

# TOWN OF FAIRHAVEN, MASSACHUSETTS

August 2024



## **Financial Policy**

The policies and procedures outlined herein apply to all employees, vendors, volunteers and elected officials of the Town of Fairhaven, except where specifically modified by an applicable collective bargaining agreement or individual employment contract. This policy is subject to change with the approval of the Select Board and in accordance with federal, state laws and town bylaws.

*Adopted by the Select Board September 9, 2024*

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## **Preface**

At the Select Board's direction a Financial Policy Review Committee was formed to update the Town of Fairhaven's financial policies that were previously crafted and approved in 2016. The Committee was composed of two members of the Select Board, two members of the Finance Committee, two members of the School Committee and the current Assistant Town Administrator. The meetings were very productive and collaborative. The Committee agreed that reviewing a combination of policies from other towns in the Commonwealth and the model policies provided by the Division of Local Services (DLS) Financial Management Resource Bureau would provide the best starting point for creating financial policies tailored to Fairhaven's needs and interests. The intention of these policies is to provide financial stewardship of our citizen's funds, strong and stable management of ongoing fiscal processes and flexibility when required to respond to changes in the revenue and expenditure environment that we exist in.

We respectfully submit these policies for review and approval by the Select Board and Town Administrator. Each policy designates the responsibilities for the actions required to achieve the purpose and comply with the parameters. Each policy includes references to MGL where applicable. All policies were written to model best practices as well as follow currently used processes and procedures that have been found to be effective and efficient. The policies were written with the current organizational structure in mind and any future changes should be incorporated in an updated version as soon as is feasible. We recommend these policies be posted on the Town's website for easy access by the public.

Lastly, we recommend that the Town conduct policy reviews every 2-3 years to ensure continued compliance and assess if changes in circumstances, conditions, or guidance warrant revisions or updates. During these periodic reviews, the Town should identify additional topics suitable for policies and incorporate them in the updated manual.

Respectfully submitted by the Finance Policy Review Committee

## I. Financial Reserves Policy

### A. General Language (Purpose/Definitions)

1. **Purpose:** To help the Town stabilize finances and maintain operations during difficult economic periods, this policy establishes prudent practices for appropriating and expending reserve funds. With well-planned sustainability, the Town can use its reserves to finance emergencies and other unforeseen needs, hold money for specific future purposes, or in limited instances, serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term borrowing costs.

The Town is committed to building and maintaining its reserves to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. Adherence to this policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. The Town will strive to maintain overall general fund reserves (i.e., free cash and stabilization funds combined) at the level of 10 to 15 percent of the annual operating budget.

This policy will be reviewed on an annual basis by a Financial Policy Subcommittee of the Select Board each year after the town meeting.

2. **Applies to:** Select Board, Finance Committee, Town Administrator, and Capital Planning Committee in their budget decision-making roles, Finance Director, and Board of Assessors job duties.
3. **Scope:** Goals for and appropriate use of general reserves, including free cash, stabilization funds, and overlay surplus.

### B. Free Cash

The Division of Local Services (DLS) defines free cash as “the remaining unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the prior year.” DLS must certify free cash before the Town can appropriate it.

The Town will strive to realize year-to-year free cash certifications equal to five percent of the annual general fund budget. To achieve this, the Assistant Town Administrator of Finance, with assistance from the Town Administrator, will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turnbacks. As much as practicable, the Town will limit its use of free cash to building reserves, funding nonrecurring costs (i.e., one-time expenditures such as capital projects and emergencies), and offsetting the Town's unfunded liabilities. Furthermore, the Town will

strive to keep its unappropriated free cash balance at a minimum of 2 percent of the annual general fund budget.

### **C. Stabilization Funds**

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. The Town has established stabilization funds as detailed below:

1. **General Stabilization:** The Town will endeavor to achieve and maintain a minimum balance of three to five percent of the current operating budget in its general stabilization fund. Withdrawals from the fund should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the three percent minimum target. If any necessary withdrawal drives the balance below this minimum, the withdrawal should be limited to one-third of the fund's balance, and the Town Administrator will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.
2. **Special Purpose Stabilization Funds:**
  - **Capital Stabilization:** This fund's minimum target level shall be one to two percent of the general fund budget. By sustaining funding in this type of reserve, the Town can balance debt with pay-as-you-go practices and protect against unforeseen capital costs.
  - **Ambulance Stabilization Fund:** Established to purchase an ambulance every five years, this fund is financed through the ambulance receipt reserve for appropriation based on available revenues.
  - **Sewer Capital Stabilization Fund:** Funded through a flat fee on the sewer bill, this sewer enterprise fund is designated to support sewer infrastructure.

### **D. Retained Earnings**

The finances of the Water, Sewer, and Cable Departments are managed under individual enterprise funds separately from the general fund, which allows the Town to effectively identify each operation's true costs—direct, indirect, and capital—and set user fees at levels sufficient to recover them. Under this accounting, the Town may reserve each enterprise fund's generated surplus (referred to as retained earnings) rather than closing the surplus to the general fund at year-end.

For each enterprise fund, the Town will maintain a minimum reserve amount of 25 percent of the operation's total budget, which represents three months' worth of expenditures. These reserves shall be used to provide rate stabilization and to fund major future capital projects. Whenever

any major infrastructure improvement is being planned for any enterprise operation, it may be necessary to revise its minimum target upward. To maintain the target reserve levels for the enterprise funds, the Water/Sewer Commissioners must annually review and, when necessary, adjust user rates.

## E. Overlay Surplus

The purpose of the overlay reserve is to offset unrealized revenue resulting from abatements and exemptions. It can be used for other purposes only after it is determined to have a surplus. Therefore, unlike the other types of general fund reserves, this policy does not set a funding target for the overlay reserve.

