

FINANCIAL MANAGEMENT REVIEW

TOWN OF CHESHIRE

SEPTEMBER 2022



DLS

**DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE**

PREPARED BY:

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DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey E. Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

September 26, 2022

Board of Selectmen
Town Hall
80 Church St
Cheshire, MA 01225

Dear Board Members,

I am pleased to present the enclosed financial management review report for the Town of Cheshire. It is my hope that our guidance provides direction and serves as a resource for local officials as we work together to 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 Cronin".

Sean R. Cronin
Senior Deputy Commissioner

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INTRODUCTION

A team from the Financial Management Resource Bureau of the Division of Local Services (DLS) has completed a financial management review for the Town of Cheshire at the request of its board of selectmen. The review took place soon after a series of leadership changes in the town's executive and financial offices. The first of these came about with the expansion of the select board from three to five members in 2019. This was followed by the appointment of Cheshire's first full-time town administrator in July 2021. Shortly thereafter, unexpected vacancies occurred in the accounting and assessing offices' department head positions. As the town continues to navigate through these transitions, it is a fitting time to examine Cheshire's structure, budget practices, and financial operations to assess how they might be modified to enhance effectiveness into the future.

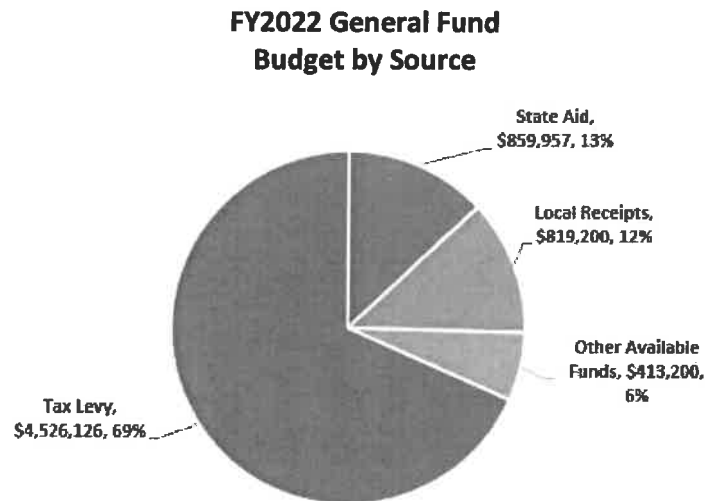
In conducting the review, we found a forward-looking community ready to consider the different perspectives, tools, and ideas offered by new executive leadership. Based on our observations, this report offers a series of recommendations to help Cheshire continue on the path of modernizing government. These include suggestions to conduct a review of the general bylaws, establish a financial management team, and institute regular reconciliations of cash and receivables with the general ledger, among others. We also noted the proactive recognition among local officials of certain weaknesses associated with some past budget strategies and determination to transform them into more sustainable practices. In this report, we analyze and provide guidance on the town's use of free cash, recommend the adoption of prudent target levels for reserves, and speak to the importance of multiyear forecasting.

COMMUNITY PROFILE

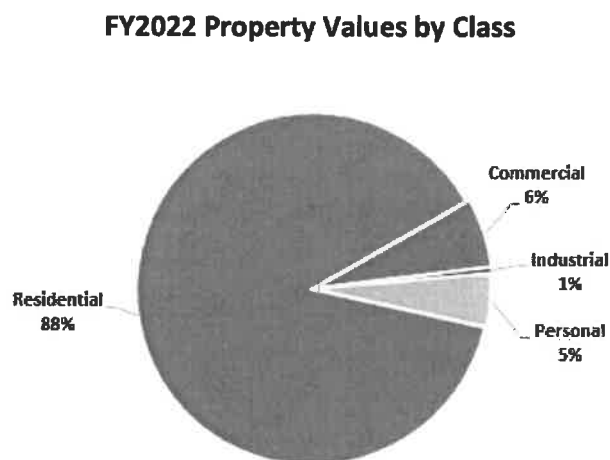
Incorporated in 1793, Cheshire is a small, rural town with a rich history and culture. Lying about 10 miles equidistant to the city centers of Pittsfield and North Adams, it has many natural resources and attractions within a land area of 27 square miles. For this community of 3,258 residents, the annual budget supports a limited range of services, including a full-time highway department, mostly part-time police force, on-call fire department, and council on aging, among others. These services are provided by a year-round workforce of about 20 employees, a minority of whom full-time hours. Cheshire supports public education through annual assessments paid to the Hoosac Valley Regional School District (HVRSD) and Northern Berkshire Vocational Regional School District.

In the town's recently closed fiscal year, FY2022, the primary revenue source for the general fund budget of \$6.6 million was the tax levy, which constituted 69 percent of the total. For a community that does not have its own school district, the proportional share of Cheshire's budget drawn from

state aid was substantial, at 13 percent. The remainder of the budget derived from local receipts (12 percent) and other available funds, such as reserve funds (six percent). Outside of the general fund budget, the town provides water services through an enterprise fund financed by users of the water system, and in FY2022, its budget was \$450,516.

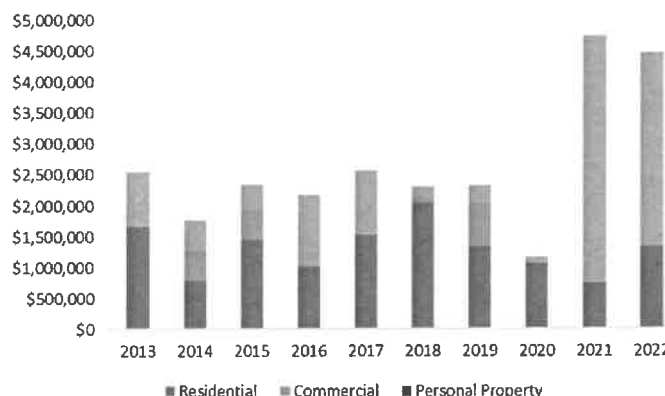


In bucolic Cheshire, only six percent of the total property valuation arises from commercial properties and just one percent from industrial. A further five percent is attributable to personal property, much of which is related to the equipment of private utility companies. Thus, the town's residential property owners shoulder the bulk of the tax levy burden at the same time that various measures point to the community's relatively moderate economic status. While the town's \$30,915 per capita income is on par with the Berkshire County average of \$31,527, Cheshire's per capita equalized property valuation (EQV) of \$100,424 is the county's fifth lowest and equates to only about 40 percent of the Berkshire average, \$255,595.



Despite the appeal of Cheshire's rural character, its minimal residential property development and sleepy commercial sector present challenges for annually raising revenues from the tax levy sufficient to keep pace with rising fixed costs. This is demonstrated by the 10-year trend in property new growth and correlated, small additions to the levy limit. Apart from a short-term bump in personal property new growth in the last two years, the overall year-to-year trend across all property categories is low and inconsistent.

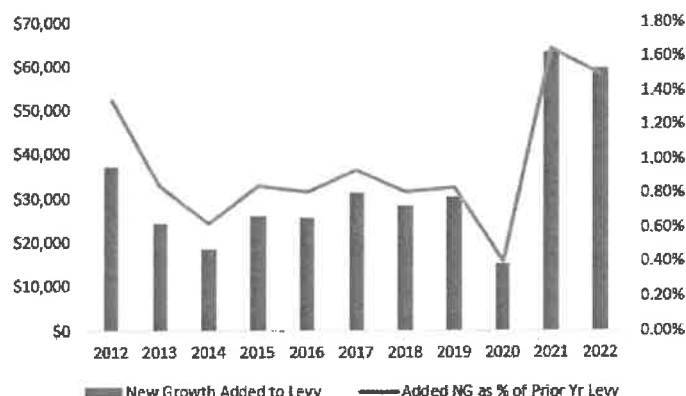
New Growth Values by Property Class, FY2013 to FY2022¹



New Growth \$ Added to the Tax Levy

Fiscal Year	Prior Year Levy	New Growth Added to Levy	Added NG as % of Prior Yr Levy
2012	2,775,575	37,476	1.35%
2013	2,882,440	24,499	0.85%
2014	2,979,000	18,789	0.63%
2015	3,072,264	26,223	0.85%
2016	3,175,294	26,063	0.82%
2017	3,373,826	31,570	0.94%
2018	3,489,742	28,755	0.82%
2019	3,605,741	30,434	0.84%
2020	3,726,319	15,381	0.41%
2021	3,834,858	63,761	1.66%
2022	3,994,490	59,881	1.50%

