

**FINANCIAL POLICY  
MANUAL**

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**CITY OF NORTHAMPTON,  
MASSACHUSETTS**

## TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>4</b>
Financial Policy Review Process .....	4
<b>A. GENERAL BUDGET POLICIES .....</b>	<b>5</b>
A-1 Balanced Budget.....	5
A-2 Revenue and Expenditure Forecast.....	5
A-3 Preparation and Submission of Operating Budget (The Budget Cycle).....	6
A-4 Position Control/Vacancies .....	7
A-5 Personnel Policies and Labor Contracts .....	8
<b>B. ENTERPRISE FUND POLICIES.....</b>	<b>9</b>
B-1 Self Sufficiency and Rates .....	9
B-2 Retained Earnings/Reserves .....	10
<b>C. RESERVE FUNDS/FUND BALANCE POLICIES .....</b>	<b>10</b>
C-1 Stabilization Funds.....	10
C-2 Overlay Reserve .....	14
C-3 Undesignated Fund Balance .....	14
<b>D. CAPITAL IMPROVEMENT PLAN AND POLICIES .....</b>	<b>16</b>
D-1 Capital Improvement Plan Budget .....	16
D-2 Capital Improvement Financing .....	17
<b>E. GRANTS MANAGEMENT POLICIES .....</b>	<b>18</b>
E-1 Grant Administration .....	18
E-2 Impact on Operating Budget .....	18
E-3 Impact on Capital Improvement Plan and Debt Management.....	19
<b>F. POLICIES REGARDING ESTABLISHMENT AND USE OF FEES.....</b>	<b>19</b>
F-1 Fees and Charges .....	19
<b>G. USE OF ONE TIME REVENUE .....</b>	<b>20</b>
G-1 Use of One Time Revenue .....	20
<b>H. UNFUNDED LIABILITIES POLICIES .....</b>	<b>20</b>
H-1 Pensions/Retirement.....	21
H-2 Other Post- Employment Benefits (OPEB) .....	21
H-3 Compensated Absences .....	22
<b>I. RISK MANAGEMENT POLICIES.....</b>	<b>23</b>
I-1 Risk Management Program .....	23

I-2 Anti-Fraud Policy and Response Program .....	25
<b>J. ACCOUNTING POLICIES.....</b>	<b>26</b>
J-1 Annual Audit .....	26
J-2 Audit Review.....	27
J-3 Monthly Reporting .....	27
J-4 Performance Bonds .....	<b>Error! Bookmark not defined.</b>
<b>K. TREASURY POLICIES .....</b>	<b>28</b>
K-1 Cash Collections.....	28
K-2 Tax Titles .....	28
K-3 Warranting Accounts Receivable.....	29
K-4 Collections .....	29
K-5 Liens .....	29
K-6 Reconciling Cash and Receivables .....	29
K-7 Aging Accounts Receivable .....	30
K-8 Unclaimed Vendor and Payroll Checks (Tailings) .....	31
K-9 Ambulance Receipts .....	31
K-10 Petty Cash .....	32
K-11 Credit Cards .....	33
<b>L. PROCUREMENT AND PURCHASING POLICIES .....</b>	<b>33</b>
L-1 Procurement and Purchasing Policy .....	33
<b>M. INVESTMENT POLICIES.....</b>	<b>34</b>
M-1 Investment Policy .....	34
M-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations .....	35
<b>Appendix – Financial Procedures .....</b>	<b>36</b>
Credit Card Procedures.....	36
Investment Procedures.....	37

## INTRODUCTION

To ensure the growing and continued financial health of the City of Northampton, provide the public with confidence that City officials seriously respect their responsibility of fiscal stewardship, and demonstrate to bond rating agencies that the City has thoughtfully prepared for its future, the financial policies outlined below shall inform practices and guide City decisions.

***The objectives of the Financial Management Policies are as follows:***

- A. To guide the Mayor, the City Council, and management staff in evaluating and implementing decisions that have significant financial impact on the City.*
- 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 employ balanced and fair fee and user revenue policies that provide funding for required and needed programs.*
- D. To regularly evaluate the City's financial capacity to meet present and future needs.*
- E. To promote credible and sound financial management by providing accurate and timely information on the City's financial condition to elected officials, staff, the public, and external interests.*
- F. To ensure that current and future capital needs are addressed in a comprehensive and financially-sound manner.*
- G. To maintain the City's credit rating and provide financial resources sufficient to meet the City's obligations on all municipal debt and other long-term obligations.*
- H. To establish an effective system of internal controls that ensures the legal use of financial resources.*
- I. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*
- J. To ensure cash solvency, budgetary solvency, and service level solvency.*

### **Financial Policy Review Process**

#### **Background:**

The financial condition of a community may suddenly change, either strengthened or weakened, due to a number of circumstances including: a catastrophe, weather conditions, a change in the national economy, or a significant change in the certified valuation. Such changes may make it difficult to

respond while continuing to follow the existing financial policies. Adaptation of these occurrences require a community to review current policies and actively adjust policies to reflect new conditions.

**Policy:**

The City shall review financial policies every five years including the financial departments.

**A. GENERAL BUDGET POLICIES**

**A-1 Balanced Budget**

**Background:**

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally-balanced budget is one that supports financial sustainability for multiple years into the future.

**Policy:**

The City will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. The City will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to defer making principal payments.

The City budget shall also support a financially-sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing. (See also, Section C. Reserve Funds / Fund Balance Policies & Section H. Unfunded Liabilities Policies.)

**References:**

M.G.L. c.44, §31

*Achieving a Structurally Balanced Budget*, Government Finance Officers Association Best Practice, February 2012

**A-2 Revenue and Expenditure Forecast**

**Background:**

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast. Long-term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions

over time. A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow the Mayor, staff, and the City Council to test various “what-if” scenarios as well as examine the fiscal impact on future budgets.

**Policy:**

Each year the City’s finance team shall prepare and maintain a five-year Financial Forecast for the General Fund and each Enterprise Fund based on current service levels and current funding sources, including the five-year Capital Improvement Plan. The forecast shall include 3 to 5 years of historic data for trend analysis purposes.

The forecast shall be used as a budget tool to enable City officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects.

The Mayor, in cooperation with other City finance departments, will review fiscal assumptions every year when the forecast is updated and will input data that is timely and accurate in preparation of the forecast. The forecast and the associated assumptions shall be presented by the Mayor at the joint meeting to City Council, Northampton Public School Committee and Smith Vocational Agricultural High School (SVAHS) Trustees. The NPS Superintendent and SVAHS Superintendent, and School Administrators shall also be invited. The preliminary revenue and expenditure forecast is generally presented in late January or early February.

**References:**

*Revenue and Expenditure Forecasting*, MA DOR Division of Local Services Best Practice.  
*Financial Forecasting in the Budget Preparation Process*, Government Finance Officers Association Best Practice, February 2014.  
*Financial Management Assessment*, Standard and Poor’s, June 2006.  
*Northampton City Charter Section 7-2 ANNUAL BUDGET POLICY*

**A-3 Preparation and Submission of Operating Budget (The Budget Cycle)**

The annual operating budget process (cycle) has an established timeline and should be integrated with the development of a Five -Year Capital Improvement Plan and a Five-Year Revenue and Expenditure Forecast. See Policy D-1 and Policy A-2 for reference.

**Policy:**

On or before the last week in January, the Mayor shall issue budget guidelines relating to the budget for the next fiscal year. The guidelines shall establish the outer limits of possible budget growth for the City to be used by various City departments, officers, boards, and committees in the preparation of the Operating Budgets for the ensuing year. The Mayor shall send the budget guidelines statement to every City department charged with the expenditure of City funds.

All departments shall submit the annual budget requests to the Finance Director no later than mid-February of each year. The school budgets, as adopted by the NPS School Committee and SVAHS Trustees, shall be submitted to the Mayor at least 30 days before the submission of the proposed Operating Budget to the City Council. All requests shall be structured to follow the budget guidelines developed by the Mayor.

The Mayor will coordinate, review, prepare, and submit a balanced annual budget proposal to the City Council at least 45 days before the beginning of the fiscal year. The Mayor's budget proposal shall include the General Fund, and Enterprise Funds. The Mayor's proposed budget shall include all estimated revenues, including General and Enterprise funds, and all estimated expenditures. The Mayor shall provide written documentation of budget assumptions and shall include Stabilization Fund balances. The Mayor shall also indicate any major differences from the current fiscal year in revenues and expenditures, together with reasons for such changes and include such other material, as the Mayor deems necessary.