## F. References

- [M.G.L. c. 40 § 5B](#)                      [M.G.L. c. 59 § 25](#)                      [M.G.L. c. 44 § 53F½](#)
- Monson’s policies on Capital Planning and Forecasting
- DLS Best Practices: [Free Cash, Reserve Policies](#), and [Special Purpose Stabilization Funds](#)
- DLS Informational Guideline Releases 08-101: [Enterprise Funds](#), 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](#)

## II. Revenue Turnover

### A. General Language (Purpose/Definitions)

1. **Purpose:**
  - To establish policies and procedures for the efficient handling and timely turnover of Town monies collected by departments, boards, and commissions.
  - To safeguard Town assets and maximize cash flow, this policy provides guidelines for departments to turn over receipts to the Treasurer/Collector. Included are details of internal controls designed to provide reasonable assurance that the Town’s revenues are properly and timely secured, recorded, and deposited in Town bank accounts.
2. **Applicability:** All departments, boards, and commissions of the Town involved in the collection of money.
3. **Scope:** Guidelines for managing all cash, check, credit card, and other forms of payment received by all Town departments for taxes, excises, fees, charges, and intergovernmental receipts from the departmental level through Treasury and Accounting duties.
4. **Definitions:**

- **Petty Cash:** An amount of money assigned to a department or division to be used for small purchases or as a cash drawer for making change for customers. The amount remains constant and may include cash, checks, coins, or receipts for purchases.
- **Treasurer's Receipt:** The receipt issued by the Town Treasurer to departments, boards, and commissions upon receipt of turnovers.

## **B. General Policy**

The head of each department that receives payments is responsible for instituting and employing internal controls designed to ensure that all receipts are recorded accurately, kept secure from loss or theft, and turned over timely to the Treasurer/Collector. Each department will turn over at least weekly and must do so by the end of the day when cash receipts total \$1,000 or more.

To indemnify the Town from potential loss or theft of receipts, the Town Administrator will ensure that surety bonds are maintained for all individuals responsible for handling payments. All employees that handle the receipt of money must be trained in this policy by the Treasurer/Collector.

## **C. Petty Cash Policy:**

Petty Cash is for official business only, specifically the making of change to a customer or reimbursement of small amounts for items purchased by employees. The total amount held in any department's petty cash will not exceed \$250. Such reimbursements will be approved only upon presentation of the appropriate paid receipts. No employee shall use Petty Cash for personal business, even if the intent is to reimburse Petty Cash.

## **D. Receiving Payments**

Using pre-numbered receipt books, assigned departmental staff must issue a receipt for every payment received, even when the payer attempts to refuse it. These employees must identify the forms of payment (check, cash, or credit card) in the receipt books. As an exception, employees in the Treasurer/Collector's office receiving taxes and other collections from the public need only issue receipts for cash payments.

Every Town employee who receives a check will immediately endorse it "For Deposit Only" using a stamp provided by the Treasurer. Every department receiving payments shall secure them in a locked cash box or safe until completing a turnover to the Treasurer/Collector.

## **E. Turning Over Revenues**

Departmental staff will fill out a Schedule of Departmental Payments to the Treasurer (i.e., the turnover form), obtain the department head's signature on it, and make two copies of it. Every listed receipt should tie back to a receipt book entry and to the receipt logs maintained by the department head. Departmental staff will deliver the turnover package in person and at no time

may leave any unattended turnovers in the Treasurer/Collector's office or elsewhere in Town Hall.

No less than weekly and at month-end, the Treasurer/Collector will complete an internal turnover of all the collections processed during that period 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.

When the Treasurer/Collector's office has accepted the turnover, the departmental employee will receive back two copies of the turnover form signed and dated by the Treasurer/Collector employee. The departmental employee will retain one turnover copy on file and deliver the other to the Assistant Town Administrator of Finance. The Assistant Town Administrator of Finance will refuse to accept any turnover form that is not signed by a Treasurer/Collector employee.

The department that receives payments will reconcile those payments to the revenue reports in the general ledger to verify all turned-over receipts have been accurately recorded in the appropriate general ledger accounts and report any discrepancies to the Assistant Town Administrator of Finance.

#### **F. Receiving Turnovers**

When presented with the turnover, Treasurer/Collector staff will count the receipts in the presence of the authorized departmental employee. Any inaccuracies on the turnover forms will be corrected on them at that time and initialed by both parties. The Treasurer/Collector staff member will then sign the turnover copies and return two of them to the departmental employee.

#### **G. Collector Receipts**

Within 24 hours of receiving the turnover from the Collector, the Treasurer will deposit any checks received via remote scanner. Collector's receipts will be picked up by armored car daily to deposit in the bank. Collectors will record receipts in Vadar software within 24 hours. Until the deposit is completed, the Treasurer will ensure that all receipts are secured either in a cash drawer or, if being held overnight, in a safe.

At the close of business each day, the Collector will review the posted batches, turnover documents, cash deposit slips, and remote scanner reports. When all the activity ties out, the Treasurer/Collector will update the cash book with all the deposit data and submit the batches online for the Assistant Town Administrator of Finance's review and posting to the general ledger.

#### **H. Other Departmental Receipts**

At the end of each week, the Treasurer will deposit any checks or cash received in person to the bank. The Treasurer will strive to record receipts in the software within a week. Until the deposit is completed, the Treasurer will ensure that all receipts are secured in a safe.

The Treasurer and the Assistant Town Administrator of Finance will review the batches, turnover documents, cash deposit slips, and remote scanner reports. When all the activity ties out, the Treasurer will update the cash book with all the deposit data and submit the batches online for the Assistant Town Administrator of Finance's review.

### **I. Updating the General Ledger**

The Assistant Town Administrator of Finance will compare the posted batches transmitted within the software by the Treasurer/Collector to the turnover reports received from departments and investigate any discrepancies with the Treasurer/Collector and the originating department. When the VADAR batches reconcile properly with the turnover reports, the Assistant Town Administrator of Finance will post the data to the general ledger.

### **J. Insufficient Funds**

Upon notification from the bank of an insufficient check or an invalid or otherwise unpaid electronic funds transfer (EFT), the Treasurer or Collector, depending on where the funds were received, will enter a negative deposit to the original revenue account and notify the department responsible for the turnover. The Treasurer or Collector will also make a reversal entry in the cashbook, assigning it to the appropriate bank account.