NG \$ Added to Tax Levy as a % of the Prior Year Levy



Lacking a formal capital improvement program, Cheshire's annual capital spending has been somewhat ad hoc. No policy existed that set goals to build and maintain a percentage of annual funding dedicated to capital needs within the levy limit imposed by Proposition 2½. As an alternative, the town has been financing purchases of rolling stock for the highway, fire or police departments, every two to three years through voter-approved debt exclusions added to the tax levy limit. However, the debt service for these vehicle acquisitions represents less than 25 percent of the average annual excluded debt the town has paying in the last 10 years. The majority has been for two

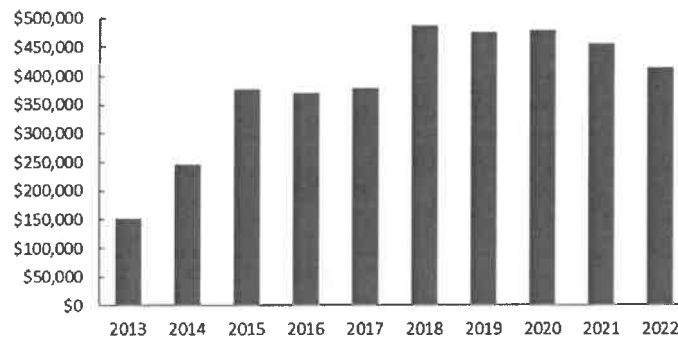
¹ Cheshire had no new growth in industrial properties in the last 10 years.

purposes: a major rehabilitation project at the HVRSD high school and an eminent domain legal settlement. The final debt service payment on the latter will occur in FY2024.

Annual Excluded Debt Service by Purpose, FY2013 to FY2022

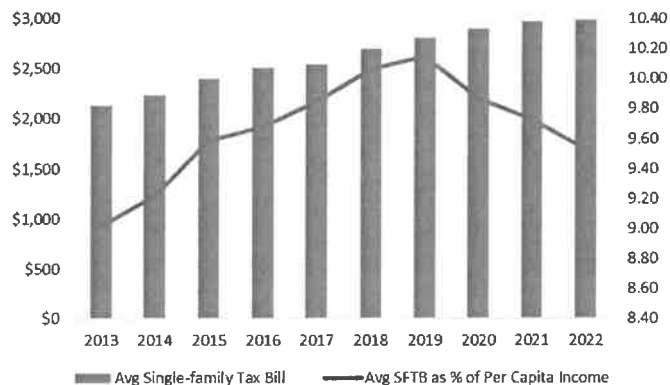
Purpose	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Excluded debt service	152,248	247,363	378,615	371,280	380,359	488,537	477,926	481,366	457,153	414,598
HVRSD project	44,075	95,281	228,619	214,702	226,473	239,639	235,457	232,163	239,293	201,510
HVRSD %	28.95%	38.52%	60.38%	57.83%	59.54%	49.05%	49.27%	48.23%	52.34%	48.60%
Legal settlement	110,157	108,656	111,969	109,969	112,769	110,219	112,563	108,288	109,013	109,500
Lawsuit settlement %	72.35%	43.93%	29.57%	29.62%	29.65%	22.56%	23.55%	22.50%	23.85%	26.41%
Capital rolling stock	0	41,925	41,340	44,609	43,917	136,129	132,250	136,640	109,572	71,919
Capital rolling stock %	0.00%	16.95%	10.92%	12.01%	11.55%	27.86%	27.67%	28.39%	23.97%	17.35%

Excluded Debt Added to the Tax Levy, FY2013 to FY2022



In a typical budget year, the town levies close to the maximum limit, leaving little excess levy capacity. Even with the practice of “levying to the max” and the additional levy amounts from debt exclusions, Cheshire’s average single-family tax bill of \$2,994 for FY2022 ranked thirteenth lowest in the state and seventh lowest in Berkshire County. It also ranked seventh lowest in the county when measured as a percentage of per capita income.

Average Single-family Tax Bill as a Percentage of Per Capita Income, FY2013 to FY2022



Cheshire's average single-family tax bill is also lower than any of the 13 Central and Western Massachusetts communities that could be considered its closest peers based on comparable fiscal and socioeconomic factors, such as population size, per capita income and EQV, budget amount, and the balance of properties classes within the total valuation.

Cheshire's Peer Communities

Town	County	2020 Pop.	Pop. Density	2019 Per Capita Income	2020 Per Capita EQV	Res % Value	CIP % Value	FY2022 Gen Fund Budget	FY22 Avg SF Tax Bill	Avg SFTB % of PCI
Ashby	Middlesex	3,193	135	38,603	114,667	93.41	6.59	9,234,090	5,230	15.81
Barnardston	Franklin	2,102	90	31,594	118,138	86.94	13.06	5,804,653	4,673	14.86
Brookfield	Worcester	3,439	221	29,784	90,879	92.91	7.09	10,510,940	4,669	16.22
Buckland	Franklin	1,816	92	24,544	130,011	83.07	16.93	6,459,112	4,673	20.14
Cheshire	Berkshire	3,258	122	30,915	100,424	88.24	11.76	6,618,483	2,994	9.53
East Brookfield	Worcester	2,224	226	34,844	125,390	89.70	10.30	5,713,056	4,032	11.93
Hardwick	Worcester	2,667	69	24,891	101,523	90.78	9.22	6,193,806	4,061	19.21
Hubbardston	Worcester	4,328	105	38,753	121,772	93.91	6.09	10,213,998	4,414	12.60
Huntington	Hampshire	2,094	80	32,904	97,093	94.16	5.84	5,777,073	4,190	13.15
Lanesborough	Berkshire	3,038	105	29,422	140,367	82.92	17.08	10,852,919	4,992	17.26
Oakham	Worcester	1,851	89	37,169	129,249	92.14	7.86	4,468,836	3,918	11.39
Sunderland	Franklin	3,663	257	30,020	105,951	89.75	10.25	10,203,158	4,916	15.90
Wales	Hampden	1,832	116	25,028	100,456	91.12	8.88	5,659,862	3,981	16.59
West Brookfield	Worcester	3,833	187	36,624	114,999	89.69	10.31	9,756,288	3,875	9.52
AVERAGES		2,810	135	31,793	113,637	89.91	10.09	7,676,162	4,330	14.58

Like many other towns in Western Massachusetts, Cheshire has experienced year-to-year stagnant or slowly declining population trends in recent decades. Data from the U.S. Census Bureau reveals that the town's population has decreased seven percent from its peak of 3,499 in 1994. Furthermore, roughly 35 percent of its residents are age 60 or older, and the Bureau predicts this senior cohort to continue expanding proportionally within the total into the future. In part because of these trends, enrollments in the HVRSD have experienced a slow but steady decline. This contributed to the district's decision to close Cheshire's elementary school building in 2017.

Although part of the former school is under lease, its oldest wing has been condemned by the board of health. The question of what to do with the century-old building and surrounding property has become a topic of much discussion among residents and officials. The select board recently appointed a design-feasibility committee to consider future options and analyze associated costs. One possibility would involve the relocation of town offices from the small town hall building, which was built in 1898 and has been exhibiting structural issues. Another chief area of concern involves the fire station, which recently needed emergency repairs. Local officials are recognizing a need to make a rehab-versus-replacement decision regarding the building in context with financing strategies.

Fortunately, over the past decade, local leaders have employed budget strategies that allowed the town to build up healthy levels of reserves that could be useful in addressing some of its deferred

capital needs. On the other hand, the town has also been in the habit of drawing on reserves to fund ongoing operating costs. To help support the general fund budget, the town has annually been appropriating portions of its certified free cash “to reduce the tax rate,” as reported on the tax recapitulation sheet. As the table below shows, on average each year for this past decade, the town has used \$211,000 in free cash for this purpose, representing 3.61 percent of the total general fund operating budget.

