

TOWN OF WESTHAMPTON

FINANCIAL MANAGEMENT REVIEW

MARCH 2022



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Financial Management Resources Bureau

100 Cambridge Street, Boston, MA 02114-9569

www.mass.gov/dls

Theo Kalivas, Project Manager, Technical Assistance Bureau

Marcia Bohinc, Senior Project Manager, Technical Assistance Bureau



Geoffrey E. Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

March 22, 2022

Selectboard
Town of Westhampton
One South Westhampton Road
Westhampton, MA 02027

Dear Board Members,

I am pleased to present the enclosed Financial Management Review for the Town of Westhampton as requested by the Selectboard. It is my hope that our guidance provides direction and serves as a resource for local officials as we build better government for our citizens.

If you have any questions regarding this report, please contact Zack Blake, Financial Management Resources Bureau Chief, at 617-626-2358 or blakez@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin
Senior Deputy Commissioner

TABLE OF CONTENTS

INTRODUCTION.....	1
OVERVIEW	1
FINANCIAL MANAGEMENT OVERVIEW	5
RECOMMENDATIONS	8
Establish a Town Administrator Position	8
Consider Combining the Offices of Treasurer and Collector	10
Establish Financial Management Team	11
Strategize for Succession Planning	11
Establish a Capital Projects Stabilization Fund	12
Adopt Formal Financial Policies	12
Acquire GIS System for Assessing Office.....	15
Consider Reducing Finance Committee Membership	15
Establish an Audit Schedule	16
ACKNOWLEDGMENTS	17

INTRODUCTION

At the request of the selectboard, the Division of Local Services' (DLS) Financial Management Resource Bureau completed this Financial Management Review for the Town of Westhampton. The scope of our review, as defined in discussions with the selectboard and finance committee chairs, focuses on enhancing the town's financial management structure and the effectiveness of financial management practices. Our team also interviewed financial department heads, reviewed the town bylaws, and examined historical financial data. Based on this information we provide an analysis and recommendations intended to strengthen governmental operations and to enhance town efficiencies and effectiveness through structural shifts, formal policies, and adopting technology and financial best practices.

OVERVIEW

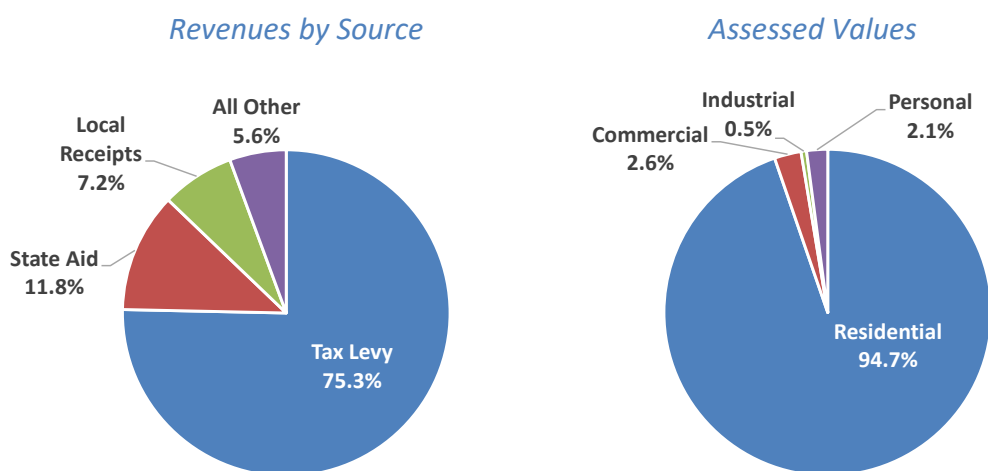
Westhampton is a small, mostly rural town of just over 1,600 residents located in Hampshire County. Originally the western part of the town of Northampton, Westhampton became an independent settlement in 1778. The sole main road running through town is Massachusetts Route 66, with no direct access to I-90 or other major highways. A right-to-farm community, the town is home to several small, vibrant food farms making local agriculture an important aspect of life in Westhampton. Westhampton is also where Hampshire Regional High School is located, whose members include Westhampton, Southampton, Williamsburg, Goshen, and Chesterfield.

Westhampton's overall government structure is like other towns of its size. The legislative function is performed by an open town meeting with a three-member selectboard serving as the town's executive body. The selectboard communicates directly with department heads to manage town affairs, often through the administrative assistant, who plays a significant role coordinating between the board and town departments. The amount of direct oversight the board provides has varied through the years depending on its members. In addition to the selectboard, there is a ten-member finance committee that provides guidance on financial matters and develops the annual budget with support from the administrative assistant and accountant and in partnership with the selectboard.