The Collector will notify the issuer in writing of the bounced check or rejected EFT. Payment of the original amount plus a \$25.00 penalty is due in 10 days and must be in the form of cash, money order, or certified check.

It is the department head's (or designee) responsibility to follow up on collecting the amounts owed. If the payment was for a license or permit, the department shall suspend the license or permit.

### **K. Audit**

All cash management activity is subject to review by the Assistant Town Administrator of Finance and the Town's independent auditor. Further, the Assistant Town Administrator of Finance will conduct periodic random audits of departments' payment processing and turnover procedures to ensure adherence to this policy.

### **L. References**

- [M.G.L. c. 41, §§ 35](#) and [57 M.G.L. c. 44, § 69 M.G.L. c. 60, § 57A](#)
- Massachusetts Collectors & Treasurers Association's [Treasurer's Manual](#) and [Collector's Manual](#)

## **III. Forecasting**

### **A. General Language (Purpose/Definitions)**

1. **Purpose:** To assess the range of choices available to budget decision-makers when determining how to allocate resources. This policy establishes guidelines for creating projections of revenues and expenditures as part of the annual budget process and multiyear fiscal planning. By presenting the future implications of current budget scenarios, forecasting helps local officials make strategic plans for lasting fiscal sustainability and future investment.

To determine the Town's operating capacity for future fiscal years, the Assistant Town Administrator of Finance, under the direction of the Town Administrator, will annually create a detailed forecast with five-year projections of revenues and expenditures. The Town Administrator, Select Board, Finance Committee, and Capital Planning Committee will use the forecast to support their decision-making for the upcoming year's operating and capital budgets and the long-range capital improvement plan. To guard against potential deficits, as a general rule, the Assistant Town Administrator of Finance will purposely estimate revenues on the low end of possibility.

The Assistant Town Administrator of Finance will create conservative forecasts. In basic terms, this entails reviewing historical revenue and expenditure trends, anticipating factors that may impact those trends going forward, analytically developing assumptions, and then formulating reasonable revenue and realistic expenditure projections. Overly optimistic estimates can increase the risk of a revenue deficit, which would necessitate a reduction to the subsequent year's revenue to offset it.

Early in the annual budget process, the Town Administrator will present the initial forecast to a joint meeting of the Select Board and Finance Committee. Throughout the budget process, these boards will use the forecast to inform their decision-making. In addition, the Assistant Town Administrator of Finance will promptly revise the forecast projections whenever circumstances change and provide updates to the boards.

With each new budget year, the Assistant Town Administrator of Finance will review the performance accuracy of prior year forecasts and any evolving factors related to the underlying assumptions to consider how projections in the new forecast may need to be adjusted. Factors to consider include changes in laws, regulations, inflation rate, interest rate, town goals, policy decisions, and other external factors.

2. **Applicability:** Applies to the Town Administrator, Assistant Town Administrator of Finance/Town Accountant and Assessor, Select Board, Finance Committee, and Capital Planning Committee in their budget analysis and decision-making responsibilities.
3. **Scope:** To ensure the creation, revision, and year-to-year conversion of a multiyear forecast of revenues and expenditures as part of the annual budget process and to establish guidelines for formulating the assumptions that form the basis for forecast projections.

## **B. General Policy**

### **1. Guidelines for the Formulation of Revenue Assumptions**

- Projections of the property tax levy will be confined by the limits of Proposition 2 1/2 (absent any overrides) and take into consideration consensus decisions regarding the Town's level of excess levy capacity.
- New growth projections will take into account the Town's three-, five-, and ten-year averages by property class and advice from the Assessor.
- The levy limit's relationship to the levy ceiling (which is 2.5 percent of the Town's real and personal property total value) will be annually assessed to identify potential override capacity and guard against the levy limit approaching or hitting the ceiling, which would impact future levy growth.
- Local aid projections will correspond with economic cycles, while Chapter 70 educational aid will reflect trends in school choice enrollments, tuition, and charter assessments.
- Estimates for local receipts (e.g., motor vehicle excise, inspection fees, etc.) will strive to not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.
- One-time revenues will not be used in the projections to fund ongoing or recurring operating expenditures.
- Revenues from grant programs will be reviewed annually to determine their sustainability.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.

### **2. Guidelines for Expenditure Assumptions**

- Annually, the Town Administrator will direct the Assistant Town Administrator of Finance to use a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.
- The following principles shall guide the formulation of expenditure assumptions:
  - The Town's current level of services will provide the baseline for projections.

- Historical trends in the growth of operating expenses and employee benefits will prevail.
- Trends in enrollments, school choice tuition, and charter assessments will be factored.
- The Town will cultivate a strong relationship with the Fairhaven School Committee to receive timely long-term estimates of district assessments.
- Only currently known increases in employee compensation plans, for example, step increases, CBA agreements, and education steps, will be factored into the projections. Future cost-of-living adjustments will be estimated independently of the forecast.
- The Town will pay its annual pension contributions and make appropriations to amortize its other postemployment benefits (OPEB) liability.
- The Town will pay all existing debt service obligations and adhere to its Capital Planning and Debt Management policies.

### C. References

- [M.G.L. c. 44, §§ 20, 53A, 53A½, 63, and 63A](#)
- Fairhaven policies on Capital Planning, Debt Management, and Financial Reserves, DLS Informational Guideline Release 17-21: [Borrowing](#) and Best Practice: [Revenue and Expenditure Forecasting](#)
- Government Finance Officers Association article: [Financial Forecasting in the Budget Preparation Process](#)

## IV. Investments

### A. General Language (Purpose/Definitions)

1. **Purpose:** To ensure the Town's public funds achieve the highest possible rates of return that are reasonably available while following prudent standards associated with safety, liquidity, and yield, this policy establishes investment guidelines and responsibilities. In addition, the policy has been designed to comply with the Governmental Accounting Standards Board's requirement that every community define and disclose its investment risk management strategy.
2. **Applicability:** Applies to the Treasurer in the statutory duty to invest Town funds and any investment advisor(s) with whom the Treasurer contracts.

3. **Scope:** Goals, objectives, and allowable practices related to all of the Town's short-term operating funds and its long-term reserve investment and trust funds. Excluded are Town funds invested by the Fairhaven Retirement System.