The City Council shall hold at least one public hearing to discuss both operating and capital budget proposals. The City Council shall adopt the proposed operating budget, which may have amendments, within 45 days following the date the proposed budget is filed with the City Clerk. In amending the proposed operating budget, the City Council may delete or decrease amounts except expenditures required by law; provided, however, that except on the recommendation of the Mayor, the City Council shall not increase any item in or the total of the proposed operating budget, unless otherwise authorized by the General Laws. If the City Council fails to take action on an item in the proposed operating budget within 45 days after its receipt, that amount shall, without any action by the City Council, become a part of the appropriations for the year and be available for the purposes specified.

The Annual Financial Plan will adhere to the Principles of Budgeting:

- **Comprehensiveness** – Requires that the budget embrace all of the activities of the government;
- **Exclusiveness** – The budget should deal with only financial matters and not with substantive legislation;
- **Unity** – Requires the budget to be presented in gross terms, including all revenues and expenditures;
- **Specification** – Requires that expenditures be made only for the purpose for which it was appropriated;
- **Annuality** – Requires that budgets be presented each year and that they cover only one fiscal year;
- **Accuracy** – Means that the revenues and expenditures should be correctly, although conservatively, estimated;
- **Clarity** – Means that the budget proposal must be understandable to all who may read it;
- **Publicity** – Means that the budget document must be offered for public consumption, to maximize the understanding of the proposal and the participation in the public authorization process.

#### **A-4 Position Control/Vacancies**

##### **Background:**

The largest segment of a City's budget is its personnel costs. Failure to accurately monitor the approved personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

**Policy:**

The City shall maintain a personnel system that accurately tracks authorized filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the City intends to have during that budget period.

**A-5 Personnel Policies and Labor Contracts**

**Background:**

For the purposes of these policies, the following definitions shall apply:

- Personnel Policies are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.
- Classification Plans are the schedules that identify employees by job category, job title, and union/non-union status on a typical grade structure. Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- Memorandums of Agreement (MOAs) are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- Collective Bargaining Agreements (CBAs) are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union/association.
- Side Letters are documents that represent a short-term agreement between a municipality and a union/association.

**Policy:**

Pay plans and pay rates shall be monitored by the Mayor, or designee, to ensure compliance with labor contracts, personnel policies, and accuracy. Contract proposals and agreements will be fully costed out to understand the short- and long-term impact on City finances. In order to foster transparency in the provision of employment agreements and benefits, the City will prepare and maintain documents that are publicly available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters.

## **B. ENTERPRISE FUND POLICIES**

### **B-1 Self Sufficiency and Rates**

#### **Background:**

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

#### **Policy:**

City Enterprise Funds (Water, Sewer, Stormwater/Flood Control, Solid Waste) shall be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by the Finance Director and DPW director.

Rates and fees for enterprise services shall be set at a level to provide for self-supporting enterprise operations, including direct and indirect costs. Rates shall be adjusted annually as appropriation levels change. Capital projects shall be financed from Enterprise Funds, stabilization funds, retained earnings, and grants.

Each Enterprise Fund shall be reviewed annually by the DPW director who then submits a proposal to the Mayor. In an effort to prevent a subsidy by the General Fund Operating Budget, the DPW Director shall review and/or generate projected revenues and expenditures for both the current and upcoming fiscal years in conjunction with future year projections as well as estimates of capital project costs, debt service, and other liabilities shall be included in this analysis to predict future Enterprise Fund budgets and revenues necessary to maintain self-sufficiency.

To ascertain the short- and long-term impact on ratepayers, changes in the rates and/or rate structure shall be carefully analyzed prior to recommendation and implementation. Further, and to meet other policy goals of the City, the Mayor may elect to recommend in writing a waiver of self-sufficiency and rate policies and to provide a subsidy or loan from the General Fund in support of the Enterprise Fund.

#### **References:**

MGL, Chap 44, Sec 53F1/2  
Enterprise Funds, MA DOR Division of Local Services Best Practice

## **B-2 Retained Earnings/Reserves**

### **Policy:**

Enterprise Funds shall maintain a reserve account to accomplish two major objectives: 1) provide rate stabilization in the event of a sudden drop in revenues and/or a sudden increase in expenditures; and 2) provide funds for major future capital projects. The amount of the reserves shall be at a minimum of 10% with the goal of phasing up over time to 20% of the total Enterprise Fund budget but may be significantly higher if significant infrastructure improvements are necessary.

## **C. RESERVE FUNDS/FUND BALANCE POLICIES**

### **Background:**

A municipality's fiscal policies should include a plan for maintaining reserves. Operating reserves (or fund balance) are a prudent fiscal management tool and an important factor in the analysis of financial flexibility. The City of Northampton will maintain a level of reserves that protects the City from emergency conditions that may require financial flexibility, contributes to sufficient liquidity to pay all City expenses without short-term borrowing, and maintains or improves the credit rating that the City currently holds. To provide for adequate levels of reserves, which protect the City's financial condition over the long-term, the City of Northampton has adopted the following financial reserves policy statements:

### **C-1 Stabilization Funds**

#### **Background:**

A stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose.

Under State law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed 10% of the prior year's tax levy. Generally, a majority vote of a City Council is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund. The total of all stabilization fund balances shall not exceed 10% of a municipality's equalized values.

#### **C-1a General Stabilization Policy:**

The City's primary vehicle for reserve funds will be the General Stabilization Fund. A majority vote by City Council is required to appropriate funds into any stabilization fund. The City of Northampton is committed to responsible stewardship of its financial resources. A key component of the City's financial position is its General Stabilization Fund. A General Stabilization Fund is a mechanism for setting aside money for emergency or unforeseen situations according to the Massachusetts Division of Local Services. Such a fund is intended to equalize the effect of fluctuations in elastic revenues over time and to provide a reserve fund.

**Policy:**

The City shall target a liquidity ratio of 10% of the prior year Net General Operating Budget, made up of assets within the General Stabilization Fund, the Capital Stabilization Fund, and any un-appropriated Undesignated Fund Balance. The Net General Operating Budget is defined as total General Fund budget revenue, minus debt exclusions, minus General Stabilization Funds, minus Undesignated Fund Balance, and minus any federal or state grants. A liquidity ratio at this level or greater strengthens the community's fiscal condition and maintains the highest bond rating.

The General Stabilization Fund is established for the purpose of addressing any extraordinary or unforeseen expenditures. Following any expenditures from the General Stabilization Fund, the City will ensure that it is restored through the appropriation of revenues such as Undesignated Fund Balance and/or one-time revenues within two years of the withdrawal.

The Stabilization Fund may be used under the following circumstances:

- a) To support projects not necessarily identified in the capital plan but have arisen due to unforeseen or emergency circumstances
- b) To supplement the general fund operating budget in case of sharp, unforeseen revenue declines such as reductions in state aid
- c) To cover unforeseen operating budget deficits such as extraordinary snow and ice, or legal costs

The source of the funding for the General Stabilization Fund shall be the Undesignated Fund Balance. The goal is to reach and sustain a target amount of 5% of Net General Operating Budget.

**C-1b Fiscal Stability Stabilization Fund Policy:**

**Background:**

Established in FY2014 from the proceeds of a general override, and added to it with appropriations from the budget and one-time funds (Undesignated Fund Balance), the Fiscal Stability Stabilization Fund was created to delay the necessity of requiring another general override to balance the annual Operating Budget and to maintain stability of the city's essential operations from year to year.

**Policy:**

The Fiscal Stability Stabilization funding shall be from the City's annual operating budget and / or from the Undesignated Fund balance and/or one-time revenues.

If it is necessary to draw down from the Fiscal Stability Fund, the funds will be used to maintain essential City services. The City will restore the funds through the appropriation of revenues from the operating budget (passage of a general override) or from the undesignated fund balance and/or one-time revenues.

**C-1c Capital Stabilization Policy:**

**Background:**

The City shall maintain a special purpose Capital Stabilization Fund that shall serve as a funding source for capital improvements identified in the Five-Year Capital Plan approved annually by the City Council.

**Policy:**

The Capital Stabilization Fund shall be used for the purpose of General Fund one time “pay-as-you-go” projects identified in the Capital Improvement Plan and lease-purchase capital appropriations.

The target funding level for the Capital Stabilization Fund shall be a minimum of 2.7% of the prior year Net General Operating Budget. The target ceiling shall be 5% of the prior year Net General Operating Budget. The Fund shall be funded via an annual Operating Budget with a targeted increase of 6% annually. The Capital Stabilization Fund is also funded from the Undesignated Fund Balance per the policy. One time revenues may also be used as a funding source.