Much of the town's 27 square miles are covered in forest and are divided up into 1,202 assessing parcels. Approximately 18% of the total 1,202 parcels (covering an area of 13 square miles) are privately-owned forest, farm, and recreational lands that qualify for preferential tax treatment under M.G.L. Chapters 61, 61A and 61B ("chapter land"). In contrast, single family homes represent 53% of parcels spread over only 4 square miles. A qualifying parcel classified as chapter land is valued based

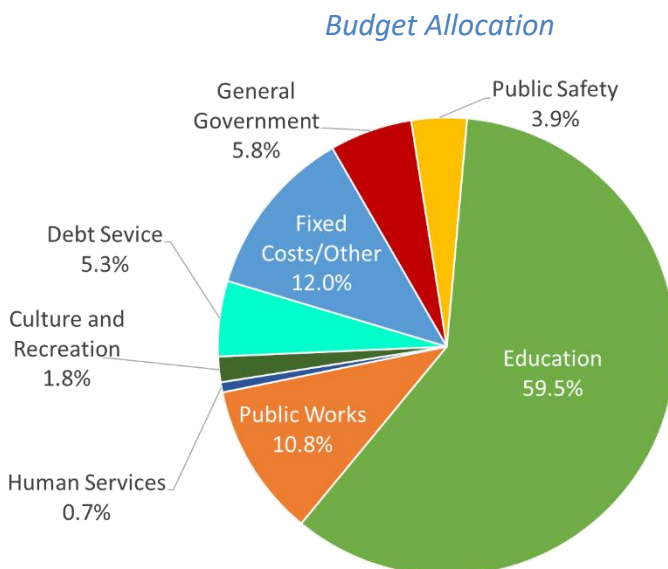
on the current usage of the land rather than the full and fair cash value, which has the effect of shifting the tax burden raised in the levy to other classes. With limited commercial or industrial parcels, mostly made up of a handful of small businesses and a stone processing plant, and little to no personal property, the very small portion of the town devoted to single family housing bears the brunt of the tax levy and funding the budget. In all, over 94% of the town's total assessed value is from residential parcels.

For Westhampton's \$6.8 million FY2022 budget, the tax levy of \$5,105,882, or 75.3% of total revenue, is the largest revenue source. The remaining quarter of the budget is made up of \$802,786 in state aid, \$489,193 in local receipts, which includes motor vehicle excise, payments in lieu of taxes, licenses, permits, and other fees, and \$379,193 from other available funds. Other available funds include \$185,193 in Chapter 90 funding from the state for highway and road repair that does not need to be appropriated.



Westhampton's budget funds municipal services customary for a community of its size, including a local elementary school for students in Pre-Kindergarten through 6th grade, a library, police and fire departments (although the fire department is staffed by volunteers, the town must fund capital and equipment costs), and a highway department. Also typical is that the greatest percentage of expenditures, \$35 million or almost 60%, is dedicated to education for both the elementary school and the Hampshire Regional high school assessment. The second largest category is fixed costs at \$711,430, which is predominantly employee benefits of health insurance and retirement. Based on Schedule A data, in the 20 years from 2002 through 2021, Westhampton's expenditures have grown from \$3,335,211 to \$5,909,301. Although every category has more than doubled over this period, the departmental spending allocations remain relatively the same. The largest growth areas are the same as the largest expenditures: education and fixed costs. The exception is debt, which is lower in FY2021

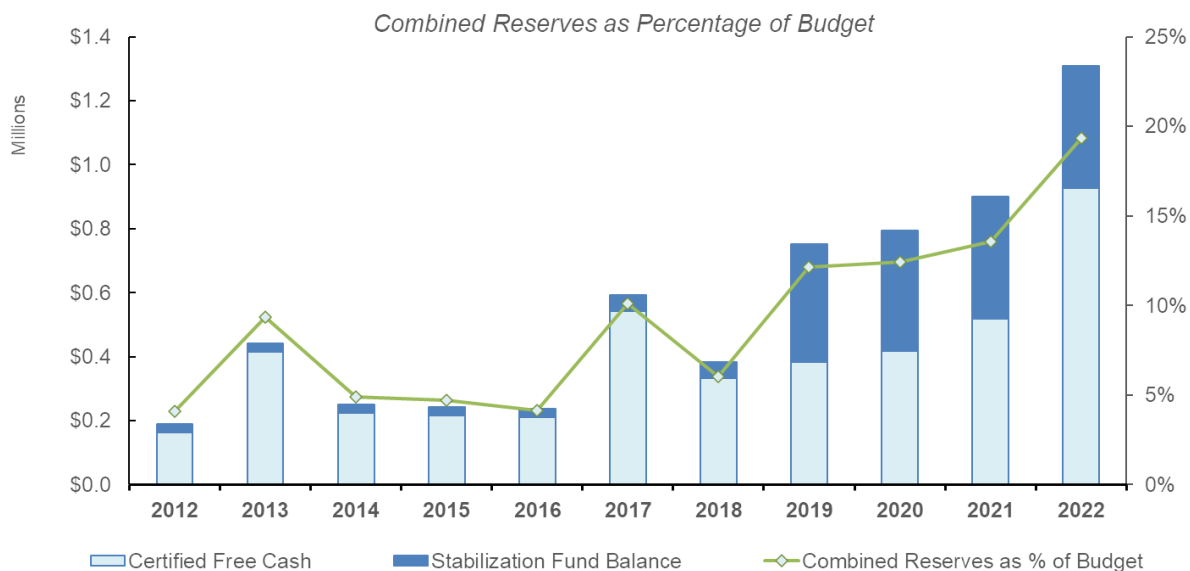
than FY2002, when the town was paying for the new elementary school. The town's current debt of \$314,229 is providing for the new public safety complex and a large dump truck and is all "excluded," or not subject to the Proposition 2½ levy limit.