## **B. Policy**

1. The Treasurer will invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to prudent investment standards. The Treasurer will manage all investments to achieve a fair market average rate of return within the context of all relevant statutory safety and liquidity constraints.

## **C. Investment Objectives**

1. **Safety:** Safety of principal is the foremost objective of this investment policy statement. Investments of the Town of Fairhaven shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, the Town of Fairhaven will mitigate credit and interest rate risk as well as diversify where prudently possible.
2. **Liquidity:** The investments portfolio will remain sufficiently liquid to enable the Town of Fairhaven to meet all operating requirements which might be reasonably anticipated using cash forecasting techniques.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. The Treasurer will ensure that all short-term operating funds such as general funds, special revenue funds, bond proceeds, and capital project funds remain sufficiently liquid to pay all reasonably anticipated operating requirements and debt service. For trusts and other long-term funds (e.g., stabilization funds and any similar funds set aside for long-term use), liquidity is less important than growth. The Treasurer will pool any individual funds that are invested in the same institution while also maintaining each fund in its own account to allow for the proper proportioning of interest and any realized and unrealized gains or losses. All trust funds are under the Treasurer's control unless otherwise directed by their particular donor(s).

## **D. Standards of Care**

The Treasurer must review, understand, and comply with the state's Prudent Investor Act ([M.G.L. c. 203C](#)). The Treasurer shall be relieved of personal responsibility for any individual security's credit risk or market price changes provided that its purchase and sale have been carried out in accordance with the Act and the provisions of this policy.

1. **Prudence:** The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.”
2. **Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair the ability to make impartial decisions. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Fairhaven.
3. **Delegation of Authority:** Authority to manage the investment program is granted by State Law to the Town Treasurer. The Treasurer shall carry out procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town’s Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **E. Safekeeping and Custody**

1. **Authorized Financial Institution:** The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Massachusetts. No public deposit shall be made except in a qualified public depository as established by state laws.
2. **Internal Controls:** The Treasurer is responsible for establishing controls and procedures in writing to ensure adequate control of the assets of the Town of Fairhaven. The internal controls should protect the Town from loss, theft, or misuse. An annual independent audit shall be performed by an external auditor to assure compliance with policies and

procedures.

The internal controls shall address the following:

- Control of Collusion: The separation of duties performed by staff who account and record the assets of the Town
- Ensure written confirmations of all investment and wire transactions
- Ensure wire transfer agreements are in place with financial institutions

## **F. Authorized Investments**

The authorized investments allowable for the Town of Fairhaven within statutory limits are those in the list of legal investments pursuant to Massachusetts General Laws Chapter 167 Section 15A.

## **G. Risk Tolerance Guidelines**

The Treasurer will employ the following strategies to mitigate the range of investment risks:

1. **Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
  - Investments in any of the following are safe from credit risk: state-chartered banks' depository accounts (including CDs), obligations backed by the U.S. Treasury or other U.S. government agency, and the MMDT.
  - For any other investments, the Treasurer will only purchase investment grade securities highly concentrated in those rated A or better.
2. **Concentration of credit risk** is the risk arising from all funds being invested in a single issuer.
  - The Treasurer will diversify the portfolio among multiple issuers/institutions (see Section E).
3. **Custodial risk for deposits** is the risk that in the event of the failure of a depository financial institution, the Town would not be able to recover deposits or to recover collateral securities in the possession of an outside party.
  - The Treasurer will negate this risk by only making deposits at MA-chartered banks.
4. **Custodial risk for investments** is the risk that in the event of a failure of the counterparty to a transaction, the Town would not be able to recover the value of an investment or to recover collateral securities in the possession of an outside party.

- The Treasurer will review the financial institution’s financial statements and its advisor’s background to ensure it has proven financial strength, capital adequacy, and an overall positive reputation in the municipal investment industry (see Section F).
  - If a security is to be held by a third-party custodian, the Treasurer must approve that party and verify that the security is held in the Town’s name and tax ID number as evidenced by its CUSIP (Committee on Uniform Security Identification Procedures) code.
5. **Interest rate risk** is the risk that interest rate changes will adversely affect an investment’s fair market value.
- The Treasurer will negotiate for competitive interest rates that are locked in for long terms.
6. **Foreign currency risk** is the risk that an investment will lose value as the result of an unfavorable exchange rate.
- The Treasurer will negate this risk by not investing in any instruments with foreign currency exposures.

## **H. Diversification**

The Treasurer will invest in a diverse portfolio to prevent overconcentration in any institution, issuer, or maturity type. Apart from money placed in the MMDT or obligations backed by U.S. government agencies, the Treasurer will invest no more than 25 percent of the Town's long-term funds with a single financial institution. In addition, the Treasurer will ensure compliance with the various allowable percentage thresholds for specific investment instruments and issuers set forth in the List of Legal Investments.

## **I. Selection of and Relationship with Financial Institutions**

When selecting a new institution from among MA-chartered banks to hold short-term funds, the Treasurer will consider their fee structure, service efficiencies, and account management control features. For investing long-term funds, the Treasurer will also assess the soundness, stability, and reputation of prospective financial institutions and dealers/brokers. Brokers must be recognized as reputable dealers and members of the Financial Industry Regulatory Authority. The Treasurer will require any brokerage houses and brokers/dealers wishing to do business with the Town to provide the following:

- Audited financial statements
- Form ADV Part 2 showing the broker/dealer to be actively registered with both the SEC and Massachusetts Secretary of State’s Office and providing information on the types of

services offered, fee schedule, disciplinary information, conflicts of interest, and the educational and business background of management and key advisory personnel

- Statement that the broker/dealer has read and will comply with this policy

The Treasurer will also consult the Veribanc rating service to select and monitor financial institutions. The Treasurer may invest in institutions rated green by Veribanc and will continue to review their ratings quarterly. If a bank's rating turns yellow, the Treasurer will request the bank provide a written explanation with an expected timetable for changing back to green. If the rating remains yellow for a second quarter, the Treasurer will consider liquidating all funds that are uninsured or uncollateralized. If any rating becomes red, the Treasurer will remove the money from the banking institution.