Once the Capital Stabilization Fund has achieved the 2.7% of prior year Net General Operating Budget goal, any funds in excess of the minimum 2.7% may be appropriated from the Capital Stabilization Fund to support capital needs. The goal is to sustain the fund at 5% of the General Fund Operating Budget.

In accordance with Massachusetts General Law, withdrawals from the Capital Stabilization Fund will only be made by a two-thirds vote of City Council.

**C-1d Climate Change Mitigation Stabilization Policy:**

**Background:**

Established in FY2023, the City shall maintain a special purpose Climate Change Mitigation Stabilization Fund that shall serve as a funding source for expenditures relative to the City’s operations and capital needs to mitigate the impacts of climate change and to support the City’s net carbon neutral goals.

**Policy:**

The Climate Change Mitigation Stabilization Fund shall be used for the purpose of expenditures relative to the City’s operations and capital needs to mitigate the impacts of climate change and to support the City’s net carbon neutral goals.

The Climate Change Mitigation Stabilization Fund will be funded from the Undesignated Fund Balance or one-time revenues.

In accordance with Massachusetts General Law, withdrawals from the Climate Change Mitigation Stabilization Fund will only be made by a two-thirds vote of City Council.

### **C-1e Opioid Settlement Stabilization Policy:**

#### **Background:**

Established in FY2024, the City shall maintain a special purpose Opioid Settlement Stabilization Fund for the purposes allowed by law, including those outlined in applicable opioid-litigation settlement documents, a document prepared by the Substance Abuse Bureau of the Commonwealth's office of Health and Human Services Department, and consistent with all state guidelines or regulations further clarifying allowable uses of opioid litigation settlement funds.

#### **Policy:**

The Opioid Settlement Stabilization fund will be used for the purposes of addressing and combating the opioid crisis under the guidelines of the litigation settlement and Commonwealth of Massachusetts guidelines. The Opioid Settlement Stabilization Fund will be funded by the opioid litigation settlement funds received by the City.

In accordance with Massachusetts General Law, withdrawals from the Opioid Settlement Stabilization Fund will only be made by a two-thirds vote of City Council.

#### **References:**

M.G.L. c. 40 §5B

*Special Purpose Stabilization Funds*, MA DOR Division of Local Services Best Practice.

### **C-1f-Compensated Absence Fund**

Established in FY2014, a Compensated Absences Fund shall be maintained, under the provisions of MGL Chapter 40, Section 13D. The purpose of the fund is to provide stability in the budget when earned and unused benefits must be paid out to retirees and the annually budgeted fund is not enough. This fund will be utilized when an unusually large number of employees retire and/or a long-time employee whose benefit was legacied retires possessing a considerable sick leave payout.

#### **Policy:**

The City will strive to maintain a minimum Compensated Absence Fund balance of \$100,000. (See also, H-3 Compensated Absences.)

### **C-1g- Post-Retirement Benefits Trust Fund (OPEB)**

Established in FY2015, the Post-Retirement Benefits Trust Fund shall be maintained to offset the anticipated costs of post-retirement benefits for retired employees. The uses of and procedures for accessing the fund are prescribed in MGL Chapter 32B, Section 20.

**Policy:**

The City shall annually make an appropriation to the Post-Retirement Benefits Trust Fund, increasing its contribution by \$25,000 or more each year. Other appropriations into this fund may come from year-end surpluses in fringe benefit line-items; from year-end surpluses in appropriations for employee health insurance; from assessments on the Enterprise Funds that support benefit-eligible employees; and Undesignated Fund Balance and/or other one-time revenues. (See also, H-2 Other Post-Employment Benefits (OPEB).)

**C-1f Receipts Reserved for Parking**

**Policy:**

The City deposits all annual parking revenue above and beyond the cost of operating parking enforcement and parking maintenance activities, into the Receipts Reserved for Parking account. This reserve is used solely for the maintenance, repair and replacement of parking related facilities and equipment. All expenditures must be approved by City Council and are funded as part of the City's five-year Capital Improvement Program.

**C-2 Overlay Reserve**

The Overlay Reserve is determined in any year by the Board of Assessors. The appropriation is not required to be approved by City Council. The purpose of this fund is to support the reduction of the annual property tax levy due to abatements, exemptions, un-collected taxes, and interest due. The overlay reserves for each fiscal year are consolidated into one fund.

**Policy:**

Although the Board of Assessors is an autonomous independent Board, they are part of an overall effort to provide sound financial practices. As such, the Mayor may ask the Board of Assessors that the balance of the Overlay Reserve be no more than the estimated cost of outstanding abatement applications and annual exemptions. The Mayor may request that any funds over the estimated cost of outstanding abatements, annual exemptions, receivables, and interest due be released to Overlay Surplus by the end of each fiscal year. The decision, however, is that of the Board of Assessors. For the purpose of developing an annual Financial Plan, the City will assume, with advice from the Assessor, that an Overlay Reserve shall be equal to 1% of the annual levy.

**References:**

MGL 47, Section 31

**C-3 Undesignated Fund Balance**

**Background:**

The Undesignated Fund Balance is the amount of the City's funds that are unrestricted and available for appropriation. The Undesignated Fund Balance is generated when actual revenue collections are more

than budget estimates, and when expenditures and encumbrances are less than appropriations, or both. The Undesignated Fund Balance may be appropriated after certification by the Massachusetts Department of Revenue following the close of each fiscal year. Appropriation requires a simple majority vote by the City Council. The Undesignated Fund Balance is not a fund and interest does not accrue to the balance.

The Undesignated Fund Balance provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. The Undesignated Fund Balance can serve as a source for funding capital funds or replenishing other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures).

The Massachusetts Department of Revenue suggests that a municipality strive to generate an Undesignated Fund Balance in an amount equal to 3 to 5% of its annual budget

**Policy:**

The City of Northampton shall not utilize the Undesignated Fund Balance to fund the Operating Budget.

Annually, once the Undesignated Fund Balance is certified, the City will allocate these funds strategically, in order to strengthen the financial condition of the City. Upon providing funding for any existing “Snow & Ice” deficit, the annual distribution shall be by a set percentage. The uses of the Undesignated Fund Balance are as follows:

The City shall use its certified Undesignated Fund Balance to build reserves in the City’s Stabilizations Funds, to fund capital improvements, and to cover unanticipated Operating Budget deficits due to economic downturns and emergency situations. The City shall allocate approximately 33% of its Undesignated Fund Balance towards its reserves (General Stabilization, Fiscal Stabilization, Capital Stabilization and Climate Stabilization), 33% towards “pay-as-you-go” capital projects, and retain 33% in the Undesignated Fund Balance to address any unforeseen budget deficits. The first reserve distribution of 33% shall take in to account the City’s net carbon neutral goals and the goals of reaching each of the General Stabilization Fund and Capital Stabilization Fund balance targets of 5% of the prior year’s Net General Operating Budget. The Net General Operating Budget shall be based upon recurring revenue that is made up of property taxes (less debt or capital exclusions), State aid, local receipts, and other revenue (excluding the Undesignated Fund Balance). The percentage target is based upon the bond rating agency’s determination of the appropriate level of liquidity which a community would need to assure a strong bond rating.

**References:**

- Free Cash*, MA DOR Division of Local Services Best Practice.
- Appropriate Level of Unrestricted Fund Balance in the General Fund*, Government Finance Officers Association Best Practice, September 2015.
- Reserve Policies*, MA DOR Division of Local Services Best Practice.

## **D. CAPITAL IMPROVEMENT PLAN AND POLICIES**

### **D-1 Capital Improvement Plan Budget**

#### **Background:**

For the purposes of these policies, the following definitions shall apply:

- Prior Year Net Revenue - Gross General Fund revenues, less debt exclusions and available funds (e.g., Undesignated Fund Balance, stabilization, Smith Vocational and Agricultural High School, and overlay surplus).
- Net Capital Investment - Gross costs from local debt, less Proposition 2 ½ debt exclusion amounts, plus the cost of capital leases, direct capital expenses (e.g., “pay-as-you-go capital) funded from capital stabilization fund and the General Fund, and other local amounts approved as part of the capital budget.
- Capital Investment as a Percent of Prior Year Operating Budget – The Net Capital Investment divided by the Prior Year Net Revenue. These Funds shall support all non-excluded debt and pay-as-you-go capital appropriations.