Westhampton's primary reserves are free cash and a general stabilization fund. Free cash is the result of the remaining, unrestricted funds from the previous fiscal year's operations based on the balance sheet as of June 30. Unappropriated prior year free cash, unexpended appropriations, and local receipts in excess of budgeted amounts contribute to the final free cash amount, while property tax receivables and certain deficits or overdrawn accounts subtract from it. Before it is available for appropriation, the Division of Local Services' Bureau of Accounts must certify the town's free cash amount based on its balance sheet and supporting documents submission. Westhampton's free cash level has remained relatively consistent, generally being certified by mid-November.

Beginning in FY2019, the selectboard made it a priority to allocate a portion of free cash to the stabilization fund on an annual basis. This practice continues despite the lack of a formal, written reserves policy, resulting in a healthy stabilization fund balance that has grown from under \$26,000 or 0.45% of budget in FY2016 to \$383,704 or 5.7% of budget by the end of FY2021.

Fiscal Year	Total Budget	Certified Free Cash	Stabilization Fund Balance	Combined Reserves	Certified Free Cash as a % of Budget	Stabilization Fund as % of Budget	Combined Reserves as % of Budget
2012	\$ 4,626,350	\$ 163,159	\$ 25,682	\$ 188,841	3.53%	0.56%	4.08%
2013	\$ 4,709,840	\$ 415,240	\$ 25,753	\$ 440,993	8.82%	0.55%	9.36%
2014	\$ 5,124,219	\$ 224,223	\$ 25,809	\$ 250,032	4.38%	0.50%	4.88%
2015	\$ 5,143,644	\$ 215,672	\$ 25,858	\$ 241,530	4.19%	0.50%	4.70%
2016	\$ 5,722,928	\$ 211,839	\$ 25,910	\$ 237,749	3.70%	0.45%	4.15%
2017	\$ 5,862,702	\$ 541,712	\$ 51,019	\$ 592,731	9.24%	0.87%	10.11%
2018	\$ 6,356,779	\$ 331,369	\$ 51,362	\$ 382,731	5.21%	0.81%	6.02%
2019	\$ 6,196,446	\$ 383,582	\$ 367,471	\$ 751,053	6.19%	5.93%	12.12%
2020	\$ 6,376,106	\$ 416,749	\$ 376,654	\$ 793,403	6.54%	5.91%	12.44%
2021	\$ 6,635,718	\$ 518,509	\$ 382,986	\$ 901,495	7.81%	5.77%	13.59%
2022	\$ 6,777,054	\$ 925,814	\$ 383,704	\$ 1,309,518	13.66%	5.66%	19.32%



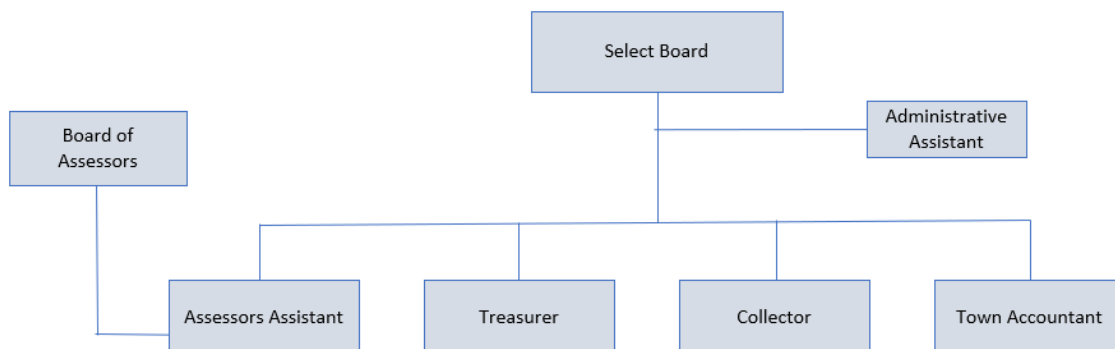
Over the last several years, a portion of free cash has also been appropriated to reduce the tax rate, including \$100,000 in FY2022. We generally discourage towns from this practice, since it is equivalent to using free cash to fund the operating budget, and thus represents using a one-time revenue source to fund recurring expenses. If a one-time revenue source becomes unavailable in a subsequent year it may result in difficult budget decisions, including cuts and reductions to service.

