

# Overview of Financial Policies

*June 3, 2025*



[mass.gov/dls](https://mass.gov/dls)

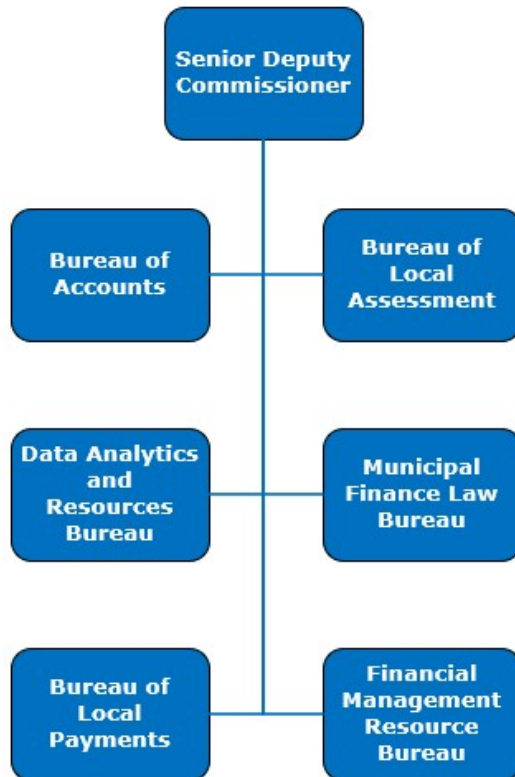


## *Supporting a Commonwealth of Communities*

**FMRB's Mission:** Provide communities with guidance & practical advice on financial management

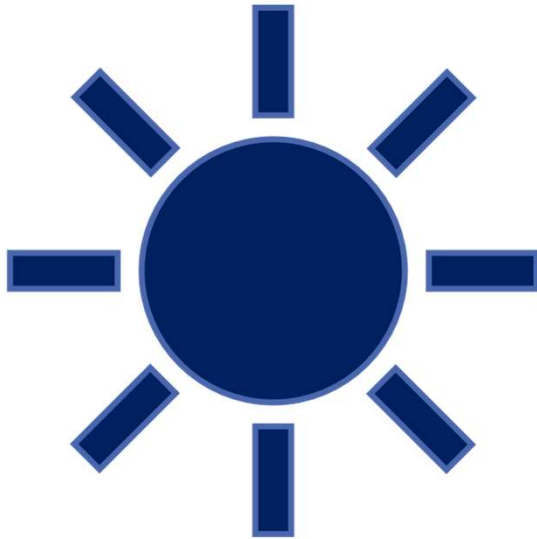
**Projects include:**

- ✓ Broad scope financial management reviews
- ✓ Analyses of government/management structures
- ✓ Financial forecasts
- ✓ Capital planning studies
- ✓ Budget documents
- ✓ Financial indicators & benchmarking
- ✓ **Financial policy manuals**