#### **Policy:**

The City’s Long-Range Capital Improvement Plan shall project its equipment, building and infrastructure replacement and maintenance needs for at least five years and shall update the projection annually. The Plan shall identify and prioritize capital needs, estimated costs, and provide recommendations as to the source of funding for each project. From this projection, a maintenance and replacement schedule shall be developed and followed. To assure clarity and transparency, capital expenditures and Operating Budget expenditures shall be budgeted separately by each Department Head. Funding for approved capital projects shall be available as of July 1 of each year. The City shall maintain all its capital assets at a level adequate to protect the City’s capital investment and to minimize future maintenance and replacement costs. The Capital Planning Committee, which advises the Mayor, may consider items not currently on the multi-year capital plan in order for the city to take advantage of time-sensitive opportunities, alternative funding sources, and in cases of public safety concerns.

A capital item is defined as a construction, reconstruction, rehabilitation, purchase of a building, purchase of land or purchase of equipment. In order to qualify as a capital project, the capital expenditure must have a useful life of three (3) years or more and must exceed \$10,000 in cost.

In September, the Finance Director will ask for Department Heads and Municipal Building Directors to begin developing capital improvement requests. Capital project proposals, complete with descriptions, cost, source of funding and timetable for completion, will be submitted to the Finance Director in October. Further, the capital budget proposals should include an estimate of any additional maintenance costs, to be included in the development of the Mayor’s annual Operating Budget submission. The Finance Director shall assemble the departmental capital requests and submit them to the Capital Planning Committee for review and prioritization. Upon completing their review, the Capital Planning Committee shall submit their recommendations to the Mayor. The Mayor shall develop a capital improvement program and submit it to the City Council no later than 120 days (March 2) before the start of the new fiscal year. The

Capital Improvement Program shall include a general summary, a list of all proposed capital projects to be undertaken during the next five (5) years with supporting information as to the need, and cost estimates with methods of financing. The information shall be revised annually. The City Council shall post a public hearing notice and hold a public hearing not less than 14 days after the publication of the notice, and adopt the Capital plan prior to June 1.

The City policymakers shall establish a target percentage of the prior year “Net Revenue” budget that shall be dedicated to support General Fund “pay-as-you-go” capital and non-excluded debt service.

## **D-2 Capital Improvement Financing**

### **Policy:**

The Northampton Capital Improvement Plan shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- Debt-Financing/Borrowing –
  - On an annual basis, the City Treasurer/Collector and Finance Director shall provide support to the Mayor who shall evaluate debt-funding scenarios, including lease-purchase financings, as part of the annual Five-Year Capital Improvement Plan proposal. The total annual non-excluded debt service for general obligation debt (principal and interest) should not exceed 7.5% of the total estimated net operating revenue.
  - Total general obligation debt shall not exceed that provided in the State statute under Massachusetts General Laws Chapter 44, Section 10, which is 5% of the equalized valuation.
  - The City shall finance capital projects through the issuance of debt for the shortest practical period, but in any event not in excess of the anticipated useful life of the financed asset.
  - Where possible, the City shall use special assessment revenues or other self-supporting bonds to support the obligation.
  - The City may issue Bond Anticipation Notes (BANs) as a form of short-term permanent financing (generally up to ten years under current statutes) by renewing the notes over several years and reducing the principal amount of the renewal.
  - When Bond Anticipation Notes are issued on capital projects that require long-term financing, the City will retire the notes within six months of the completion of the project.
  - The City shall maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus per SEC regulations.
  - The City will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years.
  - The City will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source.

**References:**

*Massachusetts General Laws, Chapter 44, Section 7*  
*Northampton City Charter Section 7-5 CAPITAL IMPROVEMENT PROGRAM*

**E. GRANTS MANAGEMENT POLICIES**

**Background:**

DLS recommends analyzing current and future impact of grants on Operating Budget, Capital Improvement Plan, and debt management.

The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

**E-1 Grant Administration**

**Policy:**

The City shall consistently seek to maximize the benefits of grants while minimizing their risks. Prior to acceptance of a grant award, the City shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long-term commitments dictated by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. The City shall ensure that it appropriately administers grants after their acceptance period.

**E-2 Impact on Operating Budget**

**Policy:**

When positions are funded by grants, the current and future impact on the Operating Budget shall be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the City's cost for providing that benefit.

In all cases where some costs are not covered (e.g., personnel-related benefit costs or indirect costs), those costs should be clearly disclosed prior to the determination to accept the grant. With such disclosure, a proposed plan to cover such unreimbursed costs shall also be presented at the same time for concurrent approval.

### **E-3 Impact on Capital Improvement Plan and Debt Management**

#### **Policy:**

When grants are accepted for capital purposes, the City shall include in its Capital Improvement Plan any share of costs associated with the grant and project the City's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the City's revenue /expenditure forecast.

#### **References:**

*Administering Grants Effectively*, Government Finance Officers Association Best Practice, May 2013.

## **F. POLICIES REGARDING ESTABLISHMENT AND USE OF FEES**

### **F-1 Fees and Charges**

#### **Background:**

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or another subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

#### **Policy:**

City fees and charges shall be reviewed periodically in relation to the cost of providing the service. The City will compare rates with nearby communities to determine if the fees established are competitive. The City may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

In such cases when fees do not cover costs, the City may explore other options for the delivery of the services.

## **References:**

*M.G.L. c.140*

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

*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

Division of Local Services, *A Guide to Financial Management for City Officials*, p. 20-21.

## **G. USE OF ONE TIME REVENUE**

### **G-1 Use of One Time Revenue**

#### **Background:**

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize service disruptions due to the non-recurrence of these sources.

One of the core principles of accounting matches recurring revenue with recurring appropriations and non-recurring revenue with non-recurring appropriations.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as non-recurring revenue.

In addition, caution should be taken with inconsistent revenue, the amount of which fluctuates from year to year.

For the purpose of this policy, highly-volatile revenues shall be defined as those revenues that are not assured and in fact, show a trend that within the most recent 5 years there has been at least one fiscal year of no funding.

#### **Policy:**

The City shall not use one-time and highly volatile revenues for recurring costs in the annual City Operating Budget. One-time and highly-volatile revenues shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

## **H. UNFUNDED LIABILITIES POLICIES**

#### **Background:**

Defined as "the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date", unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Northampton, and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

## **H-1 Pensions/Retirement**

### **Background:**

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 104 public pension systems. Funding for this system covers the costs of employees who are part of the City's retirement program, which does not include teachers, as their pensions are funded by the State. The City of Northampton and Northampton Housing Authority are members of the Northampton Retirement System.

### **Policy:**

In accordance with state law, PERAC regulations and government accounting standards, the City shall continue to fund this liability in the most fiscally-prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the Northampton Retirement Board.

Upon fully funding the Pension obligation, the City may transfer the annual required contribution (ARC) to support the Other Post-Employment Benefits (OPEB) unfunded liability.

### **References:**

M.G.L. c.32

## **H-2 Other Post- Employment Benefits (OPEB)**

### **Background:**

OPEB primarily encompasses the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 74 and No. 75 to address the OPEB issue which replaced the previously adopted GASB 43 and GASB 45 statements. These GASB policies require the accrual of OPEB liabilities, generally, over a plan member's working career, combined with the accrual of the OPEB expense over the same period rather than the recognition of pay-as-you-go contributions. The reporting mandates include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. All OPEB accrued liabilities are calculated using acceptable actuarial methods by a qualified actuary.

### **Policy H-2a:**

While there is currently no legal requirement to fund OPEB, the City recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations.

In order to determine the funding schedule, the City shall continue its current practice of having an independent actuary prepare, at a minimum, a biennial valuation, which complies with GASB's requirement. Careful consideration shall be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment based upon the Prudent Investor Standard.

**Policy H-2b:**

Established in FY2015, the City shall continue to contribute to the OPEB Trust Fund. The total unfunded liability and the annual required contribution (ARC) will be determined by proration. The City shall annually make an appropriation to this fund, increasing its appropriation by a target of \$25,000 each year into the OPEB Trust Fund until the OPEB liability is fully funded. (See also, C-1e Post-Retirement Benefits Trust Fund (OPEB).)

Upon the pension liability being fully funded, the City should then allocate that funding to the OPEB Trust Fund and work to achieve full funding of its OPEB liability.