**Free Cash Used to Support the
General Fund Budget, FY2013 to FY2022**

Fiscal Year	General Fund Budget	Certified Free Cash (FC) Amount	FC Used to Reduce Tax Rate	Tax Rate*	% of GF Budget Supported by Free Cash
2013	5,449,515	410,368	295,000	10.62	5.41%
2014	5,155,156	246,339	172,000	11.16	3.34%
2015	5,360,363	235,630	188,000	11.94	3.51%
2016	5,304,507	266,367	170,000	12.26	3.20%
2017	5,453,729	626,834	170,000	12.39	3.12%
2018	5,950,259	416,620	170,000	13.06	2.86%
2019	5,945,018	339,776	170,000	13.10	2.86%
2020	6,227,316	790,952	140,000	13.44	2.25%
2021	6,739,397	533,756	376,000	13.37	5.58%
2022	6,618,483	656,474	260,000	12.76	3.93%
Averages		452,312	211,100		3.61%

**Cheshire applies a single tax rate to all property classes.*

While this use of free cash as a revenue source for the ongoing budget slightly decreases the proportion of the budget funded by tax levy revenue, this is a hollow achievement given the inherent risks associated with a budget that is not structurally balanced. In a structurally balanced budget, all recurring (or “current”) expenditures are supported only by recurring (or “current”) revenues. Recurring revenues are those that can be reliably expected to occur again each year, and they never include reserve funds, which are sums set aside to mitigate risk. Conversely, any significant use of reserves like free cash², or other nonrecurring revenue source, to fund ongoing services in a given year increases the risk of fiscal instability for the community. In a future year when an unreliable revenue source is unavailable to the town to draw on, budget leaders will be forced to make painful budget cuts.

² Free cash is a reserve that represents the remaining, unrestricted funds from the previous year’s fiscal operations based on the June 30 balance sheet. In any fiscal year, the town may only appropriate free cash after the amount has been certified by DLS. Included in the free cash calculation are unspent budget line items and the excess of actual receipts versus estimates, which are added to the unexpended free cash balance from the prior certification. DLS deducts outstanding receivables and certain deficits from this total to arrive at the new certified amount.

The previous absence of a seasoned town administrator to help shepherd the budget process may have been a contributing factor to past practices related to free cash management. But is also very likely that decisions were compelled to some degree by the squeeze on annual levy revenues associated with the town's weak trends in property valuations and growth. As the town looks to shift to a new budgeting paradigm, local leaders have contemplated whether a Proposition 2½ override might be necessary to establish budget capacity adequate to ensure both the maintenance of current service levels and the financing of deferred and potential future capital improvements.

The next section of the report includes analysis and guidance related to the town's overall financial management, while the final section pertains to day-to-day operations in Cheshire's financial offices.

OVERALL FINANCIAL MANAGEMENT

Typical of a small Massachusetts town, the board of selectmen serves as Cheshire's executive authority, while legislative functions are fulfilled by an open town meeting. To help voters understand the implications of financial articles presented to town meeting, the general bylaws provide for a moderator-appointed, seven-member advisory committee. Locally referred to as the finance committee, it has often lacked a full membership in recent years and currently has only five volunteers. Fortunately, it is led by a chair with the procedural and institutional knowledge gained from 25 years of committee service.

To oversee and coordinate the day-to-day workings of government, the select board appoints a town administrator. When hiring Cheshire's first full-time town administrator last summer, the board chose a candidate with deep and wide experience working for other communities in the region. A former select board member and town clerk in Rowe, she spent many years employed as assistant assessor in Ashfield and Shelburne before becoming Ashfield's town administrator. Based on feedback from local leaders and town employees, the faith entrusted in her by the hiring decision has thus far been rewarded. This is not to say the inaugural year has lacked challenges, budgetary or otherwise. In the former absence of a full-time managerial presence in town hall, department heads were used to a certain degree of autonomy. It is quite common in these circumstances for there to be a marked period of adjustment and necessary relationship building within town hall.

The board of selectmen and other elected and appointed boards have been supportive of initiatives to bring greater professionalism to the town's personnel administration. To that end, the select board appointed an ad hoc personnel committee composed of the town administrator, treasurer/collector, highway superintendent, a select board member, and two finance committee members. The committee was charged to develop personnel policies and completed its work during FY2022.

Based on our conversations, it appears that the combination of an expanded select board and experienced, new town administrator has engendered a new atmosphere of collaboration among town leaders, especially those with budget decision-making responsibilities. One area in which the town administrator quickly showed her value was orchestrating the annual budget process, with the select board and finance committee readily responding to her leadership and analysis in this task. By tradition in Cheshire, the development of the annual budget proposal had been the responsibility of the board of selectmen, with the finance committee acting as advisor in reviewing and providing recommendations on it.

For the FY2023 budget development season, the town administrator instituted new department submission forms and procedures, including those intended to jumpstart a formal capital planning

program in Cheshire. For additional guidance in this area, the town leveraged funding from the state's District Local Technical Assistance program to obtain consultant services from the Berkshire County Regional Planning Commission (BCRPC). The town also used funds from the Community Compact Cabinet (CCC) grant program to engage the UMass Collins Center to provide it with a set of financial policies on 22 topic areas, including capital planning. With these two developments, the town can begin to address its capital needs in a more systematic manner. Already, Cheshire has received CCC funds, under a separate grant, to upgrade its information technology infrastructure.

As Cheshire looks to implement a formal capital improvement program this fiscal year, the town should wisely manage its financial reserves so that the capital plan can balance pay-as-you-go cash capital expenditures with debt financing. To better ensure fiscal sustainability, the town's leadership should also commit to a gradual shift away from the longstanding practice of using free cash to support annual operating budgets.

OVERALL FINANCIAL MANAGEMENT RECOMMENDATIONS

1. Form Economic Development Task Force to Address Revenue Constraints

The town's weak trends in property valuations and growth, in combination with strictures imposed by Proposition 2½, have contributed to the shaping of an unsustainable budgeting paradigm in Cheshire – the regular use of free cash to prop up a portion of the ongoing budget. To help address the town's budget challenges, we recommend the select board appoint an economic development task force to explore opportunities for expanding the tax base and cultivating new revenue sources.

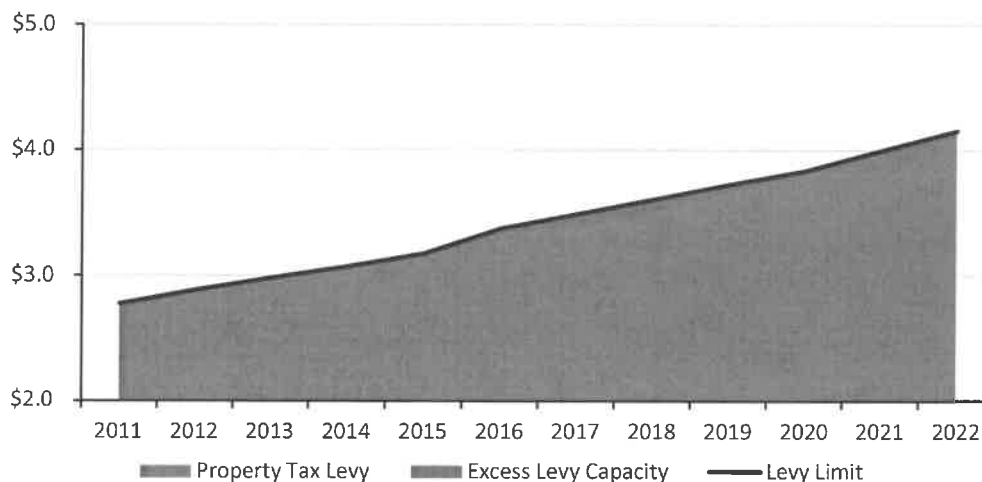
The property tax levy is Cheshire's primary source of revenue to fund operations, and Proposition 2½ imposes limits on how much it can increase year to year. The maximum amount the town can levy in any given year is the levy limit. Under Proposition 2½, the levy limit increases annually by two factors: 1) an automatic increase equal to 2.5 percent of the prior year's levy limit and 2) a dollar amount derived from the value of new construction, renovations, and other growth during the calendar year (referred to as new growth). The 2.5 percent increase and new growth amounts are added to the prior year's levy limit to reach the new year's levy limit. A community cannot tax in excess of its levy limit, but it may tax an amount lower than the levy limit. The difference between the total tax actually levied and the levy limit is called excess levy capacity.

Over the past decade, Cheshire's select board has voted to tax to its levy limit, leaving little or no excess capacity. Because the town's operating budget needs have steadily grown faster than its tax revenues, the town's budget framers have been compelled to supplement annual budgets with free

cash appropriations. In the absence of this practice, the town would have had to make cuts in the subject budget years in order to set the annual tax rate.