Even with this practice in place, the town has maintained combined reserve levels greater than 12% of budget for the last few years. This fiscal discipline, along with annual operating surpluses, strong cash balances for liquidity, and Westhampton's strong local economy helped the town earn a AA+ credit rating with a stable outlook from S&P Global. This analysis was done in June 2021 ahead of issuing bonds to finance the construction of a new public safety building, which was approved in a \$4.3 million proposition 2½ debt exclusion passed in a March 2021 referendum.

FINANCIAL MANAGEMENT OVERVIEW

Westhampton's financial management structure consists of a selectboard-appointed town accountant, treasurer, and collector, and an assessors' assistant jointly appointed by the selectboard and the board of assessors. There is also a ten-member elected finance committee charged with being "the principal budget making and fiscal management advisory board of the town" in Article 5 of the town bylaws. The select board employs a full-time administrative assistant, whose essential duties and responsibilities include many of the coordinating duties of a town administrator regarding the town's day-to-day functioning. The financial departments all work part-time and consist only of the department head reporting directly to selectboard. Without a town administrator, members of the selectboard and finance committee take on significant responsibility for core financial management tasks such as preparing the town's annual and capital budgets.

Administrative Structure



For many years, a long-serving official in the dual role of town accountant and treasurer, as well as member of the finance committee, assumed much of the responsibility for budget preparation and overall financial management. When that individual retired after 40 years of public service, these tasks were split three ways. The town accountant and treasurer appointments were appropriately separated, and another resident was elected to the finance committee. However, due to the prior individual's institutional knowledge and long-standing practices, described by many as "all things financial," the town spent a significant amount of time and talent to understand the financials and establish procedures to move forward.

The budget process is defined in the town's bylaws as the finance committee's responsibility. Currently, the finance committee coordinates the budget process with the support of the

administrative assistant in collecting department budget requests and preparing documents for the committee. The finance committee chair maintains a comprehensive master spreadsheet for budget development that includes historical expenditure data, the budget calendar, and current and prior year state aid information.

Financial Structure

The town accountant has a legal obligation to oversee all financial activity of the municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statute to monitor and protect local assets. To do this the accountant must maintain a general ledger to record receipts, expenditures, and all other town financial activity and reconcile cash and debt with the treasurer and receivables with the collector. The accountant is also responsible for periodic financial reporting to policymakers, preparing and submitting the year-end balance sheet for free cash certification along with the annual Schedule A to DLS, and working with the board of assessors and town clerk in the preparation of the town's Tax Recapitulation Sheet.

Westhampton's town accountant is a retired DLS Bureau of Accounts field representative, drawing on his years of DLS experience to benefit his current position. He has been with Westhampton since November 2014, working limited part-time hours two days per week, and has been a remote employee since the beginning of the Covid-19 pandemic. While this may complicate certain levels of coordination with other staff, the accountant has nevertheless ensured that his ability to perform core duties is unaffected. Departments scan and email invoices to the accountant (while mailing hard copies to town hall) to process accounts payable in SoftRight, the town's accounting software. The town contracts with Harpers for payroll processing, which for the accountant, allows a simple upload process to create the warrant and record payroll.

The tax collector possesses the authority to receive all property taxes, betterments, special assessments, and certain other charges, added to and committed as taxes, which are collected quarterly. The collector must ensure that these receipts are properly accounted for and posted to taxpayer accounts, turned over to the treasurer or deposited timely, and take action against delinquent accounts. The activity is recorded in the collector's receivable control, which must be reconciled internally and then externally to the accountant's general ledger on a monthly basis.

Westhampton's incumbent tax collector has been a municipal finance official for many years. A native of Westhampton, the collector balances the part-time position in Westhampton with holding a full-

time assistant treasurer/collector position for the Town of Hatfield. The collector's service in Westhampton began when she was elected clerk about ten years ago, a position she maintained until fall of 2018. While still the clerk, she was appointed town treasurer in 2015, and only came to the collector's office in January of 2021 due to a retirement. Staffing issues in the treasurer's office required the collector to resume treasurer duties to close the books for FY2021 and update the records for FY2022. Like the other financial departments, the collector is a department of one and works part time, ten to twelve hours per week.