**References:**

*Statement No.74, Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, June 2015.*

*Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2015.*

*GASB Statements 74 and 75, on Other Postemployment Benefits, Governmental Accounting Standards Board.*

**H-3 Compensated Absences****Background:**

Another unfunded liability, not frequently monitored by cities and towns, is the cost of accumulating sick leave and vacation buy-backs payable to employees upon retirement. These benefits are typically defined in the labor agreements and personnel policies of municipalities. While it is difficult to precisely forecast the expenditures to be made in any one fiscal year, a state statute can be adopted and local practices can be established to set aside funds for this liability.

**Policy:**

Established in FY2014, a Compensated Absences Fund shall be maintained, under the provisions of MGL Chapter 40, Section 13D. The purpose of the fund is to provide stability in the budget when long time, legaced employees retire under the former sick leave buyout benefit. The current benefit has been reduced and annually an amount is budgeted to cover the typical costs related to these required expenditures. However, this fund will be utilized when an unusually large number of employees retire and/or a long-time employee whose benefit was legaced retires possessing a considerable sick leave payout. The City shall annually determine the amount of monies to be deposited to this reserve fund. (See also, C-1d Compensated Absence Fund.)

**References:**

*MGL Ch. 40, Sec.13D Reserve Fund for Future Payment of Accrued Liabilities for Compensated Absences*

## I. RISK MANAGEMENT POLICIES

### PURPOSE:

This policy is established to:

- Protect the revenue, property, information, and other assets of the City of Northampton from any attempt, either by members of the public, contractors, vendors, agents or its own employees, to gain financial or other benefits by deceit, at the expense of Northampton taxpayers.
- Provide controls to aid in the detection and prevention of fraud.
- Provide guidance to employees when misuse or misappropriation of City of Northampton assets is suspected.

### APPLICABILITY:

This policy applies to all appointed and elected officials and employees of the City of Northampton.

### I-1 Risk Management Program

### DEFINITIONS:

Occupational fraud is defined by the Association of Certified Fraud Examiners as, “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.” There are three major categories of occupational fraud:

1. ASSET MISAPPROPRIATION – Theft or misuse of an employer’s assets, including:
  - Cash:
    - Fraudulent disbursements occur when the employer is caused to disburse funds through trickery or deception, such as submitting false invoices/time cards, expense reimbursement requests, etc.
    - Skimming occurs when cash is taken before it is recorded on the books and records.
    - Cash larceny occurs when cash is stolen after it has been recorded on the books and records.
  - Inventory and other assets:
    - Misuse of the City’s inventory or assets for personal use (e.g., City vehicles, computers, supplies, etc.)
    - Larceny – theft of City-owned inventory or other assets.
2. CORRUPTION – Wrongful use of influence to obtain personal gain or advantage through means that are illegitimate, immoral and/or inconsistent with one’s duty or the rights of others.
  - Conflict of Interest occurs when financial or other personal considerations have the potential to compromise or influence professional judgment and objectivity.
  - Bribery is the offering, giving, receiving, or soliciting of anything of value to influence an official act or a business decision.

- Illegal gratuities – A party who benefits from an official act or a business decision gives a gift to a person who made the decision. An illegal gratuity does not require proof of intent to influence.
- Economic extortion – An employee demands that a vendor, contractor, etc. pay to influence an official act or a business decision.

### 3. FRAUDULENT STATEMENTS – Falsification of an organization’s financial statements.

Other similar irregularities are defined as any activity involving questionable behavior or business dealings by members of the public, contractors, vendors, agents or City employees, which put City revenue, property, information and other assets at risk of waste or abuse.

Department Heads: Members of management are responsible for establishing and maintaining a system of internal controls to ensure the detection and prevention of fraud, waste, abuse and other irregularities. Department Heads should be reasonably familiar with the types of fraud that might occur within their area of responsibility and be alert to any indication of fraud.

Department Heads have the same responsibility with respect to reporting fraud as do all other employees of the City, as outlined below.

Employees: Any employee of the City of Northampton who knows or has reason to believe that a fraud has occurred is responsible for promptly notifying his/her immediate supervisor. If the employee has reason to believe that the employee’s immediate supervisor may be involved, the employee shall promptly notify the Finance Director. Employees may remain anonymous when reporting a suspected fraud, but must maintain strict confidentiality concerning a reported fraud at all times. Employees have a duty to cooperate during an investigation.

Procedures: Upon notification from an employee of suspected fraud, or if management has reason to suspect that a fraud has occurred, they shall immediately notify the City Auditor and Finance Director.

Upon notification or discovery of a suspected fraud, the Finance Director will promptly investigate the suspected fraud. In all circumstances where there are reasonable grounds to indicate that a fraud may have occurred, the Finance Director will inform the Mayor. Subject to the advice of the City Attorney, the Mayor will contact the Inspector General’s office and/or the Northampton Police Department.

Once a suspected fraud is reported, the Finance Director, in consultation with City Attorney, shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records.

Upon conclusion of an investigation, recommendations may be made to Department Heads where required in order to minimize future risk. Management is responsible for implementing the appropriate controls to prevent reoccurrence. The Mayor shall be made aware of any investigation and its conclusion and shall notify City Council as appropriate.

Disciplinary Action: Appointing authorities are responsible for discipline of employees who have committed fraud, in accordance with the City Personnel Policy or union contract, as applicable, and in consultation with City Attorney and Human Resources. Employees who have committed fraud shall be subject to disciplinary action, up to and including dismissal.

Confidentiality: All participants in a fraud investigation shall treat all information received confidentially. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. To the extent possible by law, the identity of individuals involved in an investigation, including the identity of an individual alleging fraud and the identity of an individual alleged to have committed fraud will be protected.

Any staff person or elected official contacted by the media with respect to a fraud investigation shall refer the media person to the Mayor or designee. The alleged fraud or investigation shall not be discussed with the media by any person other than the Mayor or designee, in consultation with City Attorney.

Whistle-Blower Protection: No person covered by this policy shall be

- Dismissed or threatened to be dismissed;
- Disciplined or suspended or threatened to be disciplined or suspended;
- Have any penalty imposed upon them; or
- Intimidated or coerced because the employee has acted in accordance with the requirements of this Policy.

**Policy:**

The City's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the City is exposed to on a regular basis. In the event that Northampton Public School or Smith Vocational and Agricultural High School wishes to add items to the City's insurance policy, they shall cover the cost incurred by that coverage.

The City shall develop and maintain a risk management program to protect the City against the financial consequences of accidental loss of property, liability and personal injury to the extent possible through effective prevention and loss control policies and practices.

**References:**

*Creating a Comprehensive Risk Management Program*, Government Finance Officers Association Best Practice, March 2009.

**I-2 Anti-Fraud Policy and Response Program**

**Policy:**

The City will investigate any suspected acts of fraud, or misappropriation of property. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the City of any person, group or organization reasonably believed to have committed fraud. The Treasurer/Collector is responsible for instituting the system of internal control and each

Department Head is responsible for maintaining the system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.

All Department Heads or individuals, upon discovery of any violation of this policy, must notify the City Auditor and Finance Director of the violation. If it is determined that corrective action may be provided for internally within the department, the Department Head or individual will notify the City Auditor and Finance Director as to the steps taken to correct the violation.

Upon conclusion of the investigation, the results will be reported to the Mayor. Where there are reasonable grounds to believe that a fraud may have occurred, the City shall pursue appropriate legal remedies for recovery of the assets.

## **J. ACCOUNTING POLICIES**

### **J-1 Annual Audit**

#### **Background:**

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the City chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

#### **Policy:**

The City Council shall oversee the process of selection of an independent auditor and shall make a recommendation on the award of a contract for auditing services to the full City Council. The award of a three-year contract for auditing services shall be made by the City Council on or before September 15 of every third year. The City will either re-advertise for auditing services every three years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The City Council shall require the report of the audit to be filed in final form with the City Council not later than March 1 in the year following its award.

The City shall not engage the selected independent outside auditor for any additional consulting services in order to maintain an "arms-length" relationship with the audit firm.

**References:**

*Annual Audits*, MA DOR Division of Local Services Best Practice.  
*Northampton Charter Section 7-6 INDEPENDENT AUDIT*

**J-2 Audit Review**

**Background:**

The Government Finance Officers Association states that: “An external audit is a practical means for a governing body to provide much needed independent review and oversight of the government’s financial reporting processes, internal controls, and independent auditors. An audit review also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit review helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.”

**Policy:**

The Finance Director and City Auditor shall meet and review the annual audit with the independent external auditors. The Finance Director reviews the audit with the Mayor.

The Independent Auditor presents the annual audit at a City Council meeting. Important Financial Staff may attend the meeting with the Mayor to address any issues or concerns.