Excess Levy Capacity, FY2013 to FY2022

Fiscal Year	Levy Limit w/o Debt Exclusions	Max Levy Limit	Total Tax Levy	Excess Levy Capacity	Excess LC % of Max Levy
2013	2,979,000	3,131,248	3,130,944	304	0.01
2014	3,072,264	3,319,627	3,291,201	28,426	0.86
2015	3,175,294	3,553,909	3,528,760	25,149	0.71
2016	3,373,826	3,745,106	3,711,905	33,201	0.89
2017	3,489,742	3,870,101	3,770,536	99,565	2.57
2018	3,605,741	4,094,278	3,992,287	101,991	2.49
2019	3,726,319	4,204,245	4,140,881	63,364	1.51
2020	3,834,858	4,316,224	4,284,629	31,595	0.73
2021	3,994,490	4,451,643	4,420,578	31,065	0.70
2022	4,154,233	4,568,831	4,526,126	42,705	0.93



Short of budget cuts, the town has few options for course-correcting towards a more reliably sustainable budget model. A Proposition 2½ override would raise the levy limit by a specific dollar amount approved by town meeting and town-wide referendum. Going forward, this higher-set levy limit would then continue to increase annually at the automatic 2.5 percent plus new growth allowance. In lieu of (or in combination with) an override, the town can seek to be more proactive in pursuing opportunities to expand revenue growth, and this is where the task force can help.

The work of the task force would involve balancing Cheshire's attractive rural character with its economic development needs. Objectives would include devising strategies to effectively advertise resources the town has to offer businesses and industry, supported by prominent placement of the town's building and zoning regulations, maps, etc. on its website. Additionally, the group would

identify various local assets, such as the Ashuwillticook Rail Trail, Appalachian Trail, and Cheshire Reservoir, that might be better exploited to generate more business in town. Efforts should be made to identify any underutilized properties and brainstorm possible new uses for them. Research into beneficial grant opportunities would be another task. The committee also might consider proposing changes to the town's land use codes and zoning to encourage mixed use developments or changes from residential to commercial/industrial or vice versa to expand prospects. Lastly, the committee should discuss possible infrastructure projects (e.g., roads, water, sewer) that could help support industrial or commercial development.

2. Phase Out the Use of Free Cash as a Funding Source for the Operational Budget

To ultimately establish a consistent, long-term budget model designed to mitigate the risk of fiscal instability, we recommend Cheshire phase out the use of free cash as a funding source for the annual budget. Similar to advice provided by the Collins Center in its draft policy on financial reserves, we suggest the town set a goal of doing this as a gradual series of reductions over the next four to six years. With discipline and commitment, this strategy will help the town achieve a more sustainable budgeting model while also avoiding major cuts to the budget or services along the way.

3. Develop and Maintain Financial Forecasting

As part of the annual budget process each year, we recommend the town administrator work with Cheshire's finance officers to create a financial forecast projected forward by at least three to five years. Although Cheshire's fiscal leaders have wisely built up reserves over recent years as a good budget practice, they have otherwise typically made decisions with only a next-year scope. This is because the annual budget process has lacked the context of long-range revenue and expenditure projections. This situation has compromised the town's ability to plan for upcoming capital projects or to assess the risks of future-year deficits that could potentially arise from current-year decisions.

By revealing revenue trends in juxtaposition with real and hypothetical expenditure commitments, a multiyear forecast helps community leaders formulate budgets with long-term sustainability in mind. It follows that a forecast is also a key component of a strong capital plan because it enables budget framers to build and sustain an appropriate level of capital investment into the town's long-term plans. With a well-developed forecast, the impacts of different fiscal scenarios can be analyzed, such as those related to local aid changes, increased debt service, or Proposition 2½ override. Furthermore, the use of multiyear forecasts demonstrates a level of fiscal competency to residents and can educate them about the town's current position relative to future plans.

4. Adopt a Financial Reserves Policy with Prudent Target Amounts

To better assure the achievement of objectives for specific types of financial reserves, we recommend the town adopt a policy with targets higher than the “placeholder” amounts in the Collins Center’s draft document. The figures there represent amounts minimally applicable to a community of any size, and according to the author’s note, were provided to serve as conversation-starters. For a town like Cheshire, which lacks a large annual budget, diverse and reliably expanding local economy, and strong credit rating for the municipal bond market, it is crucial to elevate the reserve targets from the provided baseline benchmarks. The risk management effectiveness of reserve funds depends on the pursuit of adequate reserve targets. With healthy reserve levels, a town is better positioned to weather potential economic downturns or other emergencies, ensure sufficient cash on hand to pay for capital or other one-time needs, and provide stability in the residential tax burden or user rates.

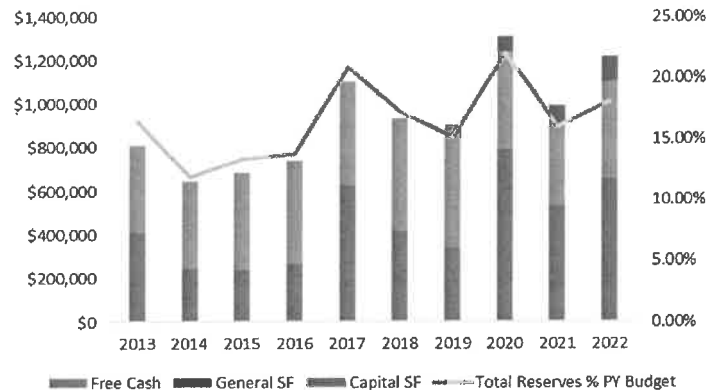
Based on our research and experiences with communities like Cheshire, we recommend the adoption of the following targets for general fund reserves, expressed as percentages of the prior year’s general fund revenues:

- Free cash: four to six percent
- General stabilization fund: eight to ten percent
- Capital stabilization fund: one to two percent

The three targets above result in an overall general fund reserve benchmark goal representing 13 to 18 percent of prior-year general fund revenues. In addition, we recommend the policy incorporate a minimum target for the water enterprise fund’s retained earnings equating to at least 20 to 25 percent of the prior year’s water revenue. This high annual target is justified by the water department’s capital-intensive nature and by the risk of revenue decreases associated with droughts and conservation efforts. The target could even be adjusted upwards if the town anticipates particularly expensive upcoming capital projects.

The chart on the next page shows that Cheshire has done well in building up its general fund reserves over the last 10 years, a period that began during the recovery from the Great Recession. As the town works with BRPC to implement a consistent, comprehensive annual capital program, these reserve funds, which are just over our recommended benchmarks, could help the town pay for previously deferred capital needs. The town should endeavor to maintain the levels it has achieved and, when reserve usage is necessary, make plans for timely replenishment to the minimum targets we recommend.

General Fund Reserves % of Prior Year GF Budgets



As the table below illustrates, Cheshire's current reserve levels are slightly above the averages for its peer group. Cheshire's higher average level of free cash is not surprising given the town's ingrained habit of relying on it as a direct funding source for the annual operating budget. None of Cheshire's peer towns appropriate free cash in this manner. As Cheshire gradually moves away from this approach, we advise appropriating any certified free cash amounts above the upper six percent target to build up any below-target stabilization funds, pay for capital projects or other one-time costs, or pay down the town's unfunded liabilities related to retirement or other postemployment benefits.

Reserve Levels of Cheshire's Peer Group

Municipality	Fiscal Year	Prior FY General Fund Budget	Free Cash Amount	Free Cash % of PFY GF Budget	General & Special Purpose Stabilization Funds	Combined SFs % of PFY GF Budget	Total General Fund Reserves	GF Reserves % of PFY GF Budget
Ashby	2021	8,864,898	886,156	10.00%	886,156	10.00%	1,772,312	19.99%
Bernardston	2021	5,397,112	363,818	6.74%	363,818	6.74%	727,636	13.48%
Brookfield	2021	9,574,493	492,273	5.14%	492,273	5.14%	984,546	10.28%
Buckland	2021	4,960,755	362,394	7.31%	362,394	7.31%	724,788	14.61%
Cheshire	2021	6,739,397	656,474	9.74%	656,474	9.74%	1,312,948	19.48%
East Brookfield	2021	5,342,107	589,043	11.03%	589,043	11.03%	1,178,086	22.05%
Hardwick	2021	5,703,919	218,045	3.82%	218,045	3.82%	436,090	7.65%
Hubbardston	2021	9,853,105	838,739	8.51%	838,739	8.51%	1,677,478	17.02%
Huntington	2021	5,778,994	240,661	4.16%	240,661	4.16%	481,322	8.33%
Lanesborough	2021	11,088,178	978,258	8.82%	978,258	8.82%	1,956,516	17.65%
Oakham	2021	4,285,683	495,127	11.55%	495,127	11.55%	990,254	23.11%
Sunderland	2021	9,696,785	393,471	4.06%	393,471	4.06%	786,942	8.12%
Wales	2021	5,679,909	228,516	4.02%	311,963	5.49%	540,479	9.52%
West Brookfield	2021	9,456,147	1,183,665	12.52%	1,183,665	12.52%	2,367,330	25.03%
AVERAGES				7.67%		7.78%		15.45%

5. Establish Formal Procedures for Calculating the Water Department's Indirect Costs

Within the Collins Center's enterprise fund policy draft are some provisions calling for a formal annual calculation of the indirect costs associated with the town's water enterprise fund. This is necessary to understand the true cost of the water department services, which encompass indirect as well as direct and capital expenses. Indirect costs are those costs that are financed within the general fund

but support the enterprise fund. Examples include water-related administrative services performed by the treasurer/collector and town administrator. Enterprise operations are also supported by the town's technology infrastructure. A reasonable indirect cost agreement will help ensure accuracy, consistency, and fairness in allocating costs. To provide the town with further concrete guidance, in the appendix we have provided a policy focused on the indirect cost allocation process.