The Treasurer will review all banking and financial services at least annually to ensure their quality and the competitiveness of their fee structure and interest rates. On an annual basis, the Treasurer will also send letters to banks in the local region requesting them to report all usage of the Town's tax identification number as a means to ensure the number is used only by the Treasurer and no outside entities.

## **J. Reporting Requirements**

The Treasurer will assess investment activity and keep the Select Board, Town Administrator, and Assistant Town Administrator of Finance apprised of any major changes by providing a report of investment activity annually in June or more often as needed. The investment activity report shall incorporate all of the Town's investment funds and include the following information at minimum:

- List of all the individual accounts and securities held at the end of the period
- List of short-term investment portfolios by security type and maturity to ensure compliance with the diversification and maturity guidelines
- Summary of income earned on monthly and year-to-date bases
- Disclosure of the fees associated with managing each fund
- Brief statement of general market and economic conditions and other factors that may affect the Town's cash position
- Statements on the degree of compliance with the provisions of this policy

## **K. References**

- [M.G.L. c. 30B](#)
- [M.G.L. c. 29, § 38A](#)
- [M.G.L. c. 44, § 54](#)

- [M.G.L. c. 44, § 55](#)
- [M.G.L. c. 44, § 55A](#)
- [M.G.L. c. 44, § 55B](#)
- [M.G.L. c. 110A, § 201](#)
- [M.G.L. c. 167, § 15A](#)
- [M.G.L. c. 203C](#)
- Fairhaven policy on Procurement Conflict of Interest
- Governmental Accounting Standards Board Statement 40: [Deposit and Investment Risk Disclosures](#)
- Massachusetts Collectors & Treasurers Association: [Treasurer's Manual](#)
- MA Division of Banks [List of Legal Investments](#) and database of [MA-chartered banks](#)
- Massachusetts Depositors Insurance Fund [FAQs](#)
- MA Secretary of State webpage, [Registration Inspections, Compliance and Examinations Section](#)
- SEC webpage [Form ADV Information](#)

## V. Capital Planning

### A. General Language (Purpose/Definitions)

1. **Purpose:** To effectively maintain the Town of Fairhaven's infrastructure and protect the value of its capital assets, this policy outlines guidance for planning, reviewing, and coordinating capital improvements. Adherence to this policy will help the Town meet its capital needs despite limited resources.
2. **Applicability:** Select Board, Finance Committee, Town Administrator, and Assistant Town Administrator of Finance, and all department heads in planning for and requesting capital projects.
3. **Scope:** All current and proposed capital projects for assets owned by the Town. Included are projects for which the Town may seek Community Preservation Act (CPA) financing. However, this policy does not govern the procedures and decision-making of the CPA Committee, which has sole budget-making authority for CPA funds.

### B. Policy

The Town will maintain its physical assets by providing funding in the operating budget to protect its capital investments and minimize future maintenance and replacement costs. To provide and preserve the infrastructure needed for achieving the highest levels of public services and quality of life possible within available financial resources. The Town will maintain an annually updated five-year plan for capital improvements. The Town will emphasize preventive maintenance as a cost-effective approach to capital reinvestment and replace exhausted goods as necessary.

1. **Definition of a Capital Improvement:** A capital improvement is a tangible asset or project estimated to cost over \$20,000 and to have or to extend five or more years of useful life. These include:
  - Real property acquisitions, construction, and long-life capital equipment
  - Improvements to physical infrastructure, including streets, sidewalks, stormwater drains, and wastewater treatment systems
  - Renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
  - Planning, feasibility studies, and designs for potential capital projects
  - Items obtained under long-term capital leases
  - Bulk purchases of similar items like software, furniture, or radios with an expected useful life of three or more years that, when aggregated, have total costs exceeding \$20,000
2. **Capital Asset Inventory:** To support a systematic acquisition and replacement schedule, the Assistant Town Administrator of Finance will annually update and maintain a detailed inventory of all capital assets, which shall include dates built, acquired, or last improved, original costs, current conditions, expected and remaining useful lifespans, depreciated values, extent of use, and any scheduled replacement or expansion dates.
3. **Evaluation of Capital Projects:** The Capital Planning Committee, according to the Capital Plan Bylaw, will review capital project requests submitted by department heads as part of the annual budget process. At the end of its work, the Town Administrator will present the analysis, recommendations, and proposed funding sources to the Select Board and Finance Committee prior to the annual town meeting. The Town Administrator will provide a copy of the recommendations to the town meeting.
  - **Additional Capital Funding Considerations:** The Assistant Town Administrator of Finance will proactively work with the Capital Planning Committee on strategies to finance projects that may be eligible for funding under the CPA statute.
  - Before any long-term bonded capital project is recommended, the project's annual operating costs and debt service costs shall be identified.
  - Capital or debt exclusions will be considered to accomplish major capital projects such as new construction or major renovations to existing facilities.
  - Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental expenses.

- To the extent feasible, all capital projects associated with the water, sewer, Town/School Cable and enterprise funds will be financed from user fees or retained earnings.

### C. Policy Guidance

<b>Capital Process Component</b>	<b>Policy Guidance</b>
Capital Project definition	<ul style="list-style-type: none"> <li>▪ Costs 20,000 or more, <u>and</u></li> <li>▪ Has (or extends) useful life of five (5) years</li> <li>▪ as documented in the Capital Planning Committee bylaw</li> </ul>
Annual Capital Budget	<ul style="list-style-type: none"> <li>▪ Based on the ratings by the Capital Planning Committee evaluating departmental submissions with criteria listed below.</li> <li>▪ Finalized by Town Administrator for proposal to Select Board</li> </ul>
Multiyear Capital Improvement Plan (CIP)	<ul style="list-style-type: none"> <li>▪ First year is the capital budget proposed for the next fiscal year</li> <li>▪ Four subsequent years of capital project projections</li> <li>▪ Updated and maintained by the Assistant Town Administrator of Finance</li> <li>▪ Finalized by Town Administrator for acceptance vote by Select Board and recommendation from Finance Committee</li> </ul>
Capital Inventory	<ul style="list-style-type: none"> <li>▪ Assembled and updated annually</li> <li>▪ Responsibility of the Assistant Town Administrator of Finance</li> </ul>
Prioritization criteria	<p style="text-align: center;">In descending order:</p> <ol style="list-style-type: none"> <li>1. Eliminates public health or safety hazard</li> <li>2. Required by state or federal laws or regulations</li> <li>3. Supports adopted plans, goals, objectives, and policies</li> <li>4. Stabilizes or reduces operating costs</li> <li>5. Makes better use of a facility, extends the life of or replaces a clearly obsolete one</li> <li>6. Maintains or improves productivity or existing standards of service</li> <li>7. Uses outside financing sources, such as grants</li> <li>8. Directly benefits Town’s economic base by increasing property values</li> <li>9. Provides new programs having social, cultural, historic, economic, or aesthetic value</li> </ol>