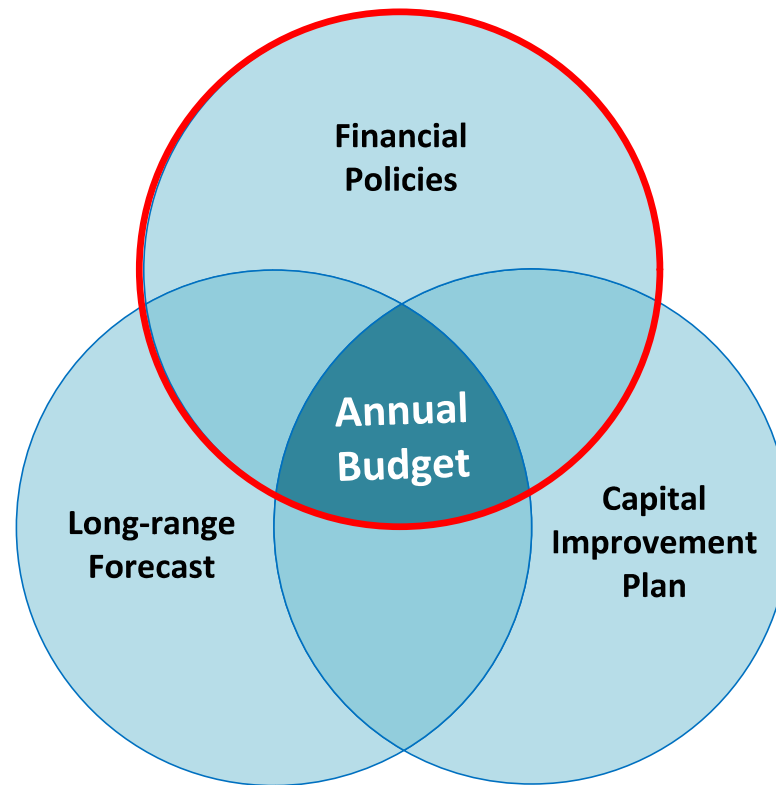
# Financial Policy Manuals

## Recent History



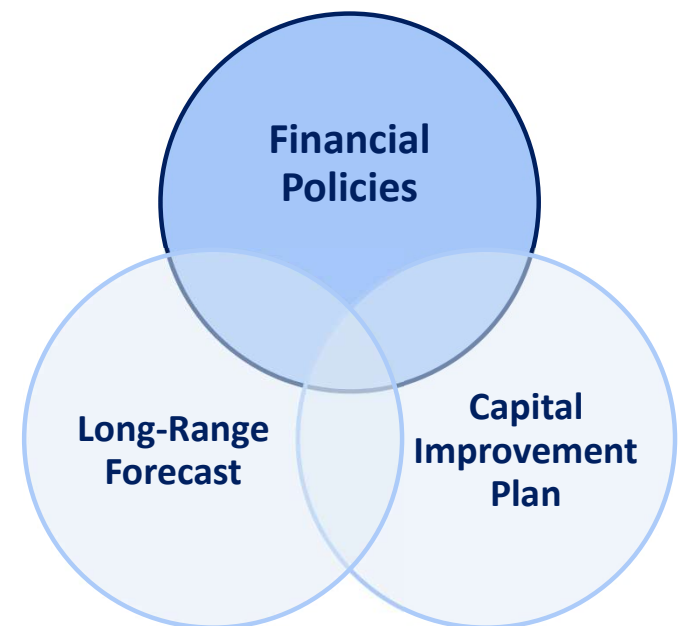
- Formal policy manuals historically rare, but communities are increasingly seeing the value
- Recommended by FMRB, auditors, credit rating agencies
- Promoted by Government Finance Officers Association (GFOA.org)
- MA Community Compact Cabinet (CCC) Program since 2015
  - FMRB → over 40 manuals, others → over 35
  - Communities creating their own with online FMRB manuals

# Foundations of a Fiscally Sound Annual Budget

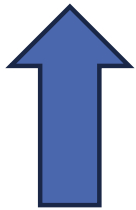


# Why Create and Adopt Formal Policies

- Foundational element to strong financial management
- Spell out commitment to financial goals
- Promote sound practices and compliance with statutes
- Establish foundation for system of internal controls
- Set expectations for local officials, employees, residents
- Promote transparency & accountability
- Enable long-term consistency
- Enhance bond rating potential



# Why Create and Adopt Formal Policies



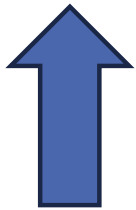
**Taunton**

*September 2022*

**AA+**

S&P: "The upgrade reflects formalization of a number of financial policies...in 2021, management initiated a comprehensive review of its financial policies and practices and formally adopted a range of policies, which we believe will aid the city in maintaining its strong financial position."

