

FINANCIAL MANAGEMENT REVIEW

TOWN OF BELCHERTOWN

DECEMBER 2021



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

Financial Management Resource Bureau | DLS

www.mass.gov/dls

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DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey E. Snyder
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Sean R. Cronin
Senior Deputy Commissioner

December 7, 2021

The Finnerty House
One South Main Street
P.O. Box 670
Belchertown, MA 01007

Dear Select Board Members,

I am pleased to present the enclosed financial management review for the Town of Belchertown. 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 Resource 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

At the select board's request, the Division of Local Services (DLS) Financial Management Resource Bureau completed this Financial Management Review for the Town of Belchertown.

The scope of our review focused on the town's financial offices and the practices, procedures and policies that guide municipal decisions. We examined the duties and responsibilities of finance officers and the degree of coordination and communication that exists. We comment on the effectiveness of financial checks and balances and on compliance with state laws and regulations that govern fiscal matters. The municipality's technology condition was assessed and the impact of organizational structure on financial operations was also evaluated.

The following report provides recommendations based upon interviews with policymakers, senior managers, and department staff, including the select board, finance committee, town administrator, town accountant, treasurer/collector, assessor, and others. We also gathered and examined information and historical financial data from various documents, including the tax recapitulation sheet, balance sheet, annual budget, warrant payables, revenue and expenditure reports, and reconciliations. Additionally, we reviewed the town's bylaws and locally accepted statutes, as well as its independent audit reports and credit rating profiles.

We believe this report will support Belchertown's ongoing discussions to strengthen its administrative structure, leverage technology, codify financial management policies, and implement best practices based on community-driven priorities during these uncertain times.

OVERVIEW

Belchertown is a vibrant residential community with a rich farming heritage that is facing continued pressure on its municipal services from development, while at the same time its rate of historical growth appears to be waning. The town is also on the brink of losing several key members of its senior leadership team to retirement, including its longtime town administrator and town accountant, who carry a tremendous amount of institutional knowledge and competency in their roles. It is within this context that we outline the degree of success that Belchertown has had over the years, along with its current financial management challenges. Our report offers specific recommendations to strengthen Belchertown's governance and administrative framework, address certain structural budget issues, codify financial policies, and better leverage IT and HR services through a collaborative effort with the schools to position the community for continued success.

Located in Hampshire County just 10 miles outside of Amherst town center, Belchertown is the sixth largest community by land area in the state at 52.64 square miles. The town is characterized by its rural atmosphere along the western shores of the Quabbin Reservoir and proximity to the regional area urban centers of Springfield and Northampton. Given these desirable attributes, it is no surprise that Belchertown has transformed over the last 30 years from a small farming town to a quiet residential community. Between 1970 and today, Belchertown's population has grown from 5,936 residents to 15,350 as of the last census. More recently, however, there are early indications that Belchertown's historical growth rate might be on the decline. The town's population has largely leveled out over the last decade, while the rate of building is also on the decline. Access to large, easily buildable lots is diminishing and remaining parcels have increased in value which limits the number of entry level homes under construction. Student enrollment for the town peaked in 2009 and the community's population is predicted to largely age in place over the next decade.

In the pages that follow, we outline Belchertown's administrative structure, financial operations, and financial condition.

Administrative Structure

Belchertown's form of government is organized under a combination of state statutes and locally adopted bylaws. It is governed by open town meeting and an elected five-member select board. The select board serves as the chief policymaking body for the town. The finance committee, consisting of five volunteers appointed by the moderator, provides opinions on annual appropriations and advises town meeting voters on warrant articles. The town administrator is appointed by the select board, supervises personnel, and oversees day-to-day town operations. The town administrator's responsibilities are articulated only by job description and employee contract. Town bylaws provide no duties or authorities.

The town's current administrator has served the community for more 30 years. With this longevity and competency in the job, the town administrator has been granted responsibilities more akin to a town manager. Although there is no distinction between the two in Massachusetts General Laws, a town manager is generally thought of as functioning more like a chief executive than an administrator. This is reflected in tasks related to planning and implementing long-range goals, financial management responsibilities including the coordination and submission of the operating budget, managing procurement, holding department heads accountable, and keeping the select board informed.

Financial Operations

The accountant's office has a legal obligation to maintain the town's financial books and ensure compliance with policies and procedures. In doing so, the department plays a critical role in the system of internal controls and statutory checks and balances established to safeguard local assets. To fulfill these responsibilities, the staff prepare payroll and vendor warrants, maintain a general ledger (in which receipts, expenditures, and other town financial activity are recorded), and reconcile cash, receivables, and debt with the treasurer/collector.