Capital Financing	Policy Guidance
Funding targets	<ul style="list-style-type: none"> <li>▪ Overall capital spending: at least 3% of the general fund budget not to include the debt for Community Preservation, Enterprise funds, debt exclusions and self supported debt               <ul style="list-style-type: none"> <li>○ Non-debt, “cash capital” spending: 2-3% of GF budget</li> <li>○ Annual capital debt service: 2-4% of GF budget</li> </ul> </li> </ul>
Debt usage	<ul style="list-style-type: none"> <li>▪ Short-term debt: Useful life &lt; 10 years</li> <li>▪ Long-term debt: Useful life &gt; 10 years and cost &gt; \$100,000</li> </ul>
Cash capital	<ul style="list-style-type: none"> <li>▪ Appropriate funding sources: levy, free cash, capital asset and sewer stabilization funds, revolving funds, overlay surplus, certain receipts reserved funds, grants</li> </ul>

**D. References**

- [M.G.L. c. 44, § 53J](#)
- [M.G.L. c. 80, § 13](#)
- <https://ecode360.com/28813691>
- Policies on Debt Management, Forecasting, and Financial Reserves
- Division of Local Services (DLS) Best Practice: [Presenting and Funding Major Capital Projects](#)
- DLS Financial Management Guidance: [Capital Improvement Planning Manual](#), [Capital Improvement Planning Guide](#), and [Betterments & Special Assessments – Assessment and Collection Procedures](#)

**VI. Debt Management**

**A. General Language (Purpose/Definitions)**

1. **Purpose:** To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, and sustain capital investment capacity. It can also help the Town to maintain or enhance a favorable bond rating so as to achieve long-term interest savings.
2. **Applicability:** Select Board, Town Administrator, Finance Committee, and Capital Planning Committee in their budget decision-making roles, Treasurer’s debt management responsibilities, and Town Accountant/Finance budget analysis and reporting duties.
3. **Scope:** All short- and long-term debt obligations as permitted to be issued under state law, including general obligation bonds, revenue bonds, bond anticipation notes (BANs), revenue anticipation notes (RANs), grant anticipation notes (GANs), and lease/purchase agreements.

## **B. Policy**

1. Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets, or to meet short-term cash flow needs. The Town may also refinance existing debt. The Town will issue and manage debt obligations to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. The Town will not issue debt obligations to construct, reconstruct, or purchase capital assets that can be acquired with current revenues.
2. The Town may issue short-term debt (by a BAN, RAN, or GAN) when it is necessary to fund immediate cash requirements as bridge financing in advance of receiving the anticipated funding. Short-term financing also makes sense when it allows the Town to take advantage of a lower interest rate, when savings are to be had from aggregating issuances, or when market conditions are such that postponing the issuance of long-term debt for the greater portion of a project's cost may be a prudent option.

## **C. Debt Financing**

In financing with debt, the Town will:

- Issue long-term debt only for purposes that are authorized by state law and qualify for tax-exempt bonds and only when the financing sources have been clearly identified.
- Use available funds to the extent possible to reduce the amount of borrowing on all debt-financed projects.
- Confine long-term borrowing to capital projects that cost at least \$300,000 and have at least 10 years of useful life or whose useful life span will be prolonged by at least 10 years. Refrain from using debt to fund any recurring purpose such as current operating and maintenance expenditures.
- Consider using revenue bonds, special assessment bonds, or other types of self-supporting bonds instead of general obligation bonds whenever possible.
- Use special assessments, betterment assessments, and similar dedicated revenues to fund long-term debt.
- Retire any debt obtained through a BAN, a short-term interest-bearing security issued in advance of a larger future bond issue, no later than 12 months after the date that its associated capital project is completed. If there is a financial advantage to deferring the issuance of permanent debt, the Town will make annual reductions to the outstanding principal as if the permanent debt had been issued. This will prevent the Town from carrying any BAN beyond the period in which it is necessary, reduce the interest rate risk the Town will face, and help ensure the timely closeout of capital projects.

## **D. Debt Limits**

The Town will adhere to these debt parameters:

- As a control for maintaining consistent capital investment, the Town will seek to replace maturing debt obligations with new issuances so that year-to-year debt service is maintained at a target level representing two to four percent of general fund revenues.
- Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues with a target balance of three to seven percent.
- As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

## **E. Structure and Term of Debt**

The following shall be the Town's guidelines on debt terms and structure:

- The Town will attempt to maintain a long-term debt schedule such that at least 50 percent of outstanding principal will be paid within 10 years.
- The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
- The Town will limit bond maturities to no more than 10 years except for major buildings, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
- Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
- The Town will work closely with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines, and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.
- Debt associated with the expansion of water or sewer services throughout Town will be funded by assessing betterments based on the total project cost.
- For new long-term debt, the Town will pursue net direct debt service schedules with annual principal and interest payments (net of any reimbursements or dedicated revenue sources) that are sustainable using recurring revenues.

