – Cash and Receivables Reconciliations policy, post the disbursements to the Treasurer’s cash book.
- Upon the Treasurer/Collector’s notification to the Town Accountant that checks/direct deposits have been issued, the Town Accountant shall post the disbursements to the general ledger.

- Emergency Disbursements

If the need arises for a check to be issued to a vendor or an employee outside the regular accounts payable or payroll cycles, the head of the department, Board or Committee requesting the check shall submit the request in writing to the Town Administrator explaining the basis for the request including a statement of the extraordinary circumstances that require the check to be issued off-cycle. If the Town Administrator approves the request, an emergency warrant shall be generated to authorize payment to be made. Payment shall not be made until the warrant is signed by the Selectboard.

- Prior Fiscal Year Bills

Invoices presented for payment after the end of a fiscal year for goods or services ordered in the prior fiscal year for which no funds were encumbered shall constitute unpaid bills of the prior fiscal year. No payment shall be made until such bills are submitted to the next scheduled Town Meeting. Such submission shall seek approval to pay the invoice – pursuant to Massachusetts General Laws by a four-fifths vote of Annual Town Meeting and a nine-tenths vote of Special Town Meeting - and shall identify the funding source for the payment.

- Audit

All disbursement activity is subject to audit by Paxton’s independent auditor.

## REFERENCES

M.G.L. c. 4, § 7(26)      M.G.L. c. 41, §§ 41, 41A, 41B, 41C, 42, 43, 52, 56      M.G.L. c. 44, §§ 56, 58, 64  
M.G.L. c. 30B      M.G. L. c. 66, §§ 6A-8

Commonwealth of Massachusetts, Office of the Secretary of State, Municipal Records Retention Schedule ([https://www.sec.state.ma.us/arc/arcpdf/Municipal\\_Retention\\_Schedule\\_20200406.pdf](https://www.sec.state.ma.us/arc/arcpdf/Municipal_Retention_Schedule_20200406.pdf))

Town of Paxton By-Law, Paxton Government Act

Town of Paxton, Employee Reimbursements policy

Town of Paxton, Procurement Policy

Town of Paxton, Cash and Receivables Reconciliations policy

Town of Paxton, Collective Bargaining Agreements

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**  
**DATE ADOPTED: AUGUST 8, 2022**

## **B-6 MONTHLY REPORTING, BUDGET FORECASTING AND BUDGET ADJUSTMENTS**

### **PURPOSE**

Despite best efforts to ensure annual operating and capital budgets adopted at Town Meeting will provide funding adequate to cover anticipated costs, costs arising from emergency or unforeseen circumstances may occur that outstrip the capacity of current budgets to finance them.

After the annual operating budget or capital budgets are adopted, the task falls to periodically monitor actual expenditures in comparison to the adopted budget, and also revenues compared to estimates. The objective is to identify potential budgetary shortfalls or revenue deficits and give staff and elected and appointed officials the opportunity to identify pre-emptive actions to preclude them.

Monthly reporting is the mechanism by which monitoring of the revenue and expenditure is performed to identify rates of spending that could indicate expenditures may exceed budget or revenues might not meet estimates, thus requiring adjustments to spending or the budget.

The purpose of this policy is to

- Identify those with responsibility to generate, review and act on monthly reports.
- Describe alternative approaches to budget adjustments.

### **APPLICABILITY**

This policy applies to the Town Administrator in managing the process of monthly reporting; the Town Accountant who manages the general ledger, the source of budget reports; department heads given their responsibility to manage their respective operating and capital budgets; the Finance Committee given its role in developing the annual budget; and the Selectboard in its role as the chief executive body of the Town.

### **DEFINITIONS**

Departmental Revenue – those amounts collected by a department as a result of fees charged for the delivery of selected services, e.g., building permit or inspection fees.

Enterprise Fund - a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

General Fund - the primary fund used by a government entity to account for general government services. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise funds and grant funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

General ledger - a bookkeeping ledger that serves as a central repository for accounting data for an organization. Each account maintained by the organization is known as a ledger account, and the collection of all these accounts is known as the general ledger. The general ledger is the backbone of any accounting system which holds financial and non-financial data for the organization.

Non-departmental spending – expenditures that are town wide in nature and not attributable to any particular department. Examples are retirement (pension contributions), workers’ compensation, unemployment insurance, health insurance, life insurance, Medicare, and property and liability insurance.