**References:**

*Audit Committees*, Government Finance Officers Association Best Practice, October 2008.  
*Northampton Charter Section 7-6 INDEPENDENT AUDIT*

**J-3 Monthly Reporting**

**Background:**

Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing.

**Policy:**

It is the responsibility of the Department Heads to make sure that expenditures stay within the appropriated budget and to report concerns to the Finance Director. The City Auditor’s office reviews the status of budgets through the warrant process, notifying departments and Department Heads regularly check their budget status through the accounting system MUNIS. The Finance Director will review all departmental budgets quarterly and track payroll the last 6 months of the fiscal year. This will enable the City to take prompt management action in the event that fiscal problems are indicated or adjust spending

behavior to meet financial challenges. If financial problems are indicated, the Finance Director will review the matter with the Mayor and Department Head and determine what action is needed.

**References:**

*Cash Flow Forecast in Treasury Operations*, Government Finance Officers Association Best Practice, February 2011.

**J-4 Performance Bonds**

J4a – Security Performance Bonds/Letters of Credit/ Cash:

In the case that a Performance Bond is required, the City will set up a project within the chart of accounts to track the Performance Bond. Any expenditures against that Bond must be approved by the City Council. The Bond is released by the City Auditor upon notification by the department once the project is completed and all conditions have been met. If a Letter of Credit, which is held by a bank, is issued in place of a performance bond, the Planning Department tracks the letter of credit in the permit tracking system and releases it once the project is deemed complete and all conditions have been met. Any Cash Bond is held by the attorney of the development firm. If the City takes receipt of the Cash Bond, the Treasurer/Collector will take responsibility for the cash and record it in the Chart of Accounts as a project.

J4b – Annual Review

Each Department head is responsible for reviewing outstanding Performance Bonds at the end of each fiscal year and should close out any Bond where the requirements of the Bond have been completed.

**K. TREASURY POLICIES**

**K-1 Cash Collections**

**Background:**

One of a government’s functions is to collect taxes and other revenues. The process involves many participants including the Treasurer/Collector’s office, Accounting office, legal counsel, Tax Assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

**Policy:**

The City shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

**K-2 Tax Titles**

**Policy:**

On or before April 1, the City shall commence tax title proceedings against all properties that owe property taxes to the City from the previous fiscal year.

### **K-3 Warranting Accounts Receivable**

#### **Policy:**

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. The Warrant shall be sent to both the Treasurer/Collector and to the City Auditor. All monies received by the Treasurer/Collector's office are processed and put on a turnover for daily bank deposit.

### **K-4 Collections**

#### **Policy:**

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts, and with assistance from the Deputy Collector and other City officials, to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner collection remedy such as issuance of demands after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the City.

### **K-5 Liens**

#### **Policy:**

The City shall authorize the Treasurer/Collector to attach certain uncollected revenues to the next fiscal year's real estate tax (liens). Upon receipt of any real estate payment which have liens attached, the Treasurer/Collector shall prioritize the payments, first to any interest penalty, then to any lien, and finally to the real estate bill.

#### **References:**

*Revenue Collection*, Government Finance Officers Association Best Practice.

### **K-6 Reconciling Cash and Receivables**

#### **Background:**

The purpose of regular reconciliations of cash and receivables is to ensure transactions are in balance, to mitigate fraud, and to safeguard general ledger accuracy. Failure to reconcile cash and receivables hampers the City's ability to produce reliable reports, 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 Undesignated Fund Balance certified by DLS and may result in significant deficiency findings by the City's independent auditor.

**Applicability:**

This policy applies to any City department with the responsibility for the issuance of bills for taxes or charges for services; the City Auditor or their designee; and Treasurer/Collector or their designee.

**Policy:**

The City shall reconcile cash on a monthly basis and accounts receivable on a quarterly basis, as follows:

- A department responsible for the issuance of bills shall reconcile all receivable balances with its summary receivables control account. Any variance shall be researched and resolved. Upon resolution, the department shall forward the receivables balance to the City Auditor for comparison with the receivables control account in the general ledger. If the amounts do not match, the department and the City Auditor shall determine the reasons for any variance (e.g., missing information, errors, and/or timing differences).
- The Treasurer/Collector shall reconcile the cash book - reflecting all amounts collected and all amounts paid out - to all bank statements and reconcile any differences between the two. The Treasurer/Collector shall then transmit the reconciled balance to the City Auditor for comparison to the cash account in the general ledger. If the amounts do not match, the Treasurer/Collector and the City Auditor shall determine the reasons for any variance (e.g., missing information, errors, and/or timing differences).

**References:**

*Treasurer's Manual 2017 and Collector's Manual 2017:*  
*Massachusetts Collectors & Treasurers Association*  
*Reconciling Cash and Receivables, MA DOR Division of Local Services Best Practice February 2016*

**K-7 Aging Accounts Receivable**

**Background:**

Municipalities issue and collect revenue from many sources. Some revenues have a high degree of collectability (Real Estate), while others have less successful collection rates (Personal Property and Motor Vehicle Excise).

**Policy:**

The City shall maintain records of accounts receivable that may be collected. The Treasurer/Collector shall review aged accounts receivable to determine which bill has a reasonable chance of collection. Accounts receivable should be no older than five years. The Assessing Department shall write-off aged Personal Property and Motor Vehicle and Boat Excise taxes that are unlikely to be collected. The process of writing off accounts receivable shall include written notification to the Treasurer/Collector and City Auditor. Motor Vehicle Excise tax bills that are written off, still have a slight chance of collection through use of a

Deputy Collector. In the event that a written off Excise tax bill is collected by the Deputy Collector, the City shall post the revenue as “Abated Excise Tax” rather than an excise tax for a specific fiscal year.

### **K-8 Unclaimed Vendor and Payroll Checks (Tailings)**

#### **Background:**

Municipalities issue thousands of checks, both for vendor and payroll payments, each fiscal year. Some of these checks are not cashed. Uncashed checks accumulate on the monthly bank reports and are treated as reconciling items by the municipality.

#### **Policy:**

The City shall monitor uncashed checks on a monthly basis. City checks are negotiable from one year of the issue date and an uncashed check that is transferred to the Tailings Payable account shall be voided at the bank. The City shall send a first-class mail letter to the last known address of the recipient of the check for any checks greater than ten dollars. All voided checks shall be transferred from Accounts Payable to Tailings Payable. A check recipient who informs the City that a check was not received, shall be issued a replacement check from the Tailings Payable account. Outstanding checks with a value of one hundred dollars or more shall be posted by the City, either in a local newspaper or on the City’s official web page. After a period of no less than sixty days, the City may transfer the funds to the Undesignated Fund Balance. However, the city is not relieved of the obligation to pay the check recipient. Although rare, aged checks are sometimes claimed by the recipient. Therefore, the city must maintain a minimum reserve in the Tailings Payable account to support such claims.

### **K-9 Ambulance Receipts**

#### **Purpose:**

The purpose of this policy is to outline the procedures that will be used to write off ambulance receipts that have not been collected.

#### **Background:**

The City of Northampton contracts to provide ambulance billing and collection for ambulance services provided by the Northampton Fire Rescue Department. The City of Northampton, as part of an agreement with the billing company, requires a standard method of pursuing collections that ensures payments are received that are owed to the City, based on established rates set by the City, as allowed under federal or state medical reimbursement regulations.

#### **Applicability:**

This is applicable to the receipt of fees charged for the provision of EMS services.

**Policy:**

The policy of the Northampton Fire Rescue Department and the City of Northampton is to collect all receivables generated by the Fire Rescue Department ambulance, with the exception of cases where payment would create severe financial hardship. All policies pertaining to billing have been contractually agreed upon between the Fire Rescue Department and the contracted provider, in accordance with commonwealth procurement laws. These policies are spelled out in detail in a contract agreement kept in the EMS office at Fire Recue Headquarters. It is available for review at any time by contacting the Division Chief of EMS.

**K-10 Petty Cash**

**Policy:**

The Petty Cash Fund is used to facilitate making change and small purchases as approved. All Petty Cash must be approved by the Finance Director and City Auditor. Petty Cash daily balancing is performed by each department designee and audits are done on a quarterly basis with a signed reconciliation form sent to the Treasurer/Collector. Petty Cash must be kept secure at all times and is subject to audit at any time. Any discrepancies are required to be reported immediately to the Treasurer/Collector and City Auditor.