## **F. Bond Refunding**

To achieve potential debt service savings on long-term tax-exempt debt through bond refunding, the Town will:

- Issue debt with optional call dates no later than 10 years from the issue.
- Analyze potential refunding opportunities on outstanding debt as interest rates change.
- Use any net premium and accrued interest to reduce the amount of the refunding.
- Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

### **G. Disposition of Surplus Bond Proceeds**

When a completed or discontinued project has a surplus balance from bond proceeds, the Town will apply the surplus as follows:

- For a completed project with a balance less than \$50,000, the Select Board will vote to apply it to any existing debt service obligation.
- For a completed project with a balance of \$50,000 or greater, Town Meeting will be presented with an article to appropriate the balance for another purpose.
- For a project that was discontinued, regardless of the surplus amount, Town Meeting will be presented with an article to abandon the project by a two-thirds vote and to appropriate the balance for a new purpose.

In the latter two circumstances above, the expenditure being offset by the surplus must have a purpose for which the Town may authorize a loan for an equal or longer period of time than that for which the original loan was issued.

### **H. Protection of Bond Ratings**

To obtain and maintain a favorable bond rating, the Town will:

- Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
- Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita as a percentage of per capita personal income and as a percentage of total assessed property value.

### **I. Reporting**

1. The Treasurer will report to the Select Board and Town Administrator on the Town's debt status at least annually.

2. The Treasurer will include an indebtedness summary as part of a report on receipts and expenditures in Fairhaven’s Annual Town Report.
3. The Assistant Town Administrator of Finance, with the Town’s financial advisor, will file an annual audit report and submit it to the Select Board.

**J. References**

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<a href="#"><u>M.G.L. c. 41, § 59</u></a>	<a href="#"><u>M.G.L. c. 41, § 61</u></a>	<a href="#"><u>M.G.L. c. 44, § 4</u></a>
<a href="#"><u>M.G.L. c. 44, § 6</u></a>	<a href="#"><u>M.G.L. c. 44, § 6A</u></a>	<a href="#"><u>M.G.L. c. 44, § 7</u></a>
<a href="#"><u>M.G.L. c. 44, § 8</u></a>	<a href="#"><u>M.G.L. c. 44, § 17</u></a>	<a href="#"><u>M.G.L. c. 44, § 19</u></a>
<a href="#"><u>M.G.L. c. 44, § 20</u></a>	<a href="#"><u>M.G.L. c. 44, § 21A</u></a>	<a href="#"><u>26 USC § 148</u></a>

- DLS Best Practice: [Understanding Municipal Debt](#)
- DLS Borrowing Guidelines: [Asset Useful Life - Borrowing Limits](#)
- DLS Informational Guideline Releases 17-21: [Borrowing](#) and 17-22: [Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt](#)
- Government Finance Officers Association Best Practice: [Refunding Municipal Bonds](#)
- Internal Revenue Service Guidance: [Arbitrage Guidance for Tax-Exempt Bonds](#)

**VII. Other Postemployment Benefits (OPEB) Liability**

**A. General Language (Purpose/Definitions)**

1. **Purpose:** To ensure fiscal sustainability, this policy sets guidelines for a responsible plan to meet the Town’s obligation to provide other postemployment benefits (OPEB) for eligible current and future retirees. It is designed to achieve generational equity among those called upon to fund this liability and thereby avoid transferring costs into the future. In addition to salaries, the Town compensates employees with benefits earned during years of service to be received upon retirement. One such benefit is a pension, and another is a set of retirement insurance plans for health, dental, and life, which are collectively referred to as other postemployment benefits or OPEBs. OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially.
2. **Applicability:** Select Board, Finance Committee, and Town Administrator in their budget decision-making duties, Treasurer/Collector, Human Resources, and Assistant Town Administrator of Finance duties.
3. **Scope:** Budget decisions related to the Town’s OPEB liability and liability mitigation.

**B. Policy**

1. The Town is committed to funding the long-term cost of the benefits promised to its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town

will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers.

2. **Accounting for and Reporting the OPEB Liability:** The Assistant Town Administrator of Finance will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in the financial statements that comply with the current guidelines of the Governmental Accounting Standards Board. The Town Administrator will ensure that the Town's independent audit firm reviews compliance with the accounting and reporting provisions of this policy as part of its annual audit and reports on these to the Select Board.
3. **Trust Management and Investment:** The Town has established an OPEB Trust Fund and designated as its trustee the Treasurer. As fund custodian, the Treasurer will manage the OPEB Trust Fund in conformance with the Town's investment policy and the state's prudent investor laws. On an annual basis, the Town will analyze its option to invest the OPEB trust with the [State Retiree Benefits Trust Fund](#).  
The Assistant Town Administrator of Finance and Treasurer will do the following:
  - Meet with the investment manager at least semiannually to monitor the performance of the fund and the compliance with the Town's policies.
  - Monitor the fund's performance by comparing the investment manager's results to a blended benchmark to be determined in conjunction with the investment manager.
  - Rebalance the portfolios at least annually or more frequently if appropriate.
  - Review the OPEB policy every year to ensure it remains in compliance with governing regulations.
4. **Mitigation:** On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Assistant Town Administrator of Finance will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts. The Human Resources Department will regularly review the group insurance and retiree rolls and terminate any participants found to be ineligible based on work hours, active Medicare status, or other factors.
5. **OPEB Funding Strategies:** To address the OPEB liability, decision-makers will analyze a variety of funding strategies and subsequently implement them as appropriate, with the intention of fully funding the obligation. The Town will derive funding for the OPEB Trust Fund from taxation, free cash, and any other legal form. To ensure that the Town's enterprise operations remain self-supporting, the Water & Sewer Commissioners will factor their OPEB contributions into the setting of user fees.  
Achieving full funding of the liability requires the Town to commit to funding its actuarially determined contribution (ADC) each year. Among strategies to consider for funding the ADC:

- Annually appropriate at least \$50,000 to the general fund OPEB liability.
- Whenever feasible, appropriate annually increasing dollar amounts or percentages of yearly revenues for the general fund and enterprise fund operations.
- Whenever feasible, appropriate amounts equal to the Town’s Medicare Part D reimbursements.
- Once the pension system is fully funded, on a subsequent annual basis, appropriate to the OPEB Trust Fund the amount equivalent to the former pension-funding payment or the ADC, whichever is less.