# Why Create and Adopt Formal Policies



**Somerville**

*May 2023*

**AAA**

S&P: "Well-embedded financial management policies and practices that are reviewed on a consistent basis"

# Challenges

- Time & effort
  - Who will research, write and coordinate with stakeholders?
- Which policy topics?
- Decision making and achieving consensus
  - Realistic, achievable provisions
- Awareness
  - Distribution & access
  - Review & revision

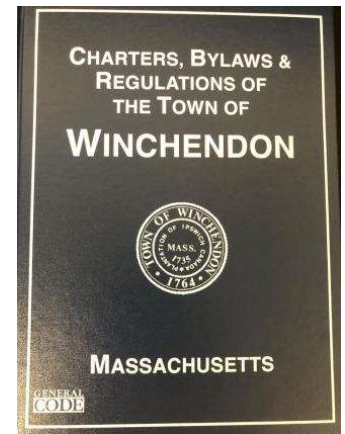
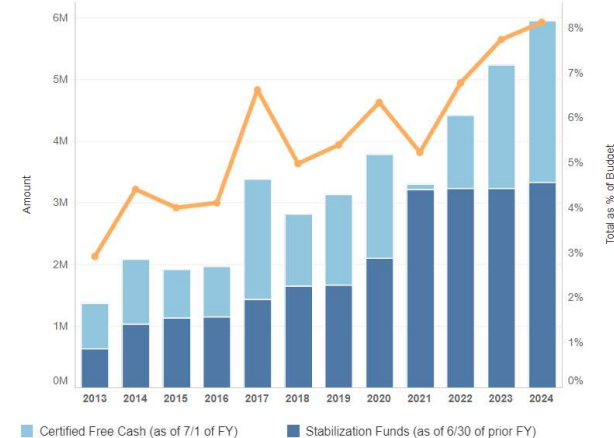




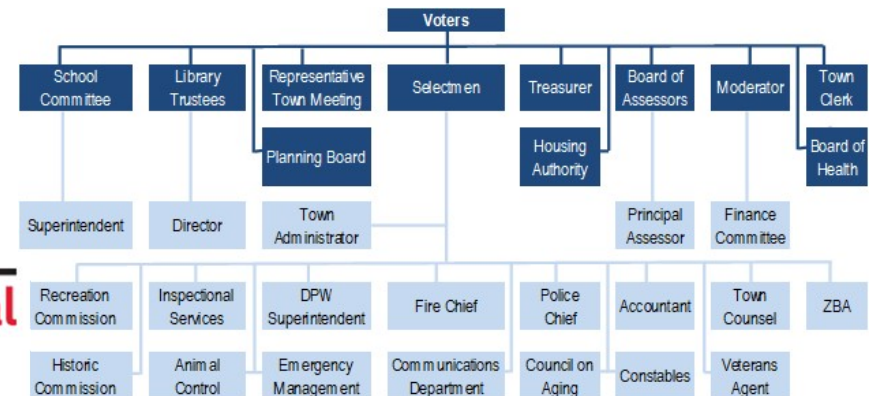
# FMRB's Approach to Policy Engagements

- Read:
  - Existing policies
  - Bylaws & charter
  - Management letters
  - Moody's / S&P reports
- Interview town personnel
- Understand government structure
- Review budget and other financial indicators
- Conduct peer analysis
- Conduct research on new topics as needed
- Modify existing policies as applicable

Certified Free Cash & Stabilization Funds Available at Start of FY



**S&P Global**  
Ratings



# Core Policies

## Financial Planning



- Annual Budget
- Capital Planning
- Debt Management
- Financial Reserves
- Forecasting
- Indirect Cost Allocation
- Investments
- OPEB
- Overlay
- Special Purpose Appropriations

# Core Policies

## Financial Operations

- Antifraud
- Disbursements
- Financial Management Team
- Gifts of Funds
- Grant Management
- Procurement Conflict Of Interest
- Reconciliations
- Revenue Turnover
- Tailings
- Tax Recapitulation
- Year-End Closing



# Core Policies

## Some Key Concepts

### Capital Planning

- Capital **improvements** in the annual Cap budget & multiyear CIP
- Ongoing **maintenance** of assets s/b within depts' annual budgets
- “Improvement” defined by combo of cost & years of useful life, ex. \$20,000 and five years