As the custodian of all municipal funds the treasurer deposits receipts to town bank accounts and monitors bank balances to ensure availability of funds for town obligations. The treasurer's key functions include maintaining a cashbook to record payments and deposits, keeping track of the town's debt schedule, receiving cash turnovers from revenue-collecting departments including the collector, and investing town funds in a way that safely maximizes investment income while ensuring cash availability. To maintain sound financial controls, the treasurer must reconcile cash balances and debt to ensure they are internally consistent, as well as reconciling with the town accountant on a monthly basis.

Like the collector, Westhampton's treasurer is an appointed position and works the same limited hours. With the recent turnover, the office faced several challenges that have required the frequent collaboration with the collector. At the time of our visit, the town had not yet been able to close FY2021 for various reasons, including the cashbook not reconciling to bank statements. The current treasurer was hired at the end of summer and immediately began working with the collector to bring the books up to date and close the fiscal year. Like many part-time Westhampton employees, the new treasurer also holds a full-time position as the treasurer/collector in the Town of Southampton.

Finally, the assessing office is responsible for valuing all the town's real and personal property and maintaining that information in the town's computer assisted mass appraisal (CAMA) database. The assessor uses this system to generate the tax commitment authorizing the collector to collect real estate taxes, personal property taxes, and motor vehicle excise payments. In Westhampton, as in many communities, the assessor generates values using both in-house staff and professional appraisal firms. Assessors are also responsible for other key tasks that include calculating annual new growth, providing estimates for budget planning, and completing the Tax Recapitulation Sheet for DLS approval.

Westhampton's assessors' assistant has worked for the town since May 2019. In his first year, he was responsible for converting the CAMA to the current Vision platform which required a full desk review to ensure data quality, completeness, and consistency. Like the other financial departments, the

assessors' assistant is the department's only staff and works part time at ten hours per week. The assessing office is overseen by an elected three-member board of assessors and although not a working board, they do inspect properties when weighing the case for an abatement. For sales, building permit, and other routine inspections the department hires out a local consultant.

RECOMMENDATIONS

Establish a Town Administrator Position

We recommend that Westhampton establish a town administrator position. Given the scope, costs, and skill sets required in the modern municipal government environment, an increasing number of towns, including those the size of Westhampton, are favoring stronger, centralized organizational structures headed by a town administrator. The current administrative assistant position lacks the authority to coordinate town departments and therefore does not have the standing to effectively execute town-wide goals. The town administrator would serve as a point person to oversee town-wide operations, coordinate financial activities, and advise policymakers. Due to the part-time nature of the financial officers, there are seldom more than two employees in town hall at one time.

One of the key benefits of a town administrator position is in close interaction with all town departments on a full-time basis. This enables the administrator to quickly respond to emergencies or urgent matters and ensures better consistency in service. By working closely with departments, the town administrator gains an up-to-date, practical understanding of the nature of town operations, including their needs and challenges and how they relate to each other. The nature of the position gives the administrator enough perspective to understand the needs of departments not only in the immediate sense, but also in the context of town-wide goals. This factor also makes the administrator well-suited to coordinate the annual budget process and to safeguard the town's fiscal health.

The selectboard should begin by creating a job description, and in that process, consider all the duties that they have the authority to assign. While we leave the ultimate decision to the town, DLS often recommends a strong town administrator role with appointing and supervisory authority over other department heads. Based on our observations over time a vertical, centralized management presence best promotes efficiency and accountability. In addition to job duties, the selectboard must

also set minimum qualifications for the position, including education level, work history, and professional experience.

Once the selectboard decides the town administrator's authority, duties, and responsibilities, we further advise them to sponsor a town bylaw to codify the position. This will elevate the office's importance, affirm a commitment to centralized management, and make the change a more lasting improvement in government structure. We typically expect a town administrator role to encompass, among other duties, supervising department heads, developing the budget, managing the capital improvement program, overseeing technology, administering personnel policies, and representing the selectboard to other town boards and to external parties.

Specific town administrator responsibilities typically include the following:

- Prepare and monitor the operating and capital budgets.
- Oversee day-to-day operations and coordinate interdepartmental activities.
- Facilitate the flow of information between elected officials, employees, and citizens.
- Develop and present financial policy recommendations to the selectboard for adoption.
- Administer the town's personnel policies.
- Serve as the chief procurement officer.
- Prepare all town meeting warrants.
- Enact the goals and policies set forth by the selectboard.

Additionally, this position could be responsible for identifying and applying for grant opportunities that may enhance services at significant revenue savings.

The town may find it advantageous to the day-to-day operations of the selectboard office to maintain an administrative assistant position. Current support tasks such as preparing for meetings, creating and publishing meeting minutes, supporting other boards and committees, maintaining the website and other public documents, and assisting with public requests are still a necessity for effective administration, and having these duties performed by an administrative assistant would allow the town administrator to focus on strategic planning and overall financial management.