Receipts must accompany each departmental request for replenishment and sent to the Auditor's for review. No Petty Cash is allowed to cash checks and must not be comingled with departmental receipts.

## **K-11 Credit Cards**

### **Purpose:**

The credit card program is designed as a payment method for purchasing goods and/or services that are not available to be purchased through the normal accounts payable process.

### **Policy:**

As with any financial payment instrument, each Department Head or designee should be aware of the City's procurement policies and restrictions prior to making a purchase request. The card is to be used only for the purchases related to City business and can only be used for allowable goods or services. Requests for use of the card for personal purchases is strictly prohibited. All requests are subject to credit line availability and verification with the Treasurer's office as needed.

The credit card is not to be used to pay invoices or statements of any kind. The City credit card cannot be used for recurring transactions or cannot be saved with any online retailer.

## **L. PROCUREMENT AND PURCHASING POLICIES**

### **L-1 Procurement and Purchasing Policy**

#### **Background:**

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B and other related regulations. The State Inspector General's office has oversight of public purchasing laws and has published a comprehensive guide to Chapter 30B requirements.

The Chief Procurement Officer (CPO), appointed by the Mayor, pursuant to MGL Ch. 30B and MGL Ch. 41, S 103, implements and administers the purchasing policies and procedures of the City and ensures that all purchases are made in accordance with Massachusetts State Laws and City By-laws, that are open, fair and competitive, and that the low cost and high-quality standards are met.

#### **Policy:**

The City of Northampton is subject to MGL Chapter 30B, as well as certain sections of Chapters 30 and 149 as they apply to the procurement of supplies and services, construction and repair of public works, and public building construction and repairs. Departments seeking to acquire products or services or enter into contracts for services and projects should consult with the Chief Procurement Officer to determine the appropriate procurement method for the particular item or service and the requirements that must be met to comply with applicable laws. A copy of any bid package, Request for Proposals (RFP) or Request for Quotes (RFQ) must be submitted to the Chief Procurement Officer for review prior to issuance. A copy of the general guidelines for public procurement is attached to this policy for reference. The Climate Action and Project Administration (CAPA) department must review all large purchases and/or projects so that the most efficient and effective energy and sustainable solutions are considered.

To supplement this guidance, the Mayor, may develop a concise directive on purchasing procedures for Department Heads or others involved in City purchasing or procurement. This directive applies to every City department, board, committee and commission for which a budget has been appropriated or a special money article has been approved by City Meeting.

Approval is required from the Mayor or Finance Director for all purchase greater than \$2,500. A written contract is required for all purchases greater than \$10,000. The Mayor shall be the awarding authority for all contracts on behalf of the City.

## **M. INVESTMENT POLICIES**

### **Background:**

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

### **M-1 Investment Policy**

The Investment of General Funds, Special Revenue Funds, Enterprise Funds and Capital Projects Funds.

#### **A. Scope**

This section of the policy applies only to short term operating funds such as General Funds, Special Revenue Funds, Enterprise Funds and Capital Projects Funds. Section Two will deal with Trust Funds, bond proceeds, and any other funds with special circumstances such as Stabilization Funds. The City Retirement Board is responsible for the investment of the pension funds.

#### **B. Objectives**

Massachusetts General Law, Chapter 44, section 55B requires the municipal Treasurer/Collector to invest all public funds except those required for the purpose of immediate distribution. Modern banking systems enable the public Treasurer/Collector to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system. The state law further requires that invested funds be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of City's business.

- Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit and interest rate risk. These risks shall be lessened by diversification and prudent selection of investments, and choice of bank or brokerage house. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest risk is the risk that the market value of the security will fall due to changes in general interest rates.
- Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer/Collector shall carry out investment activities in a manner that provides for meeting unusual cash demands without liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

## **M-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations**

### **Background:**

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

### **Policy:**

The Treasurer/Collector shall review post-issuance compliance procedures at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel or the financial advisor.

The Treasurer/Collector of the City shall be the primary Bond Compliance Officer responsible for each issuance by the City of tax-exempt (or otherwise tax-benefited) bonds, notes, financing leases, or other obligations (herein, collectively referred to as "bonds"). All information related to each bond issue and the facilities, equipment and other assets financed by such issue shall be maintained by or on behalf of the Treasurer/Collector.

## **Appendix – Financial Procedures**

### **Credit Card Procedures**

#### **SALES TAX EXEMPTION:**

The City of Northampton is exempt from paying Massachusetts State Sales tax, and in most instances, from paying sales tax in other states. It is the responsibility of the requester to ensure that the vendor does not charge any sales tax on any item. If the vendor requires a tax-exempt certificate, it is the requester's responsibility to provide it. The tax-exempt number and tax-exempt documents can be obtained from the Treasurer/Collector or the Assistant Treasurer.

#### **VENDORS:**

It is the responsibility of the Department to be sure that each Vendor has an account created for the City of Northampton prior to making the purchase request. If the account is for an online purchase, the login information must be provided at the time of purchase.

A tax-exempt account is established at Amazon and Staples and is maintained by the Treasurer/Collector's office. Several departments also have Amazon accounts that must be tracked and invoices submitted timely.

#### **HOW TO REQUEST USE OF CREDIT CARD:**

Follow the procedure as listed below:

The Department Head or Assignee makes request by email and provides the following:

- Approval from Department Head or Mayor in accordance with current spending limits.
- Complete and detailed description of the item to be purchased
  - If the purchase is online, the department must provide a link to the exact product.
  - If the purchase is by fax or mail, the Department must provide the purchase form with all items completed except the credit card information.
- Total amount of approved purchase
- ORG/OBJ - department expense account
- Shipping address
  - Name - the individual ordering the item
  - Department - ordering the item
  - Address - where the item is to be shipped
- Telephone number - of the individual ordering the item

#### **Hotel Room Reservations:**

- Reservation requests must comply with the City's Travel Policy and

Mayoral authorization must be forwarded with the emailed request.

- Requester sends by email the Hotel Credit Card Authorization form with all information completed except payment information.

Airfare Tickets:

- Reservation requests must comply with the City's Travel Policy and Mayoral authorization must be forwarded with the emailed request.
- Requester can schedule a date/time for an online purchase as needed.

**PURCHASE:**

The purchase will be completed upon receipt of the required information as listed in How to Request Use of Credit Card section. A copy of the receipt will be forwarded to the Department for recordkeeping and one will be retained in the Treasurer/Collector's office.

**PAYMENT PROCESSING:**

All charges will be processed by the Treasurer/Collector's office upon receipt of the monthly credit card statement. The individual charges will be processed in each departmental expense account as provided at the time of the request. It is the responsibility of the user Department to ensure the expense account is correct.

**Investment Procedures**

The primary purpose of this Investment Policy Statement (the "IPS") is to provide a clear understanding regarding the City of Northampton's (the "City") Trust Funds' investment objectives, performance goals, risk tolerance, and investment guidelines established for the long-term Prudent Investor funds.

**A. Scope**

This IPS applies to all funds that are separately designated as Trust Funds. These funds can be invested as a pooled investment portfolio unless otherwise stated. Any additional contributions of these types of funds will also be maintained in the same manner.

**B. Authority**

Trust funds shall be invested pursuant to Massachusetts Acts of 2008 (Session Laws) Chapter 43, which specifies how the trust funds of the City of Northampton may be invested. This section of the law applies only to the City. It allows the City to invest trust funds pursuant to the Prudent Investor Rule and Massachusetts General Laws Chapter 203C (The Massachusetts Prudent Investor Act), Sections 3, 4, 5, 8 and 9. The City is exempted from Massachusetts General Laws Chapter 44, Section 54, which specifies, among other things, how municipalities may invest trust funds including mandated use of the "Massachusetts List of Legal Investments". Trust funds are typically invested for a term exceeding one year.

### **C. Investment Objectives**

The investment objectives in order of priority are as follows: Income and then Capital Appreciation. The asset allocation parameters, definitions, and corresponding benchmark(s) for performance comparison can be found in the addendums at the end of this policy.

### **D. Fossil Fuel Divestment**

It is the intention of this IPS, at the direction of the Resolution on Fossil Fuel Divestment dated August 15, 2013, that the City's Trust Funds shall divest of fossil fuel companies, both directly and indirectly.

As stated in the 2013 resolution, " ...a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil, and gas reserves.... such as those companies listed in the Carbon Tracker Initiative's "Unburnable Carbon" report...".