# Core Policies

## Some Key Concepts

### Financial Reserves

- General fund: Free cash, stabilization fund(s), and overlay
- Enterprise fund: Retained earnings

# Core Policies

## Some Key Concepts

### Indirect Cost Allocation

- Offset the general fund's indirect support of enterprise fund

# Core Policies

## Some Key Concepts

### **Procurement Conflict of Interest**

- Ethics, community reputation, risk of bid disputes
- Crucial requirement if federal grant recipient

# Additional Policies

## Financial Planning

- Annual Audit
- Debt Affordability Analysis
- One-time Revenues
- Prospective Shared Services

## Operations

- Ambulance Receivables
- Bounced Checks
- Cash Flow Budget
- Credit Card Usage
- Travel Reimbursement



# Anatomy of a Policy

## Capital Planning

Scope & Applicability

### Scope

All current and proposed capital projects for assets owned by the Town

### Key Players

#### Boards & Committees

##### Responsibilities

Developing the capital budget  
Reviewing, prioritizing, and making  
recommendations on proposed  
capital projects

##### Groups

- Select Board
- Finance Committee
- Capital Committee
- Community Preservation Committee

#### Internal Officials

##### Responsibilities

Gathering capital requests,  
developing CIP, analyzing funding  
strategies & decisions

##### Positions

- Town Administrator or Manager
- Finance Director
- Chief Financial Officer
- Accountant

#### Departments

##### Responsibilities

Developing and submitting  
departmental capital requests

##### Positions

- All Department Heads responsible for the oversight and expenditure of a capital project

# Anatomy of a Policy

## Boards & Committees

### Responsibilities

Developing the capital budget  
Reviewing, prioritizing, and making  
recommendations on proposed  
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### Groups

- Select Board
- Finance Committee
- Capital Committee
- Community Preservation Committee

# Anatomy of a Policy

## Internal Officials

### Responsibilities

Gathering capital requests,  
developing CIP, analyzing funding  
strategies & decisions

### Positions

- Town Administrator or Manager
- Finance Director
- Chief Financial Officer
- Accountant

# Anatomy of a Policy

## Departments

### Responsibilities

Developing and submitting  
departmental capital requests

### Positions

- All Department Heads responsible for the oversight and expenditure of a capital project

# Anatomy of a Policy

## Anticipated Process



# Policy Example

## Template Design

- Applicability
- Scope
- Effective
- Purpose
- Policy Text
- References

CAPITAL PLANNING	
Applies to:	<ul style="list-style-type: none"><li>▪ Select Board, Finance Committee, [CAO] and [Finance Director] budget decision-making roles</li><li>▪ [CAO], [Finance Director], and Town Accountant job duties</li><li>▪ [Capital Planning Committee], other officials or committees tasked with capital planning</li><li>▪ All department heads in planning for and requesting capital projects</li></ul>
Scope:	<ul style="list-style-type: none"><li>▪ All current and proposed capital projects for assets owned by the Town</li><li>▪ 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.</li></ul>
Effective:	Adopted by the Select Board on [Date]

### PURPOSE

To assure the Town can cost-effectively acquire, expand, or enhance the capital assets necessary to achieve its service provision goals, this policy outlines guidance for planning, reviewing, and coordinating capital improvements.

### POLICY

To acquire or extend the useful life of the equipment and infrastructure needed to achieve the highest possible levels of public services and quality of life affordable with available financial resources, the Town will maintain an annually updated, five-year [Capital Improvement Plan (CIP)]. Apart from the CIP, the Town will protect the value and service capacity of its capital assets by providing consistent funding in annual operating budgets for the maintenance expenditures necessary to realize their useful lifespans.