As a benchmark for Westhampton, many of its peer communities as shown in the chart below have a town administrator, most in addition to an administrative assistant. Among 13 peer communities (based on population, total budget, average single family tax bill, and EQV), only Oakham and Pelham do not have a chief administrative officer position (either town administrator or town coordinator),

even though many have a smaller population and annual budget than Westhampton. Additionally, of this group, more than half have a combined treasurer and collector.

Community	County	2018 Population	FY22 Single Family Tax Bill	2020 EQV Per Capita	FY22 Total Budget	CEO	CEO Pay	Select Board/TA Admin Asst.	Accounting	Combined Treasurer/Collector
Bernardston	FRANKLIN	2,114	4,673	118,138	\$ 5,804,653	Town Coordinator	\$53,894	No	FRCOG	No
Buckland	FRANKLIN	1,875	4,673	130,011	\$ 6,873,655	Town Administrator	\$67,500	Yes	FRCOG	Yes
Charlemont	FRANKLIN	1,245	4,601	124,295	\$ 4,515,675	Town Administrator	\$60,662	Yes	Appointed	Yes
Chesterfield	HAMPSHIRE	1,258	5,015	139,187	\$ 4,344,163	Town Administrator	\$51,088	No	PVPC	No
Colrain	FRANKLIN	1,677	4,113	113,726	\$ 5,056,918	Town Coordinator	Combined TC + Admin asst: \$84,563	Yes	Appointed	Yes
Conway	FRANKLIN	1,892	5,646	154,940	\$ 7,595,183	Town Administrator	\$75,850	Yes	FRCOG	Yes
Granville	HAMPDEN	1,624	4,186	136,820	\$ 4,591,708	Town Administrator	\$70,120	No	Appointed	No
Hinsdale	BERKSHIRE	1,922	3,599	168,590	\$ 6,440,254	Town Administrator	\$67,300	Yes	Appointed	Yes
Leverett	FRANKLIN	1,861	6,515	156,475	\$ 7,226,773	Town Administrator	\$60,081	Yes	FRCOG	Yes
Oakham	WORCESTER	1,963	3,918	129,249	\$ 4,468,836	No	N/A	Yes	Appointed	Yes
Pelham	HAMPSHIRE	1,322	7,112	148,159	\$ 6,464,250	No	N/A	Yes	AUD	Yes
Williamsburg	HAMPSHIRE	2,489	5,878	132,079	\$ 10,934,324	Town Administrator	\$69,393	Yes	FRCOG	No
Westhampton	HAMPSHIRE	1,641	6,256	154,560	\$ 6,777,054	No	N/A	Yes	Appointed	No

Consider Combining the Offices of Treasurer and Collector

We recommend that the town consider combining the treasurer and collector departments into a single department of the treasurer/collector. This department would be staffed by the treasurer/collector and an assistant treasurer/collector and would create a more substantive staff presence in town hall, allowing both residents and other departments to conduct business with greater convenience.

Recognizing that the treasurer and collector offices have many parallel responsibilities, currently 80% of Massachusetts communities have adopted the structure of a combined office. Most communities realize efficiencies and long-term cost savings by centralizing the collection, counting, posting, depositing, and management of receipts to the same office. A combined office also improves risk management and reduces the chance for error and fraud, making it easier to ensure that internal controls are consistently applied to all transactions. This structure requires the presences of a second staff member to meet fluctuating office demands (for instance during tax billing) and allows the town to build in layers of duty segregation for cash management functions, as well as provide coverage during vacations or other employee absences. An appointed assistant treasurer/collector will have the required authority to make bank transactions and carry out necessary departmental tasks in place of the treasurer/collector, when necessary. By availing themselves of training opportunities (such as those provided by the Massachusetts Collector/Treasurer's Association) the assistant treasurer/collector could become a natural successor for the treasurer/collector. Formally combining the offices currently requires petitioning the legislature for a special act granting the municipality the authority to do so, which may take time and effort.

An option that would require even less reorganization and side-step the need for a special act would be to designate the collector as the assistant treasurer and the treasurer as the assistant collector. In this case the departments would nominally remain separate, but the treasurer and collector would cross train in each other's duties and provide coverage in instances when the other is out.

Establish Financial Management Team

We recommend holding regular meetings of the town's principal financial officers, chaired by a town administrator (or administrative assistant, if the town administrator position is not adopted). By meeting periodically (at least monthly) financial departments can update each other regarding progress on important tasks and milestones, ensure adherence to key procedures, and coordinate to better maintain internal controls across departments. This is also an opportunity to review upcoming deadlines and tasks regarding town meeting and budget preparation, revenue and expenditure monitoring, free cash certification, and the year-end closing. These formal meetings will help facilitate communication and teamwork between departments.