For on-going compliance to the resolution's definition of fossil fuel divestment, the City's Trust Funds will cease ownership indefinitely, both directly and indirectly, in the "Carbon Underground 200". This is the term used for the top 200 publicly-traded fossil fuel companies since the "Unburnable Carbon" report of 2010. This list of 200 companies is now maintained by [www.fossilfreeindexes.com](http://www.fossilfreeindexes.com) on an annual basis.

### **E. Diversification**

The following asset classes can be included in the Trust Funds in order to construct a diversified investment portfolio that is both prudent and appropriate given the Trust Funds' target rate of return, investment objective, and risk tolerance. The investment parameters and asset allocation definitions that will govern the Investment Manager of the diversified portfolio are included in the addendums to this IPS.

### **F. Equities**

The primary objective of the Trust Funds' equity allocation is to provide long-term total returns that are, at a minimum, consistent with appropriate broad market indexes through full market cycles.

The Investment Manager of the diversified portfolio can purchase and manage the equity allocation using individual equities, such as domestic common stocks, preferred stocks, and/or American-Depository Receipts (ADRs). Direct holdings of common stock, preferred stock, and/or ADRs in any one company should not exceed 5% of the market value of the invested portfolio.

The Investment Manager can also utilize other investment such as, mutual funds, exchange traded funds (ETFs), closed-end funds, etc. Total equity exposure is able to include, both domestic and international equities, both developed and emerging countries and geographic regions, as well as large-, mid-, and small-market capitalization weighted companies. Direct holdings of individual mutual funds, ETFs, and closed-end funds should not exceed 15% of the market value of the invested portfolio.

Investing directly in real estate, private placements, letter stock, or initial public offerings is strictly prohibited. The Investment Manager of the diversified portfolio shall not engage directly in margin transactions, short sales, or any other leveraged or inverse investment vehicles. Mutual funds, exchange-traded funds, and closed-end funds, however, may engage in margin, leverage, and/or short sales. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

#### **G. Fixed Income**

The primary objectives of the Trust Funds' fixed income allocation are to preserve capital and generate a reasonable level of cash flow. The secondary objective is to provide price returns that exhibit lower correlation to the broad global equity markets in order to reduce the overall risk of the portfolio.

The Investment Manager of the diversified portfolio can purchase and manage the fixed income allocation using individual bonds that are United States Dollar denominated only. Issuer selection can include domestic corporate bonds and any obligations of the United States Government and/or its agencies. Direct holdings of individual corporate bonds in any one company should not exceed 5% of the market value of the invested portfolio; however, this is not applicable to the United States Government and/or its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds.

The Investment Manager can also utilize other investment vehicles such as, mutual funds, exchange traded funds, closed-end funds, etc. Total fixed income exposure is able to include, both domestic and international bonds, both developed and emerging countries and geographic regions. Direct holdings of individual mutual funds, ETFs, and closed-end funds should not exceed 15% of the market value of the invested portfolio.

Investing directly in real estate, mortgages, collateral or non-collateral loans, private placements, fixed income or interest rate futures, or any other specialized fixed income ventures is strictly prohibited. Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

#### **H. Alternative Investments**

The primary objective of the Trust Funds' alternative allocation is to provide long-term capital appreciation that is less correlated to broad global equity and fixed income indexes.

The Investment Manager of the diversified portfolio can only purchase those strategies that are deemed to be alternative through daily-liquid diversified investment vehicles such as, mutual funds, exchange-traded funds, closed-end funds, etc. Direct holdings of individual mutual funds, ETFs, and closed-end funds should not exceed 15% of the market value of the invested portfolio.

Investing directly in unit-investment trusts (UITs) and business development companies (BDCs) are strictly prohibited.

## I. Cash and Cash Equivalents

Cash will be maintained to provide periodic cash distributions, if and when necessary. Cash will not normally be held as a strategic investment asset, although the Investment Manager may seek to allow cash to build to the maximum level in times of market uncertainty.

## J. Specific Risks

- ***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The City will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations.

In regard to fixed-income investments, the City will only purchase investment grade securities. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or exchange-traded funds. Investments in fixed income securities will be made primarily for income and capital preservation.

- ***Custodial Risk***

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The City will review the financial institution's financial statements and the background of the sales representative. The intent of this qualification is to limit the City's exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry.

Further, all securities not held directly by the City, will be held in the City of Northampton's name and tax identification number by a third-party custodian approved by the Treasurer/Collector and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

- ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The City will minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As stated above, securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value.

- ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City will manage interest rate risk by managing duration, as a measure of interest rate sensitivity, in the Trust.

- ***Foreign Currency Risk***

Foreign currency risk is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The City will, as much as feasible, mitigate foreign currency risk.

**K. Standards of Care**

The standard of prudence to be used by the Treasurer/Collector shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer/Collector acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS.

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.

In addition, this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer/Collector for losses due to bankruptcy.

**L. Ethics**

The Treasurer/Collector and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. The Treasurer/Collector shall disclose to the Finance Director any material financial interest in financial institutions that do business with the City. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the City's investments.

**M. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. Brokers should be recognized, reputable dealers. All cash and securities shall be held in either a bank that is allowable for the deposit of public funds, provided funds on deposit are insured by the Federal Deposit Insurance Corporation (FDIC), or in an Investment Brokerage Account that is insured by the Securities Investor Protection Corporation (SIPC). If a banking institution is selected as manager, the City will subscribe to Veribanc®, a recognized bank rating service.

The Treasurer/Collector shall require any brokerage houses and broker/dealers, wishing to do business with the City, to supply the following information to the Treasurer/Collector:

- Annual financial statements
- If acting as a Registered Investment Adviser, Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Funds Portfolio.
- A statement that the Advisor has read the City's IPS and will comply with it on an annual basis
- Annual review all advisors through [www.fmra.org](http://www.fmra.org): Broker Check

#### **N. Reporting Requirements**

On a semi-annual basis, a report containing the following information will be prepared by the Treasurer/Collector and distributed to the Finance Director, as appropriate. The semi-annual report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this IPS.
- A summary of the income earned on a quarterly basis and year-to-date basis shall be reported.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

#### **O. Performance Measurement and Evaluation**

The individual and custom benchmarks that will be monitored for performance reporting and analysis of the Trust's portfolio are stated and described in the addendums to this IPS.

It is expected that the respective asset classes of the Trust's diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long term (market cycle) basis.

#### **P. Supervision**

The Treasurer/Collector will meet with the investment manager(s) as frequently as semi-annually to monitor the performance of the funds and the investment manager(s) compliance with these guidelines. The Treasurer/Collector will receive and review portfolio management reports quarterly. The Treasurer/Collector will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete. The Treasurer/Collector has the option to review the management of funds to consider going out to bid periodically.

#### **Legal References**

*Massachusetts Acts of 2008 (Session Laws) Chapter 43*  
*Massachusetts General Law Chapter 203C, Section*

CITY OF  
NORTHAMPTON  
OPEB TRUST INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (the "IPS") is to provide a clear understanding regarding the City of Northampton's (the "City") OPEB Trust's (the "Trust") investment objectives, performance goals, and risk tolerance.

A. Scope

This IPS applies to all funds that are separately designated as long-term OPEB funds for the City or any of its separately identified enterprises. Any additional contributions to the Trust will be maintained in the same manner.

B. Authority

Massachusetts General Law Chapter 32B, Section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund. The governmental unit's treasurer is the custodian of the fund or in the case of a light plant, an officer designated by the board. Investment of fund monies by the custodian must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds. Interest earned on the investment of fund monies belongs to the fund.

C. Investment Objectives

The investment objectives in order of priority are as follows: Capital Appreciation and then Income. The asset allocation parameters, definitions, and corresponding benchmark(s) for performance comparison can be found in the addendums at the end of this policy.

D. Fossil Fuel Divestment

It is the intention of this IPS, at the direction of the Resolution on Fossil Fuel Divestment dated August 15, 2013, that the City's OPEB Trust shall divest of fossil fuel companies, both directly and indirectly.

As stated in the 2013 resolution, "...a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil, and gas reserves.... such as those companies listed in the Carbon Tracker Initiative's "Unburnable Carbon" report...".

For on-going compliance to the resolution's definition of fossil fuel divestment, the City's OPEB Trust will cease ownership indefinitely, both directly and indirectly, in the "Carbon Underground 200". This is the term used for the top 200 publicly-traded fossil fuel companies since the "Unburnable Carbon" report of 2010. This list of 200 companies is now maintained by [www.fossilfreeindexes.com](http://www.fossilfreeindexes.com) on an annual basis.

Updated in March 2022

Adopted by the Mayor August 2022

Updated August 2023