Reserve Fund - Pursuant to Massachusetts General Law (M.G.L. c. 40, § 5A), to provide for extraordinary or unforeseen expenditures in each fiscal year, a Town may - at an annual or special Town Meeting - appropriate or transfer a sum or sums not exceeding in the aggregate five percent 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 Committee. At the end of each fiscal year, any unused amount of the Reserve Fund is closed to the surplus of the general fund.

## **POLICY**

It shall be the policy of the Town as follows:

Pursuant to M.G.L. c. 41, §58, administrative staff shall generate the following for distribution to department heads, the Selectboard and the Finance Committee:

- To department heads, the Town Administrator, the Selectboard and the Finance Committee - monthly reports of actual spending fiscal year-to-date compared to budget for all departmental and non-departmental spending by Fund, e.g., general and enterprise, and for capital projects voted under special articles
- To the Town Administrator, Selectboard and Finance Committee - quarterly reports – increasing in frequency toward fiscal year-end if circumstances call for it - of estimated departmental revenues, by account, for the general fund, and any enterprise fund, as compared to annual estimates for each account.

If, on the basis of the reporting described above, the Town Administrator, in consultation with department heads, identifies any potential shortfalls, he/she shall disclose them to the Selectboard, and Finance Committee accompanied by proposed alternatives to remedy such shortfalls.

## **PROCEDURES**

By the middle of the month following the previous month’s end, the Town Accountant shall generate and post electronically the following for review by each department, including the Town Administrator with responsibility for non-departmental spending, and for the information of the Selectboard and the Finance Committee:

- A report of its operating budget, by line-item, showing, at a minimum, the amount budgeted, expenditures year-to-date and the unexpended balance.
- A report of each capital project budget under the department’s management showing, at a minimum, the amount budgeted, project expenditures-to-date and the unexpended balance.

- A report of each special revenue fund showing, at a minimum, beginning balance, revenue and expenditures to date, and the fund balance.

By the middle of the month following the previous quarter's end, the Town Accountant shall generate and post electronically the following for review by each department, including the Town Administrator with responsibility for non-departmental spending, and for the information of the Selectboard and the Finance Committee:

- a report of departmental revenues by account showing, at a minimum, fiscal year estimates, amounts collected fiscal year-to-date, and revenues collected as a percentage of estimates.

Upon receipt of monthly budget reports, department heads shall review such reports and analyze rates of spending year-to-date and make their best effort to forecast future spending and the adequacy of the budget to fund total projected spending for the fiscal year in the case of operating budgets, and total project spending in the case of capital project budgets.

Upon the identification of the potential inadequacy of operating or capital budgets, department heads shall timely notify the Town Administrator of such concerns.

The Town Administrator shall timely perform an independent analysis of any problematic budget to corroborate a department head's concern.

Upon the receipt of quarterly revenue reports, the Town Administrator shall review to assess the possibility that revenues will fall short of estimates.

If the Town Administrator corroborates potential budgetary shortfalls, he/she shall make a report to the Selectboard and the Finance Committee of the likelihood of such shortfalls and propose solutions that include, but not be limited to, any of the following or combination thereof:

- Curtailing of spending to bring the budget in line with projections accompanied by a presentation of its effects on service delivery or project scope.
- A transfer from the Reserve Fund
- A supplemental appropriation at a future special Town Meeting
- A year-end interdepartmental budgetary transfer pursuant to MGL c.44 §33B requiring approval by the Selectboard and the Finance Committee

## **REFERENCES**

M.G.L. c. 41, §58

**ADOPTED BY: Select Board (Julia Pingitore, Kirk Huehls, Carol Riches)**

**DATE ADOPTED: August 8, 2022**

## **B-7 ANTI-FRAUD**

### **PURPOSE**

Public trust is critical to the success and integrity of municipal government. Employee confidence in government is equally essential. The Town's commitment to protecting its revenue, property, information, and other assets from fraud and abuse is critical not only to protecting these assets but also to earning the public's trust and employee confidence.

The purpose of this policy is to formalize the Town's commitment to protect its assets from abuse and fraud and to establish written guidelines and procedures to affect such protection.

### **APPLICABILITY**

This policy shall apply to the following in the performance of their duties:

- Permanent full-time, part-time, seasonal, and casual employees,
- Appointed officials, elected officials, and committee members
- Volunteers and interns

### **DEFINITIONS**

Assets - Town funds, securities, supplies, inventory, vehicles, furniture, fixtures, equipment, and anything else of value.