If the town hires a town administrator, this will be an opportunity to establish good communication right away, as well as make expectations clear and provide a forum to discuss team goals. We recommend having a set agenda for each meeting to stay on task and ensure an orderly hearing of any issues, and we would encourage the town administrator to communicate to department heads regarding any issues they would like to see on the agenda. These meetings are especially important when circumstances make it unlikely that staff will encounter each other during their day-to-day activities, which can easily lead to feelings of isolation or uncertainty.

Strategize for Succession Planning

Given Westhampton's recent experience with vacancies, town officials should develop a plan for the smooth and thoughtful transition of personnel. The town has been fortunate to find skilled, knowledgeable staff willing to work limited hours during their retirement or while holding a full-time position in other communities. While this meets staffing needs in the short term, the situation may change quickly in the future. We suggest that the town review the core functions and legal responsibilities of each office or position and determine a path forward. This may include formally creating a government study committee to review town bylaws, determine priorities, and identify practices that are effective and should be reinforced, and those that are ineffective and should be discarded. This should also include a review of the job descriptions, hours required, working arrangements, and benefits package.

In addition, we suggest they take the following steps, as appropriate to each position:

- Develop procedure manuals with step-by-step instructions starting with the most critical tasks. For propriety software systems, reach out to vendors to see what material they can supply and the training sessions they can offer at what costs.
- Speak with peer communities regarding organization structure and for their experience hiring and retaining qualified candidates.
- Research regional or outsourced services.

Establish a Capital Projects Stabilization Fund

We recommend that the town consider establishing a separate, special purpose stabilization fund for capital expenditures, as described in M.G.L. 40 § 5B. In addition, we recommend adopting a financial policy governing the use and replenishment of this fund as part of a set of formal financial policies (as described below). With a capital stabilization fund, Westhampton will be better able to plan for future capital needs by setting goals and incorporating annual deposits into the budget process.

Adopt Formal Financial Policies

While Westhampton has no formal financial policies, it has consistent practices for maintaining its stabilization fund balance. We encourage town officials to formalize these practices into a written Reserves Policy and to make that policy part of broader set of financial policies for the town. Well-written policies promote accountability, help align town governance with long-term goals, and serve as an anchor point for the town's system of internal controls. Adoption of formal policies is also viewed very favorably by credit rating agencies. We recommend the town consider adopting policies in the following core areas:

Annual Budget Process: An annual budget policy should define an integrated framework for developing the year's annual operating budget, starting with goals and objectives, departmental budget requests, and culminating in town meeting.

The annual budget policy should include:

- Budget goals for the general fund, capital investment, reserves, and enterprise or business-type activities.
- Principles for balanced and sustainable budgets including funding levels and sources and circumstances for considering any Proposition 2½ referendums.
- A budget calendar that specifies dates for initial revenue projections and updates, departmental appropriation guidelines and request returns, capital improvement plan,

working budget, and the final budget, allowing for hearings, reviews and approvals at different levels, and accounts for the time needed to print and distribute the warrant.

- Requirements for the budget document include the budget's short- and long-term strategic goals, narrative information on departmental and organizational goals and the resources needed to meet those goals, and graphical information on revenues, expenditures, reserves, and other financial data.
- Budget monitoring guidelines for requiring a review of revenue and expenditure reports by the selectboard and finance committee during the year to provide the opportunity to make plans for any necessary corrective actions and to consider advance forecasting into the next year.

Financial Reserves: A financial reserves policy enables a community to maintain a target level of reserves in the form of cash on hand, develop a reliable financing source for smaller, one-time capital or equipment related needs, and ensures the continuation of services during difficult economic periods. Reserves include free cash and stabilization fund(s). The policy should identify reserve target levels, define acceptable and prohibited uses, and lay out a course of action for when a reserve falls below or exceeds the desired target.

Free Cash

In establishing the free cash portion of the financial reserves policy, the town should:

- Set an annual free cash target of the total general fund budget to be realized through conservative revenue projections and careful management of departmental budgets. A generally accepted target range is equal to 3 to 5% of the general fund budget, but Westhampton might consider a higher amount since it has met or exceeded this target for over 10 years.
- Reserve a percentage of free cash as unappropriated to provide a basis for the subsequent year's certification.
- Define acceptable and prohibited uses, along with any course of action for when free cash falls below or exceeds the desired target.
- Limit the use of free cash to one-time expenditures unless extenuating circumstances exist.

Stabilization Funds

A general stabilization fund allows a community to set aside money for future or unforeseen purposes, whereas a special purpose stabilization fund is intended to be used as a planning tool for saving money for a designated purpose. Westhampton currently has one general stabilization and no special purpose stabilization funds.

