Model Municipal Financial Policies

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VLCT's model financial policies address several common financial issues that Vermont municipalities face. They have been assembled with the particular needs of small and mid-sized Vermont municipalities in mind. Each model policy assumes that the municipality operates with a basic three or five-member selectboard, elected or appointed treasurer and clerk, and elected auditors. Municipalities that have eliminated the office of auditor – or that operate with a town manager, administrator, bookkeeper, finance officer, or other staff – will need to modify these policies accordingly.

Why Adopt Financial Policies?

The Government Finance Officers Association (GFOA)(opens in a new tab) strongly recommends financial policies be a component of any governmental financial management program. They are guidelines for operational and strategic decision-making related to financial matters, identifying acceptable or unacceptable courses of action, establishing parameters in which the government can operate, and providing standards against which a government's fiscal performance can be judged.

While Vermont's larger municipalities likely operate with written financial policies, many of the small and mid-sized towns and villages do not. These smaller municipalities can face many of the same economic forces as larger municipalities, but the consequences of poor financial decision-making may actually be more severe because of their smaller budgets and less diverse tax base.

VLCT believes that the adoption of written financial policies can have a number of benefits for Vermont municipalities:

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- Financial policies help educate those municipal officials who may not have a background in government financial management. In Vermont, most elected and appointed municipal officials have no background or expertise in government finance. Nevertheless, these officials may be responsible for the administration of municipal budgets comprising hundreds of thousands or even millions of dollars. Written financial policies can help inform officials, either trained or untrained, of good financial practice, making it more likely that these good practices will be implemented and followed.
- Financial policies may help prevent and resolve conflicts in local government. The responsibilities of Vermont's municipal officers frequently overlap, and clear lines of authority can be hard to identify. As a result, the administration of Vermont local government can seem complex, even in the smallest town. The key to effectively navigating this complexity is effective communication and cooperation among local officials. Financial policies can clarify both the responsibilities of local officials and lines of authority. The process of adopting written financial policies can also afford local officials the opportunity to engage in communication and develop common financial goals for their municipalities. Active participation in the process makes it more likely that all the parties involved in financial decision-making will abide by a common set of rules.
- Financial policies can provide continuity and efficiency in the town's financial operations. Selectboard members and other municipal officers often serve relatively short terms and new officers may not be experienced in dealing with financial issues. Financial policies can eliminate the need to reinvent responses to recurring situations, thereby increasing efficiency by standardizing operations.
- Financial policies can fill some of the gaps in Vermont's rudimentary municipal finance laws. Vermont is a Dillon's Rule state, meaning that our municipalities have only those authorities specifically delegated to them by the Legislature and such additional functions as may be necessary to exercise those authorities.

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For this reason, municipal officials often turn to Vermont statutes for guidance when questions arise. Unfortunately, Vermont's municipal finance statutes have not kept pace with modern financial practices and often fail to provide local officials adequate guidance on the finance issues they commonly face. Well-crafted local financial policies can overcome some of these shortcomings in Vermont's municipal finance laws.

- The adoption of financial policies can foster confidence in local government by increasing transparency, accountability, and consistency in municipal decision-making. The policies can help local officials make more informed decisions about providing services, acquiring and managing capital assets, safeguarding a town's resources, and promoting financial stewardship, all of which may result in a more stable tax rate. The adoption of policies also can help promote strategic thinking in tough economic times.

Where Does a Municipality Start?

Rather than attempt to adopt several financial policies at once, local officials should first consider the town's circumstances and needs. For example, a review of a town's internal controls may reveal areas of weakness in cash management, in which case the treasurer and selectboard should consider adopting a cash receipts policy. Perhaps the selectboard is trying to closely manage a very tight town budget and needs to receive timely and informative financial reports from the treasurer; here, an accounting, auditing, and financial reporting policy would be useful. Maybe the treasurer and selectboard are considering changing banks, which may provide an opportunity for adoption of an investment policy or a credit card policy. In any case, municipal officials should remember that there is no such thing as a "one size fits all" municipal financial policy. Each policy should be tailored to meet the town's particular

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needs and circumstances.

Who Within the Municipal Organization Would Adopt Financial Policies?

As noted previously, the responsibilities of Vermont's municipal officers frequently overlap. In many instances, several boards or officers may be involved in a particular transaction or function. In that case, VLCT recommends that the applicable policy be adopted jointly by the boards or officers involved. For example, the law provides that money received by the treasurer on behalf of the town may be invested and reinvested by the treasurer with the approval of the selectboard. Accordingly, the town's investment policy should be jointly crafted and adopted by the treasurer and selectboard. On the other hand, the purchase of goods and services is the responsibility of the selectboard, and that body would adopt a purchasing policy addressing such things as prior authorization of certain purchases and bidding requirements.

How Are Financial Policies Adopted?

Municipal officers are not required to follow any special procedure when adopting financial policies, except that a policy adopted by a town board (e.g., selectboard, board of auditors) may only be adopted by a majority of board members at a meeting held in accordance with Vermont's Open Meeting Law. Note that only municipal officers can adopt municipal policies. Unlike ordinances, there is no permissive referendum process for municipal policies. That being said, a drafting process that invites participation and buy-in from stakeholders – including other municipal officers, employees, and staff – is more likely to result in an effective and useful document.

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Involving these individuals in the drafting phase of the policy will also ensure that the policy is reasonable and realistic in terms of the staff resources needed for compliance.

After initial adoption, local officials should annually review the town's financial policies to ensure that each policy remains current. This may involve minor edits or major revisions resulting from economic or legislative changes. Remember, a policy adopted by one board or officer can be rejected or modified by the next officer or board. Annual review will help ensure that all of the officials subject to the policy agree with its terms.

VLCT Models and Guidance

VLCT's model financial policies address several common financial issues that Vermont municipalities face. They have been assembled with the particular needs of small and mid-sized Vermont municipalities in mind. Each model policy assumes that the municipality operates with a basic three or five-member selectboard, elected or appointed treasurer and clerk, and elected auditors. Municipalities that have eliminated the office of auditor – or that operate with a town manager, administrator, bookkeeper, finance officer, or other staff – will need to modify these policies accordingly. Please review this info sheet prior to using financial policy models.

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