### C. References

- [M.G.L. c. 32B, § 20](#) and [20A M.G.L. c. 44, § 54](#) and [55 M.G.L. c. 203C](#)  
Monson Investment Policy
- Division of Local Services Information Guideline Release 19-10 [Other Postemployment Benefits Liability Trust Fund](#)
- 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 Practice: [Ensuring Other Postemployment Benefits \(OPEB\) Sustainability](#)

## VIII. Indirect Cost Allocation

### A. General Language (Purpose/Definitions)

1. **Purpose:** To reimburse the general fund for all expenditures incurred on behalf of the water, sewer, and town and school cable enterprise funds, this policy provides guidelines for equitably calculating and allocating those indirect costs.
2. **Applicability:** Town Administrator, Assistant Town Administrator of Finance, and Water/Sewer Superintendent job duties, Cable Director, School Department, Treasurer/Collector in their related administrative functions, Select Board, Finance Committee, and Town Administrator in their budget analysis and decision-making responsibilities.
3. **Scope:** Encompasses the analysis, calculation, and accounting of the water, sewer, and Town/Schoolcable enterprise fund indirect costs
4. **Policy:** Under authority established in [M.G.L. c. 44 § 53F½](#) the accounting transactions for the water, sewer, and Town/School cable enterprise funds are recorded and managed separately from the general fund. Revenues and expenses are not commingled with those of any other governmental activity, and consequently there are separate financial statements for each. Consolidating each enterprise funds direct and indirect costs, debt

service, and capital expenditures into its own distinct, segregated fund allows the Town to demonstrate to the public the true, total cost of providing the service.

As part of the annual budget process, the Assistant Town Administrator will calculate the indirect costs to the general fund of the water, sewer, and Town/School cable enterprises and review them with the Town Administrator, Water/Sewer Superintendent, School Business Director and Cable Director. They Will annually agree in writing to the indirect cost allocation methods and amounts prior to finalizing the budget. Indirect cost expenses will be determined using the most up-to-date cost information available to the Assistant Town Administrator at that time. Based on the results, the Assistant Town Administrator will record transfers between the relevant funds annually. The Assistant Town Administrator will maintain written procedures detailing the costs and their calculation methodologies.

## **B. Cost Categories**

The indirect cost calculation will account for the following enterprise-related expenditures budgeted in the general fund:

1. Water, sewer, Town/School cable department personnel costs for active and retired employees, including pensions, insurances, Medicare taxes, unemployment, and workers' compensation
2. Administrative services performed on behalf of the enterprise's department by other departments, such as:
3. Accounts payable, payroll, and general ledger services provided by the Accounting Department
4. Collections, benefits, and payroll services provided by the Treasurer/Collector Departments
5. Personnel administration services provided by the Human Resources
6. The following expenses:
7. Information technology costs
8. Vehicle and property insurances
9. Legal services
10. Independent audit services
11. Actuarial services related to other postemployment benefits (OPEB)
12. Other costs that may be agreed to and documented

The Assistant Town Administrator of Finance will calculate indirect costs based on the most recent fiscal year's appropriations and using either the actual, proportional, estimated support, or transactional methodology (described in Section B below) as appropriate for the particular cost category.

**C. Explanation of Calculation Methodologies**

1. Actual cost, involves identifying the specific costs attributable to the enterprise based on documented schedules or bills payable, including debt service and insurance premiums.
2. The proportional method is a straightforward calculation of the utility's net-of-debt budget as a percentage of the total combined net-of-debt budget of the utility and the general fund. The resulting percentage is then applied against the total budget (including employee benefits) of each Town department that provides support to the utility or against the total cost of the specific type of expenditure.
3. A department or official may be able to provide a reasonable estimate of support (i.e., an estimate of the work hours spent supporting the utility). For example, the Assistant Town Administrator estimates an average of two hours weekly, or five percent of her time, on water, sewer, and Cable related activities (e.g., creating warrants, bookkeeping). This percentage would then be applied against the Assistant Town Administrator's salary and benefits, including health and life insurance, Medicare, retirement, and any workers' compensation.

Hours worked on enterprise activities per year by individual(s)	Salary and benefits of individual(s) working on	Indirect Departmental Salaries Total hours worked per year by individual(s) enterprise activities
Multiplied	Equals	

4. The transaction-based method is calculated based on the number of transactions attributed to a service as a percentage of the whole. An example would be the total sewer bill collections processed by the Treasurer/Collector's Office as a percentage of the total number of collections of all types processed by that office. This percentage is applied against the Treasurer/Collector's total budget, including health and life insurance, Medicare, retirement, and any workers' compensation attributable to the department.

a. Health and Life Insurances

Actual costs for health and life insurance will be calculated using the actual cost method by adding up the actual amounts paid by the Town for the participating enterprise employees during the current fiscal year.

b. Medicare

The Town's Medicare cost represents the employer match of the Medicare tax charged to employees hired after April 1, 1986. Using the actual cost method and based on employee W 2s, the costs will be calculated as 1.45 percent of the total gross wages paid by the Town on behalf of eligible enterprise fund employees during the preceding calendar (not fiscal) year.

c. Retirement

Indirect pension costs will be calculated using the proportional method. The Town's total annual contributory retirement assessment is multiplied by the respective proportion of each of the total enterprise fund department employee's compensation to the total employee compensation as reported to the Public Employee Retirement Administration Commission.

d. Audit

External audit costs will be based on the proportional method. The water, sewer, and Town/School cable enterprise fund departments shall pay the proportion of the cost of the Town's annual independent audit based on the effort of the Town's independent auditor.

e. Administrative Services

The indirect costs for enterprise-related administrative services performed by the Accounting, Treasurer/Collector, Human Resources and Town Administrator Departments will be calculated using the estimate of support method. It will be based on each department's annual estimate of the time required to perform the services for each enterprise fund.

## D. References

- [M.G.L. c. 44 § 53F½](#)
- Division of Local Services Informational Guideline Release 08-101: [Enterprise Funds](#)
- Government Finance Officers Association Best Practices: [Indirect Cost Allocation](#) and [Evaluating Service Delivery Alternatives](#)