6. Set Annual Goals for the Town Administrator

To set clear directives for pursuing strategic plans, we recommend the select board establish annual goals for the town administrator. Since the town administrator was hired a year ago, she and the board have developed particular standards for their interactions and communications, meeting agenda requirements, budget development procedures, and monitoring of fiscal matters and emerging issues. With this working relationship now well-established, a formal goal-setting process is a best practice the town should institute as a means to clarify the board's consensus priorities for fiscal year plans. An annual list of goals establishes expectations for the town administrator and provides some key criteria for conducting performance evaluations, as called for in her contract.

In our interviews, individual select board members expressed a variety of desired plans for the town, such as improved capital planning generally (and specifically related to the former school and fire station), expanded pursuit of grant opportunities, cultivation of potential shared service partners, enhanced communications and customer service, and maximization of town-wide cost efficiencies. Working together, the select board and town administrator should determine priority levels for these types of initiatives to arrive at a list of goals. Furthermore, the items should be linked to reporting and decision-making deadlines that are realistic for each. For instance, some projects by their nature are slow to evolve, and therefore reporting status updates more often than quarterly could convey a false impression of ineffectiveness.

When initiating these discussions, the board and town administrator might also consider expectations about the reporting of regular town business at select board meetings. When meetings are held every seven days, the time to achieve results is short, and weekly updates may fail to reveal progress. Over the long-term, it could also be worth considering a shift to a more efficient biweekly or semimonthly meeting schedule. Since there is limited town hall staff to assist the town administrator in shepherding projects and achieving her ongoing work in general, a reduction in the efforts she must spend in creating agendas and attending the meetings would free up more time for other work. Furthermore, although each election since the expansion to a five-member board has attracted competition for seats, the pool of aspirants might wane over time, especially given Cheshire's small population to draw from. A reduced time commitment for potential office seekers could help assure continued interest.

7. Review and Organize the General Bylaws

We recommend that Cheshire conduct a comprehensive review and organization of its general bylaws. The current bylaws provide minimal details about the town's governing structure, fiscal procedures, and the rights and responsibilities of residents. Also, they are not indexed, which hinders their accessibility. We were informed the town clerk has been working with a vendor to organize and convert the bylaws into a digital format. This project should aid a bylaw committee in completing a comprehensive review.

We suggest the board of selectmen appoint a bylaw review committee composed of residents and town officials and charge it to review the existing bylaws, propose revisions or additions, and organize them in a logical, indexed format. Committee members can obtain guidance by examining the bylaws of similar towns and should also seek input from various representative bodies, such as residents, employees, and other town boards. A comprehensive list of Cheshire's special acts and locally accepted statutes should also be compiled in a bylaw appendix. To go into effect, the completed set of bylaws must be approved by town meeting and then submitted for validation by the state attorney general's office.

8. Adopt Personnel Bylaws

We recommend the town adopt a set of personnel bylaws to formally codify a system of administration applicable to all town employees regardless of their particular elected or appointed status or appointing authority. Cheshire has only one collective bargaining agreement applicable to just four employees in the highway department, thus leaving the majority of employees without any town-wide standards for conduct, compensation and leave time accrual schedules, benefit options, or time and attendance reporting.

The town's ad hoc personnel committee has drafted an extensive set of personnel policies. This document defines different types of positions; outlines recruitment, hiring, discipline, and employee separation processes; specifies the amount, duration, and uses of available leave-time categories; identifies standards of conduct; and calls for the implementation of an employee evaluation program. Also included are provisions related to discrimination, sexual harassment, whistleblower protection, and allowable uses of electronic communications. There is also a requirement for employees to sign acknowledgments indicating they have read and understood the policies.

The work done by the committee is an excellent step forward for the town. Town meeting can solidify the policies by adopting them collectively as a personnel bylaw, which would then stand beside the

town's general and zoning bylaws and officially make them applicable town wide. This would provide a strong accountability measure that allows for fair and uniform administration of the policies and would also better protect the town from related legal liabilities. Unlike general bylaws, there is no requirement nor process to submit personnel bylaws for the attorney general's review.

We further suggest the text of the proposed bylaw designate the select board as the town's personnel board and the town administrator as its personnel director. The town should also consider adding the following content: (1) require every employee and appointed official take the state's Code of Conduct training at least every two years, (2) require job descriptions for all employees, (3) classify all jobs with similar levels of responsibility, and (4) create compensation schedules applicable for all the classified, nonunion employees. The town will need to initiate special projects to accomplish the latter three suggestions.

9. Limit Employment Contracts

We recommend the town limit the use of employment contracts to the positions authorized by state statutes. Under M.G.L. c. 41, §§ 108N – 108O, Cheshire may establish employment contracts for the town administrator, police chief, fire chief, town accountant, treasurer/collector, and assessor. Beyond these positions, Cheshire has entered into employment contracts with other employees, such as a police sergeant and the superintendents of the highway and water departments. Instead of a contract, any position not provided for in statute should be subject to the provisions of personnel bylaws. Furthermore, in the absence of a related job classification and compensation table, their salaries should be approved annually by town meeting.

FINANCIAL OPERATIONS

Within town government, the central finance offices manage the areas of assessing, treasury, collections, and accounting. In Cheshire, there is also a water department that handles its own billing and collecting tasks. Below is summary of the personnel structure within each of these offices.

Assessing: Cheshire's assessing department consists of an elected, three-member board and a part-time administrator. In July 2021, the former board chair, who had served for decades, passed away, and the town has not filled this vacancy, leaving only two board members. As a working board, the members perform many basic property inspections (sales, building permits, some cyclical), but all the higher-level inspections and analyses (most of the cyclical; commercial, industrial and personal property valuations; interim-year adjustments; revaluations) are done by contractors. The assessors administrator has been in the position for 16 years and works 20 hours weekly on administrative, clerical, and customer service tasks. She is also employed as the assistant assessor for Windsor and an assessing consultant for Savoy.

Treasury and Collections: In Cheshire, one person holds the positions of treasurer and collector, which has the effect of combining these two departments. Having served as the town's elected collector for the past 25 years, she retained the title when town voters converted that office to an appointed post in May 2022. She has been the appointed treasurer for 15 years. In addition to all the statutory duties of the dual role, Cheshire's treasurer/collector is responsible for processing the town's biweekly payroll. Beyond her town duties, she receives a stipend from the Hoosac Lake Restoration/Preservation District to bill and collect receivables for its 105 membership accounts. With her combination of age and years of service, the treasurer/collector is in a place to consider retiring in the not-too-distant future.

Accounting: Cheshire's previous town accountant of many years retired without advanced notice in October 2021. To provide immediate coverage for the office, the town hired Hill-town Municipal Accounting Services LLC in November 2021 and then advertised the job posting, but no qualified applicants responded. At the present time, there are no plans to repost the position. The Hill-town employee primarily performing the accounting works full-time as the city auditor in North Adams. She typically completes her Cheshire duties within 10 hours weekly, much of it on weekends.

Water department: An elected water commission provides oversight of this department. While a full-time superintendent is responsible for managing the physical functioning of the water system and obtaining meter reads, the board members perform most of the administrative duties often delegated to the superintendent role in other communities, such as budget development and monitoring, reporting, relations with the Department of Environmental Protection, contract

management, and others. There is also a part-time position to back up the superintendent's duties and an on-call licensed operator. Working 10 hours per week is a clerk, who handles the billing and collection of the town's 572 water accounts.