Conflict of Interest - a situation in which an entity or individual becomes unreliable because of a clash between personal (or self-serving) interests and professional duties or responsibilities. Such a conflict occurs when a company or person has a vested interest—such as money, status, knowledge, relationships, or reputation—which puts into question whether their actions, judgment, and/or decision-making can be unbiased. When such a situation arises, the party is usually asked to recuse themselves from participation in the matter in question, and it is often legally required of them.

Employee – for the purposes of this policy, the term “employee(s) shall apply to all parties identified in the section “Applicability” above.

Fraud - Including but not limited to misappropriation of assets, larceny, corruption, fraudulent statements or financial reporting, and incurrence of expenditures and liabilities for improper purposes.

Misappropriation of Assets –

- Forgery, alteration, or misappropriation of checks, drafts, promissory notes, or securities
- Unauthorized use or disposition of funds or property (for example, misuse of Town-owned computer hardware, software, data, and other records; use of Town-owned equipment, vehicles, or work time for non-Town purposes)

- Embezzlement
- Theft
- Falsifying time sheets or payroll records
- Falsifying travel or entertainment expenses and/or utilizing Town funds to pay for personal expenses or for personal benefit
- Fictitious reporting of receipt of funds
- Fraudulent Financial Reporting
  - Improper revenue recognition
  - Improper expense/expenditure recognition
  - Overstatement of assets
  - 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

**POLICY**

It shall be the policy of the Town regarding protection of its assets as follows:

- The Town of Paxton shall have a zero-tolerance policy with regard to fraud and is committed to undertake the following steps as part of their anti-fraud policy:
  - Education
  - Prevention
  - Detection
  - Investigation
  - Corrective Action
- The Town expects all parties to whom this policy is applicable to comply with all aspects of this policy - and procedures and protocols developed pursuant to it - as well as all applicable state and federal laws and regulations.
- It shall be the responsibility of the Town Clerk to ensure that all parties to whom this policy is applicable undertake Conflict of Interest training as required by MGL c. 268A § 28.
- The Town will communicate to all parties to whom this policy is applicable the meaning, definitions, and actions that constitute fraud. The form of communication shall be a written document to be appended to this policy developed by the Town Administrator, or his/her

designee(s), in consultation with Town Counsel, which embodies the principles described herein and outlines procedures and protocols to implement this policy. Further, all parties to whom this policy is applicable shall be given a copy of this policy and document and be required to sign a statement that they have read it in full and understand it, which shall, in the case of an employee, become a record in the employee's personnel file, and in the case of other applicable parties, shall be kept on file in the Town Administrator's office. Thereafter, at the time of hire, engagement, appointment or election, all new individuals will be subject to the same requirements.

- The Town Administrator shall review this policy and the document described above and revise, as needed, every two years. Further, a copy of the policy and document shall be transmitted to each employee at the expiration of every two-year period following their original signing for review, with each new document signed by the employee.
- The Town shall investigate any suspected acts of fraud impartially, confidentially, and without regard to the position, title, length of service, or relationship of any person, group, or organization involved.
- Where an act of fraud by an employee is substantiated, the Town will take disciplinary action and refer to authorities for criminal action if appropriate; and in the case of all other parties, take legal action it deems appropriate.

## **PROCEDURES**

Key elements of the document to be developed by the Town Administrator regarding the Town's anti-fraud program shall include, but not be limited to, procedures, protocols, and definitions that address the following:

- Description of ethical standards expected of all parties to whom this policy is applicable
- Detail of actions that constitute fraud
- Duty to report suspicion of fraud
- Whistleblower protection
- Anti-fraud education program
- Identification of parties to be notified in the event of suspicion of fraud
- Mechanism for reporting suspicion of acts of fraud
- Identification of parties responsible for conducting a fraud investigation
- Confidentiality of a fraud investigation
- Identification of party to whom results of investigation are to be reported

- Potential Personnel action post-investigation including
  - Disciplinary action by the Town
  - Referral to local, state or federal authorities for additional action
- Action against the originator of claim if it is determined there was no reasonable basis for the original claim and it was motivated by malicious intent
- Corrective action
  - Identification of parties responsible for developing protocols, practices and internal controls to avoid recurrence of fraud committed; timeline for the development of corrective action; and parties to review and approve the corrective action plan.

## REFERENCES

M.G.L. c. 149, § 185

MGL c. 268A

Office of the Inspector General, Commonwealth of Massachusetts, [Guide to Developing and Implementing Fraud Prevention Programs](#)

**ADOPTED BY: SELECT BOARD (JULIA PINGITORE, KIRK HUEHLS, CAROL RICHES)**  
**DATE ADOPTED: AUGUST 8, 2022**