# Policy Example

## Useful Questions

### Capital Planning

#### Things to Consider

##### Governing Documents

- Charter & Bylaws
- Board & Committee Policies
- Select Board Goals & Directives
- Capital Improvement Plan
- Capital Asset Inventory
- Budget Document/Process

- ☐ What are the capital goals or targets specific to your community?
- ☐ What is your community's definition of a capital asset or project?
- ☐ Who is charged with developing, delivering, and maintaining the capital plan?
  - How is capital planning assigned to/divided among internal staff and boards & committees?
  - Who is charged with maintaining the capital asset inventory?
  - Does everyone understand their roles in the capital plan development process?
- ☐ How is priority reviewed and finalized during the process?
- ☐ What is the funding strategy?
  - What capital projects should be considered for debt or capital exclusions?
- ☐ How are school capital needs factored into the capital plan?



# Policy Example

## References

- Municipality References:
  - Charter, ordinances, bylaws
  - Cross-references to related policies
- External References:
  - State and federal laws
  - Guidance & best practice material:
    - FMRB's web material
    - MFLB's Info Guideline Releases, Bulletins
    - Govt. Finance Officers Association
    - Govt. Accounting Standards Board

### REFERENCES

#### Charter/Act:

#### Bylaw:

Policies: Annual-Budget-Process, Debt-Management, Financial-Reserves, Forecasting, Special-Purpose-Appropriations

### EXTERNAL-REFERENCES

[M.G.L.c.41, §106B](#)

[M.G.L.c.80](#)

[M.G.L.c.44, §53J](#)

[M.G.L.c.83](#)

Division-of-Local-Services-(DLS)-Best-Practice: [Presenting-and-Funding-Major-Capital-Projects](#)

DLS-Guidance: [Capital-Improvement-Planning-Manual](#) and [Capital-Improvement-Planning-Guide](#), and [Betterments-&Special-Assessments—Assessment-and-Collection-Procedures](#)

DLS-Information-Guideline-Release-2021-1: [Betterments-and-Special-Assessment, Assessment, and-Collection-Procedures](#)

Government-Finance-Officers-Association-Best-Practice: [Strategies-for-Establishing-Capital-Asset-Renewal-and-Replacement-Reserve-Policies](#)



# Policy Review

## POLICY LOG

### Financial Planning

Policy	Adopted	Reviewed	Revised
Annual Budget Process	12/10/2020	6/11/2022	8/19/2022
Annual Audit	12/10/2020		
Appropriation Transfers & Supplements	12/10/2020		
Capital Planning	12/10/2020	6/11/2022	
Debt Management	12/10/2020	6/11/2022	
Financial Reporting	12/10/2020		
Financial Reserves	12/10/2020	6/11/2022	
Forecasting	3/5/2021	6/11/2022	8/19/2022
Indirect Costs	3/5/2021		
Investments	12/10/2020		
OPEB Liability	1/7/2023		

### Financial Operations

Policy	Adopted	Reviewed	Revised
Disbursements	9/9/2021	2/13/2022	4/1/2022
Fraud	12/10/20	4/1/2022	4/1/2022
Grants Management	1/7/2023		
Procurement Conflict of Interest	12/10/20		
Reconciliations	1/7/2023		

# General Policy Advice

- Encourage reliance on full-time, central administrators
  - Budget and Capital Planning Responsibility to Town Admin/Manager
- Reserves
  - Encourage creation of a capital stabilization fund
  - Overall reserve levels: higher for smaller communities, lower for those with biggest budgets
- Annual Audit
  - Seek fresh perspective by doing bid process at 6-year intervals
- Other Postemployment Benefits Liability
  - Establish a trust fund

# Resources

- Division of Local Services:
  - FMRB policy manuals & other reports <https://www.mass.gov/collections/financial-management-resource-projects>
  - Databank community comparison report generator [https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Community Comparison Report](https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Community%20Comparison%20Report)
  - All Databank Reports <https://www.mass.gov/info-details/municipal-databank-data-analytics>
- GFOA Best practices & Advisories <https://www.gfoa.org/best-practices-advisories>
- UMass Collins Center [umb.edu/cpm/publications](http://umb.edu/cpm/publications)
- Community Compact Cabinet [mass.gov/lists/community-compact-reports-and-completed-best-practices](https://mass.gov/lists/community-compact-reports-and-completed-best-practices)

# ***Questions?***

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