Before this year, the town did not have any formal or informal policy to contract for an annual independent audit, but at the town administrator's suggestion the select board plans to adopt this policy based on a draft created by the Collins Center. The most recent audit was completed in FY2020 by Scanlon & Associates and included some citations of non-material-level internal control deficiencies. The town's FY2023 budget includes a line item to pay for a FY2022 audit.

Based on our observations, numerous opportunities exist to enhance services and strengthen internal controls through certain structural modifications and operational adjustments. As guidance to help Cheshire evolve to a more efficient, effective, and accountable model of governance, we offer the following recommendations.

FINANCIAL OPERATIONS RECOMMENDATIONS

10. Plan for VADAR Expansion, or another ERP Solution, as a Long-term Goal

With the prospect of the treasurer/collector's retirement on the not-far-off horizon, we recommend the town make plans for a future expansion of the VADAR system to more fully encompass the range of duties required in the combined office. By doing this, the town can reap the benefits of a true enterprise resource planning (ERP) software system. ERP refers to an integrated suite of applications that allows a business entity to eliminate inefficiencies while also reducing opportunities for error. An ERP solution replaces a situation in which an assortment of individual software applications do not "talk" to each other, which thereby requires any data that should be linked within or among departments to be repetitively entered or uploaded into multiple, separate systems. In contrast to this desirable configuration, the following table displays the financial management applications currently in use among the finance and water department employees, as well as the town administrator:

Department	Software Application(s)
Assessing	<u>Patriot Properties</u> : computer-assisted mass appraisal system
Treasury/Collections	▪ <u>Quality Data Service (QDS)</u>: receivable control for property tax and motor vehicle excise accounts; tax title management ▪ <u>VADAR</u>: treasurer's receipts ▪ <u>Excel</u>: cashbook ▪ <u>Harpers</u>: payroll processing

Department	Software Application(s)
Accounting	<u>VADAR</u> : general ledger, warrants payable, reporting
Water	<u>Continental Utility Solutions (CUSI)</u> : receivable control for water accounts
Town Administrator	<u>VADAR</u> : budget development and monitoring

With the proper user configuration, VADAR allows for a seamless flow of data between the finance offices -- and other town departments, if desired as well. Collections information can be electronically transferred to the treasurer's receipts, for instance. Also, the treasurer/collector would no longer need to maintain a separate Excel cashbook because the treasurer's receipts data would automatically populate VADAR's cashbook module, along with the disbursements data associated with the warrants payable module. Another benefit of an ERP solution is a reduction the number of software systems that any successor to the current treasurer/collector would need to have or develop proficiency in.

To achieve this level of ERP functionality would require the town to purchase new VADAR modules and work with the company to do an effective data conversion from QDS, which can be a complicated task that would also have an associated cost. It is our understanding that the town's current VADAR contract already includes an unimplemented cashbook module, however. The pursuit of a true ERP system as a long-term goal might involve evaluating the town's level of satisfaction with VADAR's applications and services.

11. Adopt Bylaws to Enhance Collection of Receivables

Our review of Cheshire's general bylaws revealed they lacked certain articles that would help maximize receivables collections. We therefore recommend the town adopt bylaws for each of the following:

- Town collector, M.G.L. c. 41, § 38A. This bylaw would change the tax collector to a town collector. A tax collector may only collect taxes, excises, and tax liens added to taxes, whereas a town collector may collect any and all receivables due the town and take enforcement measures on related delinquencies using the means granted to a tax collector under M.G.L. c. 60, § 35, such as suing in court. Without this bylaw, town departments must collect their own receivable payments and turn them over to the treasurer/collector. Adopting this bylaw would therefore allow the town to further centralize collections, which will increase efficiency in the realization of revenues and strengthen cash management controls. This bylaw would also allow the town to transfer the collection of water bills from the water department to the treasurer/collector's office, which we recommend further on. If the town chooses not to spell out the town collector conversion in a bylaw, § 38A permits this change solely through a vote of town meeting.

- Water liens, M.G.L. c. 40, §§ 42A, 42B, and 42E. With this bylaw, the town can add delinquent water charges onto real estate bills, which will then be included as part tax takings and tax titles.
- License denial, revocation and suspension M.G.L. c. 40, § 57. Adoption of this bylaw would encourage timely payment of bills, taxes, and fees, since property and business owners would be liable to have certain permits and licenses affected by nonpayment.
- Tax title payment agreements M.G.L. c. 60, § 62A. This bylaw will help the treasurer/collector to increase delinquency collections and tax title redemptions. Under a different statute, M.G.L. c. 60, § 62, any owner of a tax title property may redeem it by paying the entire amount owed in a lump sum or by installment payments. Once any payment is received, § 62 gives the treasurer/collector the option to provide the payor with a written statement that no foreclosure will be pursued for the next two years to allow time for a complete pay-off of the debt. However, only pursuant to a bylaw established under § 62A may the treasurer/collector establish formal payment agreement terms with a tax title property owner. Adoption of this bylaw will help ensure consistent treatment of all tax title accounts, as well as continuity in related procedures whenever there is a changeover in the treasurer/collector position. Once the bylaw is adopted, the treasurer/collector will be required to offer a payment agreement to every taxpayer whose tax title account meets the stated criteria.

In drafting the bylaw for the approval of town meeting, decisions must be made about the specific, uniform terms that will apply to all tax title payment agreements that Cheshire's treasurer/collector may establish. Per the statute, the bylaw must identify the categories of tax titles eligible for payment agreements, and it must also specify the minimum required initial payment, which must be at least 25 percent of the total amount owed. The bylaw must also specify a maximum allowed term for any agreement, which can be no longer than five years. Although not a required provision, the town may also opt to include in the bylaw a stipulation that a certain percentage (up to 50 percent) of the interest due on the property will be waived upon full payment of the principal and any fees owed. This gives the town a legal means to provide debt relief and offers the taxpayer an incentive for full compliance with the agreement.

A sample bylaw from the Town of Chatham is included in the appendix.

12. Transfer Water Bill Collections to the Collector's Office

We recommend the town transfer the responsibility for collecting water receipts from the water department to the treasurer/collector. Currently, the water department clerk is responsible for all tasks associated with the town's water accounts. She assigns the amounts due on the accounts, prints

and mails the bills, receives and posts payments in CUSI, deposits the receipts in the treasurer/collector's bank account, and turns over copies of deposit records to the treasurer/collector's office. This change would implement an important separation of duties that is otherwise absent when one individual is responsible for committing and collecting the same accounts. The lack of this basic internal control was cited as a weakness in Scanlon's FY2020 management letter.

Cheshire's acceptance of M.G.L. c. 41, § 38A to create a town collector would allow the treasurer/collector to collect all bills. Subsequently, the water clerk would generate a commitment on CUSI and forward it to the treasurer/collector. As the treasurer/collector's receivable control for water collections, the town could either establish a CUSI user account for her or work with QDS to upload an electronic file to a table in that application.

We further encourage the town to adopt an online bill payment system to reduce the overall workload associated with migrating payment processing from the water department.

13. Appoint a Part-time Assistant Treasurer/Collector

We recommend the town consider formally appointing a part-time assistant treasurer/collector. Cheshire currently has no employee who can, in the treasurer/collector's absence, process payroll in Harpers or perform any critical bank transactions. In addition, if the town shifts water collections to the treasurer/collector's office, it will necessitate more work hours in that office during the three times a year that water accounts are billed. If the assistant works out well, the person could possibly be groomed as a successor to the treasurer/collector when she retires.

With the transfer of water collections to the treasurer/collector's office, the water department clerk could be assigned some new water department tasks or possibly duties that support other departments. The town identified a need for more clerical support across departments, as evidenced by a recent job posting for a part-time administrative assistant to support various boards in town.

14. Convert to an Appointed Board of Assessors

We recommend the town convert from an elected to appointed board of assessors. Cheshire resembles many other small, rural towns in the state in the scarcity of qualified individuals actively looking to perform key part-time roles in local government. In this light, it would be easier for the select board to seek out and appoint members to the assessing board whenever vacancies occur instead of the town hoping that, on a rolling basis, there will be a resident(s) willing to run for each year. This is especially true given that, after converting to an appointed board, the select board would

not be limited to recruiting only from Cheshire's registered voters. For instance, there might be an experienced appraiser living in a nearby town who could be interested in some extra work for a stipend. If difficulties in filling individual seats persist into the future, an appointed status for the board would also allow the town to consider evaluating the potential for an intermunicipal agreement as a regional option.

