



## **Finance Committee Reserve Fund Transfers Procedure & Requirements**

Revised 6-Dec-06

### **Reserve Fund Transfer Request Procedure**

1. The **Requestor** sends one copy of the form to the Town Administrator and three copies to the Finance Committee.
2. The **Finance Committee** sends the Town Administrator a copy of meeting agendas.
3. The **Town Administrator** sends any comments to the Finance Committee prior to the meeting when the request is scheduled.
4. If the **Town Administrator** identifies no other sources for the funds requested, the Finance Committee discusses and votes on the request at the next available meeting.
5. Following a positive vote, the **Finance Committee Chair** signs all three forms and distributes them as follows:
  - Copy of one form to Town Administrator
  - One original to Town Accountant
  - One original to Requestor
  - One original to Finance Committee file

### **Reserve Fund requirements**

The Reserve Fund is a sum of money appropriated at Town Meeting to be used at the discretion of the Finance Committee to cover extraordinary or unforeseen expenses that arise during the fiscal year. The creation and use of the Reserve Fund is specified in Chapter 40 § 6 of the Massachusetts General Laws (MGL). There are a number of important requirements in both MGL and in DOR rules that departments should be aware of:

- The reserve fund is to be used for "...extraordinary or unforeseen expenditures" as determined by the Finance Committee. This means if the Finance Committee does not feel that a request is sufficiently unforeseen or extraordinary, it is not eligible for a Reserve Fund transfer.
- The Finance Committee in essence acts *in place of* a special town meeting, thus saving the Town the expense of such a meeting. Because of this, the Finance Committee will consider how likely it would be for the request to pass if it was presented at a special town meeting, in addition to other requirements and considerations.
- The Finance Committee cannot approve any Reserve Fund request for a purpose that town meeting has already voted against. Put another way, the Finance Committee cannot "overrule" town meeting.

## **Reserve Fund requirements (cont.)**

- No funds can be spent directly from the Reserve Fund. Instead, if the Finance Committee approves a request, the funds are transferred to an existing account where they can then be spent for the requested purpose.
- Reserve Fund transfers are designated for a specific purpose stated on the reserve fund transfer form. Any unexpended balance should remain earmarked, and should not be used for another purpose or be transferred back into the Reserve Fund.
- Requests should always be worded to request funds for unpaid or future expenses, not to reimburse an account for expenses that have already been paid.
- Massachusetts General Law strictly forbids expenditures in excess of appropriation, under penalty of fine or imprisonment (except for snow and ice removal). Consequently, departments should never incur expenses in excess of appropriation before approval of a reserve fund transfer. Put simply, you must have enough money available before you spend it.

## **Additional Reserve Fund Transfer guidelines**

- The *Request For Transfer From The Reserve Fund* form should be completed in full, signed, and prepared in triplicate for the Finance Committee.
- Attention should be paid to why this expenditure is extraordinary or unforeseen, in addition to why this is a necessary expense.
- Copies of all relevant information should be provided with the request. For example, related correspondence, estimates, evidence of compliance with MGL 30B (uniform procurement), legal opinions, etc.
- To increase the likelihood of approval, the Finance Committee suggests that a representative of the department or board attend the Finance Committee meeting where the request is scheduled for consideration. If the Finance Committee has major questions that cannot be answered, it is very likely that the request will be deferred or rejected. If being present is a hardship, you can contact the designated FinCom liaison (or any other member) to try to answer any questions in advance.
- If a delay would not be harmful, the amount requested is significant, and a special town meeting is scheduled before funds are needed, Special Articles are often desirable instead of Reserve Fund transfers. If a need for additional funds was known before a special town meeting, a Reserve Fund request should include the reasons why the request was not submitted as a town meeting article.
- If a budget line item in a department or special article requires multiple Reserve Fund transfers over several years, that department should increase the amount requested for its budget at the annual town meeting. After several years of additional Reserve Funds needed, it may be difficult for the Finance Committee to consider another request for the same reason as “extraordinary or unforeseen”.
- The Finance Committee suggests that it be alerted when a department or board foresees a situation developing that may necessitate a Reserve Fund transfer, especially for large amounts. This will help the Finance Committee to forecast needs, ensure funds are available for the most critical needs, and advise boards in advance whether the Reserve Funds may or may not be available.
- If you have an immediate emergency need to spend more funds than you have available, the Finance Committee is allowed to convene an emergency meeting under the Open Meeting law.
- Finally, if the Finance Committee votes against a Reserve Fund transfer request, the department or committee can always resubmit the request with additional documentation or request those funds at a future town meeting.