In establishing the stabilization fund portion of the financial reserves policy, the town should:

- Establish target balances either as a total dollar amount or as a percentage of the general fund budget. A generally accepted target range for the general stabilization fund is equal to 5 to 7% of the general fund budget. Again, Westhampton has met or exceeded this target for over five years, so it might consider a higher target amount.
- Restrict the use of the general stabilization fund to unforeseen and extraordinary expenses.
- Determine an annual appropriation to support the funds.
- Define a plan for replenishing the funds which should include establishing indicators for when to appropriate into the funds, such as a percentage of new growth or free cash above a policy target.
- Define the special purpose, funding source and level, and use of the stabilization fund(s).

Capital Planning: A capital planning policy provides a framework for planning, reviewing, and coordinating capital purchases. The policy should include:

- Financing strategy such as the balance of debt versus cash capital spending, and how much to spend on capital annually, expressed as a percentage of revenue with a statement expressing the community's preference for borrowing terms, such as 10, 15, or 20 years (limited by useful life).
- Definition of a capital project and what can be funded through the capital improvement plan.
- Criteria used to evaluate, rank, and prioritize submitted projects.

Debt Management: The debt management policy should provide for the appropriate issuance and responsible use of debt. Good debt management practices protect the town's investment in capital and result in lower borrowing costs by structuring multiple projects together to reduce the frequency of issues, lower issuance costs, and access more competitive interest rates. The policy should also define debt capacity safeguards to protect the community from excessive debt levels that cannot be supported by existing and projected revenues.

- Identify a target for within-levy debt service as a percentage of annual general fund revenue. As debt retires and the balance falls below the target benchmark, the town should identify debt-funded capital projects to fill in the investment gap to ensure it continually reinvests in its capital assets at a steady, predictable rate.
- Establish criteria for proposing capital expenditures to be financed with debt or capital exclusions.

- Monitor excluded debt service to replace maturing obligations timely and thereby mitigate against tax rate spikes that would result from waiting to fully retire debt before issuing a new obligation.

Cash and Receivable Reconciliations: A reconciliation policy provides a framework to ensure transactions are in balance, mitigate fraud, safeguard general ledger accuracy, and maximize certifications of free cash. Financial officers must conduct and document regular reconciliations of their internal accounting records, and these must be reconciled to the general ledger. Source documentation that must be reconciled with the town accountant's records includes the treasurer's cashbook, collector's control book, payroll withholdings, and special revenue accounts (e.g., federal, state, and local grants, gifts).

Tax Enforcement: The tax enforcement policy should detail expectations for the town and the taxpayers of how and when the town will transition unpaid property taxes from tax title through foreclosure. It is in the best interest of the town and its residents that property taxes be paid when due.

Acquire GIS System for Assessing Office

We recommend that the town begin the process of finding a provider for Geographic Information System (GIS) services as soon as possible to replace the paper maps in the assessing office. The selectboard should consult with the board of assessors regarding cost and other details to request appropriate funding at the next town meeting. Paper maps are static and thus cannot be easily updated when the town's property landscape changes, such as when there are sales, when parcels are divided or combined, or to reflect new developments. An online GIS system provides an up-to-date parcel map of the town, as well as coming with other capabilities such as attaching current property record information, utility information, or other features that may be included depending on the GIS provider. In addition to assessing, other departments (such as highway) may find uses for a GIS system, increasing its value to the town.

Consider Reducing Finance Committee Membership

We recommend that the town consider reducing the finance committee membership to a smaller, more manageable size, such as five members. Westhampton's finance committee has ten members, which is not typical for a town of its size. Like many small towns, finding volunteers for town boards and committees can be difficult. Westhampton is not an exception in this regard, and the finance committee has at times had trouble getting a quorum or has unfilled seats for long stretches of time.

A smaller committee will make it easier to reach quorum consistently, focus discussions, and reduce the number of vacant seats at any one time.

Establish an Audit Schedule

We recommend Westhampton schedule biennial audits at a minimum. Audits ensure the quality of a town's financial health by providing an independent view on the accuracy and reliability of financial statements. Infrequent audits are unlikely to reveal the underlying causes of financial problems, which can result in decisions being based on an inaccurate understanding of town finances and lead to internal control failures, exposing public assets to serious risk. Regular external audits can also provide a powerful tool by which the town can build taxpayer confidence in government operations.

The management letters that accompany the financial statements are also particularly useful to identify and correct systematic weaknesses. Regular audits provide an opportunity for any problems in the town's internal controls to be brought to the selectboard's attention so that a plan can be made to resolve them before they create a crisis.

ACKNOWLEDGMENTS

In preparing this review, DLS spoke with the following persons:

Phil Dowling, Chair, Selectboard Chair

Tad Weiss, Finance Committee Chair

Cheryl Provost, Administrative Assistant

Joe Boudreau, Town Accountant

Patty Cotton, Collector

Dave Zagorski, Assistant Assessor