Beyond the challenge of maintaining full board membership, the notion that an assessing board plays a policymaking role that thereby justifies an election rationale is specious. The board's duties are defined in statute, its decisions should be based on standardized criteria, and its valuation procedures are reviewed by DLS. Conversion to an appointed board would require town meeting to accept M.G.L. c. 41, § 25.

Regardless of whether the town decides to pursue this recommendation, the select board should appoint someone to fill the current vacancy in accordance with the provisions of M.G.L. c. 41, § 11. The former board chair passed away only two months after being reelected to a three-year term, whose expiration is still almost two years away, in May 2024. Until then, the only means to restore a three-member board is through select board appointment.

15. Establish a Financial Management Team

To maximize coordination of the financial departments in achieving objectives in areas such as forecasting, capital planning, corrective actions for management letter citations, potential new software systems, and others, we recommend that Cheshire establish a financial management team that will meet on a regular basis. With the town administrator as chair of the meetings, the rest of the team would include the accountant or accountant contractor, treasurer/collector, and assessing board chair. If the town appoints an assistant treasurer/collector, he or she might also attend the meetings that would provide useful training.

Team meetings would work best if scheduled at a consistent, convenient time each month with agendas sent in advance, and more frequent meetings may be necessary at certain times of the year. Gathering the team for regular discussions will enable the town administrator to play a more hands-on role in ongoing financial operations and monitor progress. Many communities find financial team meetings effective for facilitating interdepartmental objectives because they help to identify critical junctures, gain early input on strategies to deal with anticipated fiscal events, and spur creative thinking. A regular part of these meetings would include reviewing the budget calendar and analyzing financial data, such as prior-year performance and year-to-date activities. The meetings are also opportunities to hold staff accountable for their roles in mission-critical functions, like tax rate setting

or reconciliations of cash and receivables. Finally, a well-established financial team helps provide institutional continuity when officeholders leave town service.

16. Accountant Provide the Treasurer/Collector with Preliminary Warrants Payable

We recommend the town modify its procedures related to the payroll and vendor warrants so that the treasurer/collector can review them for any persons owing money to the town. M.G.L. c. 60, § 93 permits the treasurer/collector to withhold payments from any debtors to the town up to the amount owed. Once the town accountant has reviewed and approved each payroll submission and invoice and included them on respective payroll and vendor warrants, she should provide a copy of each preliminary warrant to the treasurer/collector. After reviewing the warrants, the treasurer/collector will notify the town accountant of any identified debtors and the amounts owed or will alternatively confirm that the warrants listed no debtors. When notified by the treasurer/collector of any debtors on the warrants, the town accountant will adjust the warrant to pay the town the money owed and pay any remaining balance(s) to the payee(s).

17. Regularly Reconcile Cash and Receivables During the Fiscal Year

We recommend the town accountant and treasurer/collector reconcile their cash and receivable records on a regular basis during the fiscal year. At minimum, this should be done quarterly, but we encourage a monthly schedule. In the past, reconciliations between these offices occurred only at fiscal year-end. Reconciling on a regular basis throughout the year allows the departments to identify and resolve discrepancies timely, whereas doing only year-end reconciliations entails the review of 12 months of records in a short period of time. This can overburden the financial offices at an already busy time of the year and potentially lead to delays in submitting annual reports to DLS. Additionally, a schedule of regular reconciliations is more efficient in detecting any fraudulent activity since a year-long review period allows more opportunities for someone to cover their tracks.

18. Implement Direct Deposit for All Employees

We recommend the town implement direct deposit for all town employees. In addition to ensuring uniformity in distribution method and timing, this will reduce administrative burdens in the treasurer/collector's office. Direct deposit would improve department efficiencies by simplifying the reconciliation of payroll bank accounts and avoid for the need to reissue any lost or stale dated checks. It would also eliminate the costs of issuing and mailing checks, as well as the risks of lost checks.

ACKNOWLEDGMENTS

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

<u>Name</u>	<u>Position</u>
Michelle Francesconi	Board of Selectman Chair
Jason Levesque	Board of Selectmen Clerk
Mark Biagini	Board of Selectmen Member
Raymond Killeen	Board of Selectmen Member
Shawn McGrath	Board of Selectmen Member
Jennifer Morse	Town Administrator
John Tremblay	Finance Committee Chair
Rebecca Herzog	Treasurer/Collector
Robin Wadsworth	Assessors Administrative Assistant
Richard Gurney	Water Commission Chair
Wendy Howe	Water Department Clerk
David Fierro	Hill-town Accounting
Sheryl Chaput	Hill-town Accounting

APPENDIX

SAMPLE FORECASTING POLICY

PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for creating projections of revenues and expenditures as part of the annual budget process and multiyear fiscal planning. By presenting the future implications of current budget scenarios, forecasting helps local officials to make strategic plans for lasting fiscal sustainability and future investment.

APPLICABILITY AND SCOPE

Applies to:	▪ Town Administrator's budget analysis and development job duties ▪ Board of Selectmen and Finance Committee in their budget analysis and decision-making responsibilities
Scope:	▪ Creation, revision, and year-to-year conversion of a multiyear forecast of revenues and expenditures as part of the annual budget process ▪ Guidelines for formulating the assumptions used as the basis for forecast projections

To determine the Town's operating capacity for future fiscal years, the Town Administrator will annually create a detailed forecast with five-year projections of revenues and expenditures. The Board of Selectmen and Finance Committee will use the forecast to support their decisions regarding the upcoming year's operating and capital budgets and the long-range capital improvement plan. To guard against potential deficits, as a general rule, the Town Administrator will purposely estimate revenues on the low end of possibility.

Early in the annual budget process, the Town Administrator will present the initial forecast to a joint meeting of Board of Selectmen and Finance Committee. Throughout the budget process, these boards will use the forecast to inform their evolving decision making. In addition, the Town Administrator will promptly revise the forecast projections whenever circumstances change and provide updates to the boards.

With each new budget year, the Town Administrator will review the performance accuracy of the prior year's forecast and any evolving factors related to the underlying assumptions to consider how projections in the new forecast may need to be adjusted. Factors to consider include changes in laws, regulations, inflation rate, interest rate, town goals, and policy decisions.

POLICY

A. Guidelines for Revenue Assumptions

The following principles shall guide the formulation of revenue assumptions:

- Projections of the property tax levy will be confined by the limits of Proposition 2½ (absent any overrides) and take into consideration consensus decisions regarding the Town's level of excess levy capacity.

- New growth projections will take into account the Town's three-, five- and 10-year averages by property class and advice from the Board of Assessors.
- The levy limit's relationship to the levy ceiling (which is 2.5 percent of the Town's real and personal property total value) will be annually assessed to identify potential override capacity and guard against the levy limit approaching or hitting the ceiling, which would impact future levy growth.
- Local aid projections will correspond with economic cycles, while Chapter 70 educational aid will reflect trends in school choice, enrollments, tuition, and charter assessments.
- Estimates for local receipts (e.g., motor vehicle excise, inspection fees, etc.) will not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.
- One-time revenues will not be used in the projections to fund ongoing or recurring operating expenditures.
- Rates for the water enterprise operation will be set at levels sufficient to cover all operating and capital costs so as to minimize any general fund subsidies.
- Revenues from grant programs will be reviewed annually to determine their sustainability.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.
- In accordance with Cheshire's Financial Reserves policy, the Town will gradually taper off its reliance on free cash to reduce the tax rate.

B. Guidelines for Expenditure Assumptions

Annually, the Town Administrator will determine a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

The following principles shall guide the formulation of expenditure assumptions:

- The Town's current level of services will provide the baseline for projections.
- Historical trends in the growth of operating expenses and employee benefits will prevail.
- Trends in enrollments, school choice, tuition, and charter assessments will be factored.
- The Town will cultivate strong relationships with the Hoosac Valley and McCann Technical School Committees to receive timely, long-term estimates of district assessments.
- Only currently known increases in employee compensation plans will be factored into the projections, leaving any potential, future cost-of-living adjustments to be calculated independently of the forecast.
- The Town will pay its annual pension contributions and make appropriations to amortize its other postemployment benefits (OPEB) liability
- The Town will pay all existing debt service obligations and adhere to its Capital Planning and Debt Management policies.

REFERENCES

M.G.L. c. 44, §§ 20, 53A, 53A½, 63, and 63A

Cheshire policies on Annual Budget, Capital Planning, Debt Management, Enterprise Fund, Financial Reserves, Grants Management, and OPEB

DLS Informational Guideline Release 17-21: Borrowing and Best Practice: Revenue and Expenditure Forecasting

Government Finance Officers Association article: Financial Forecasting in the Budget Preparation Process

EFFECTIVE DATE

This policy was adopted on [date].

SAMPLE INDIRECT COST ALLOCATION POLICY

PURPOSE

To reimburse the general fund for all expenditures incurred on behalf of the water enterprise fund, this policy provides guidelines for equitably calculating and allocating those indirect costs.

APPLICABILITY AND SCOPE

Applies to:	▪ Town Administrator and Water Commission Chair in their job duties ▪ Town Accountant and Treasurer/Collector in their related administrative functions
Scope:	▪ Analysis, calculation, and accounting of Water Department indirect costs

APPLICABILITY

This policy applies to the budgetary responsibilities of the Town Administrator, Town Accountant, and Water Superintendent. In addition, it relates to the utility-related administrative functions of the Town Accountant, Treasurer/Collector, and Town Administrator Departments. It encompasses the analysis, calculation, and accounting of the Water Department's indirect costs.

BACKGROUND

The accounting for the Water Department is managed as an enterprise fund, which is separate from the general fund and has its own financial statements. Consolidating this utility's direct and indirect costs, debt service, and capital expenditures into a fund segregated from the general fund allows the Town to demonstrate to the public the true, total cost of providing of the service.

POLICY

As part of the annual budget process, the Town Administrator will work with the Town Accountant to calculate the indirect costs to the general fund of the Water Department and review them with the Water Commission Chair and Water Superintendent. Based on the results, the Town Accountant will record transfers between the relevant funds by June 15 each year. The Town Administrator will maintain written procedures detailing the costs and their calculation methodologies.

A. Cost Categories

The indirect cost calculations will take into account the following enterprise-related expenditures budgeted in the general fund:

- Water Department **personnel costs** for active and retired employees, including pensions, insurances, Medicare taxes, unemployment, and workers' compensation.
- **Administrative services** performed on behalf of the Water Department by other departments, such as:
 - Accounts payable, payroll, and general ledger services provided by the Accounting Department
 - Collections, banking, investment, tax title, benefits, and payroll services provided by the Treasurer/Collector Department

- Personnel administration and annual budget coordination services provided by the Town Administrator Department
- The following **expenses**:
 - Information technology costs
 - Vehicle and property insurances
 - Legal services
 - Independent audit services
 - Actuarial services related to other postemployment benefits (OPEB)
 - Other costs that may be agreed to

The Town Accountant will calculate indirect costs based on the most recent fiscal year's appropriations and using either the actual, proportional, estimated support, or transactional methodology (described in Section B below) as appropriate for the particular cost category.

B. Explanation of Calculation Methodologies

1. **Actual cost**, as the term implies, involves identifying the specific costs attributable to the enterprise based on documented schedules or bills payable, including debt service and insurance premiums.
2. The **proportional** method is a straightforward calculation of the utility's net-of-debt budget as percentage of the total combined net-of-debt budget of the utility and the general fund. The resulting percentage is then applied against the total budget (including employee benefits) of each Town department that provides support to the utility or against the total cost of the specific type of expenditure.
3. A department or official may be able to provide a reasonable **estimate of support** (i.e., an estimate of the work hours spent supporting the utility). For example, the Town Accountant estimates she spends an average of two hours weekly, or five percent of her time, on Water-related activities (e.g., creating warrants, bookkeeping). This percentage would then be applied against the Town Accountant's salary and benefits, including health and life insurance, Medicare, retirement, and any workers' compensation.³

$$\begin{array}{ccccc}
 \frac{\text{Hours worked on utility activities}}{\text{per year by individual(s)}} & & \text{Salary and benefits of} & & \text{Indirect} \\
 & & \text{individual(s) working} & & \text{Departmental} \\
 \frac{\text{Total hours worked}}{\text{per year by individual(s)}} & \times & \text{on utility activities} & = & \text{Salaries}
 \end{array}$$

4. The **transaction-based** method is calculated based on the number of transactions attributed to a service as a percentage of the whole. An example would be the total number of water bills the Treasurer/Collector collects as a percentage of the total number of all bill types processed by that office. This percentage is applied against the Treasurer/Collector's total budget, including health

³ The percentage will be applied against the charge for contracted services when the Town employs a contractor for Town Accountant services.

and life insurance, Medicare, retirement, and any workers' compensation attributable to the department.

$$\frac{\text{Number of utility transactions}}{\text{Total number of all similar transactions processed by the non-utility department}} \times \frac{\text{Total budget plus benefits of the department processing the utility transactions}}{\text{Total budget plus benefits of the department processing the utility transactions}} = \text{Indirect Departmental Salaries}$$

C. Calculations by Cost Category

This text in this section provides sample calculations for discussion purposes. Before adopting this policy, Section C should be reviewed and updated as necessary, and it should be expanded for any other costs that may be agreed to, such as information technology, legal services, etc.

1. Health and Life Insurances

Indirect costs for health and life insurances will be calculated using the actual cost method by adding up the actual amounts paid by the Town for the participating Water Department employees during the current fiscal year.

2. Medicare

The Town's Medicare cost represents the employer match of the Medicare tax charged to employees hired after April 1, 1986. Using the actual cost method and based on employee W-2s, the indirect costs will be calculated as 1.45 percent of the total gross wages paid to each eligible Water Department employee during the preceding calendar (not fiscal) year.

3. Retirement

Indirect pension costs will be calculated using the proportional method. The total annual contributory retirement expenditures assessed to the Town by the Berkshire County Retirement System will be multiplied by the proportion of eligible personnel attributable to the Water Department.

4. Independent Audit

The costs for independent audits will be based on the proportional method. The proportion of the Water Department's annual net-of-debt budget within the Town's total net-of-debt operating budget shall be multiplied against the annual cost of the audit contract.

5. Administrative Services

The indirect costs for utility-related administrative services performed by the Accounting and Town Administrator Departments will be calculated using the estimate of support method. The amounts will be based on each department's annual estimate of the time required to perform the services for the utility.

For the Treasurer/Collector Department's services, the transaction-based calculation method will be used for all water-associated billing, collection, and payroll services, and the estimated support method will be used for all other utility-related services performed by that Department, such as banking and investment.

REFERENCES

M.G.L. c. 44 § 53F½

Division of Local Services Informational Guideline Release 08-101: Enterprise Funds

Government Finance Officers Association Best Practices: Indirect Cost Allocation and Measuring the Full Cost of Government Service

EFFECTIVE DATE

This policy was adopted on [date].

SAMPLE TAX TITLE PAYMENT AGREEMENT BYLAW

Town of Chatham

Chapter 247: Tax Title Payment Agreements

[HISTORY: Adopted 5-14-2018 ATM by Art. 19. Amendments noted where applicable.]

§ 247-1 Payment agreements authorized; terms and conditions.

In accordance with the provisions of MGL c. 60, § 62A, payment agreements are hereby authorized between the Treasurer and persons entitled to redeem parcels in tax title, subject to the following terms and conditions.

- A. Each such agreement shall be for a term of five years and shall waive 50% of the interest that has accrued on the tax title account. No tax principal or collection costs/fees may be waived pursuant to the terms of any such agreement.
- B. Payment of 25% of the total tax title account balance as of the date of the agreement must be received by the Treasurer upon final approval/execution of the agreement.
- C. Such agreements and waivers shall be available for and uniformly applied to parcels of real property with an assessed valuation, as of the January 1 preceding the date of the agreement, equal to or less than 150% of the mean assessed value of residential properties in the Town.
- D. During the term of the agreement, the Treasurer may not bring an action to foreclose the subject tax title unless payments are not made in accordance with the schedule set out in the agreement or timely payments are not made on other municipal taxes, assessments, or charges due to the Town that constitute a lien on the subject tax title parcel. In the event of any default in payment obligations stipulated in said agreement, the Treasurer may pursue any or all remedies prescribed by MGL c. 60 for the collection of unpaid taxes, including, but not limited to, tax title foreclosure.
- E. The failure of the property owner to comply with any of the conditions or requirements imposed under this bylaw or to make payments in accordance with the terms of any agreement executed pursuant hereto shall be cause to rescind the waiver of interest and to reinstitute the interest that was waived. In the event of such noncompliance, the tax account for the property shall be recalculated to reflect the amount of taxes and statutory interest that would have been then due and payable but for the initial waiver of interest.
- F. Nothing in this bylaw shall preempt or preclude the authority of the Treasurer to accept partial payments or to negotiate and enter into payment agreements authorized by the provisions of MGL c. 60, §§ 22 and 22A, or any other statutory authority.