The town accountant, appointed by the select board, is a senior-level manager and custodian of the financial records. Belchertown's accountant has been with the town since the late 1980's when she was the secretary to the select board before being promoted to assistant town accountant and later town accountant. Certified by the Massachusetts Municipal Auditors and Accountants Association (MMAAA), the town accountant's other responsibilities include coordinating the preparation of the annual tax recapitulation sheet, the annual Schedule A that itemizes actual revenues and expenditures, and the year-end balance sheet submittal required for free cash certification. The office includes an assistant town accountant who is primarily responsible for preparing payroll and a department assistant tasked with processing accounts payable.

The treasurer/collector issues property tax bills quarterly, mailing bills two times per year with a coupon for two quarters. In total, the office issues approximately 6,600 real estate and 160 personal property tax bills, 16,000 motor vehicle excise bills, 1,250 sewer bills, and about 5,800 stormwater bills annually. For the last few years, the treasurer/collector has maintained a collection rate of around 98% and consistently moves uncollected amounts into tax title. The treasurer/collector's outstanding collection rate and available cash flow provide liquidity for payroll and vendor obligations and investment of the town's funds.

The treasurer/collector in Belchertown is appointed by the select board and is certified by the Massachusetts Collectors and Treasurers Association (MCTA). She has been with the community for

more than 20 years when it converted from an elected to appointed position in the late 1990's. As a combined treasurer/collector office, the department is responsible for managing and directing the tax and utility billing and collection process and functions as the community's custodian of town funds as cash manager. These duties include the investment and disbursement of town funds, management of debt, monitoring of cash flow, and maintaining internal financial control procedures including the reconciliation of all town funds, receivables, trust funds and state/federal grants in coordination with the town accountant. The office also oversees and administers the town's benefit program.

The treasurer/collector is supported by an assistant treasurer/collector with 20 plus years of experience, a department assistant, and a benefits coordinator. The assistant treasurer/collector and department assistant oversee a variety of office tasks, including managing departmental turnovers, collections, online banking activity, along with balancing bank statements, and funding warrants. The benefits coordinator, who is cross trained to handle over-the-counter customer interactions, spends most of her time on personnel administration related activities involving insurance enrollment, payroll deductions, employee onboarding, workers compensation, and retirement benefits for approximately 300 retirees and about 500 benefit eligible employees who work more than 20 hours per week.

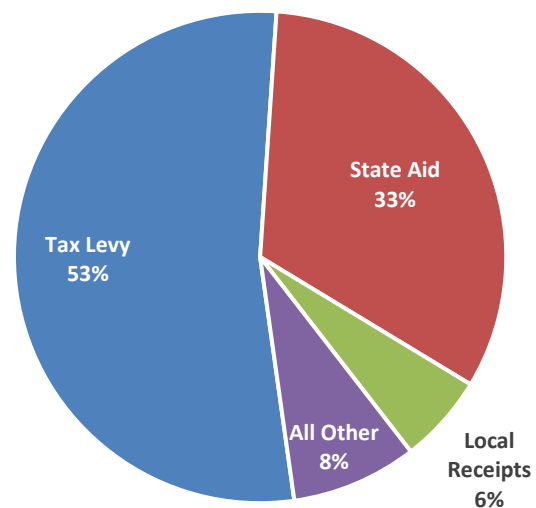
The assessing office is responsible for valuing all real and personal property in town and generating the commitments authorizing the treasurer/collector to issue and collect real estate taxes and motor vehicle excises. The assessors annually review property assessments to ensure they reflect full and fair cash value, so that residents are taxed equitably and accurately. Subject to the approval of the board of assessors, the director of assessments sets the annual overlay amount, provides information and analysis for tax classification hearings and the tax recapitulation, and makes recommendations on all abatement applications and property tax exemptions. Other duties of the assessors' office include providing new growth amounts, reviewing land use tax incentives, updating tax maps and deed transfer information, maintaining property records, cyclical inspections, other appraisal fieldwork, and responding to public inquiries. Belchertown's assessing office is overseen by a director of assessments and an elected three-member board of assessors. An assistant assessor and three technical assistants provide administrative support.

The town uses the Munis financial management software system. Integrated applications include those for accounts payable and receivables, cash management, general ledger, purchase orders, tax billing and collections, and utility billing. The assessing office uses Patriot Properties' computer assisted mass appraisal (CAMA) software application to perform cyclical revaluations, determine personal and commercial property valuations, and maintain detailed property records. The town is actively exploring options to automate its payroll process. The treasurer/collector's office uses the UniPay application by UniBank for real estate, personal property, motor vehicle, sewer, and stormwater online payments.

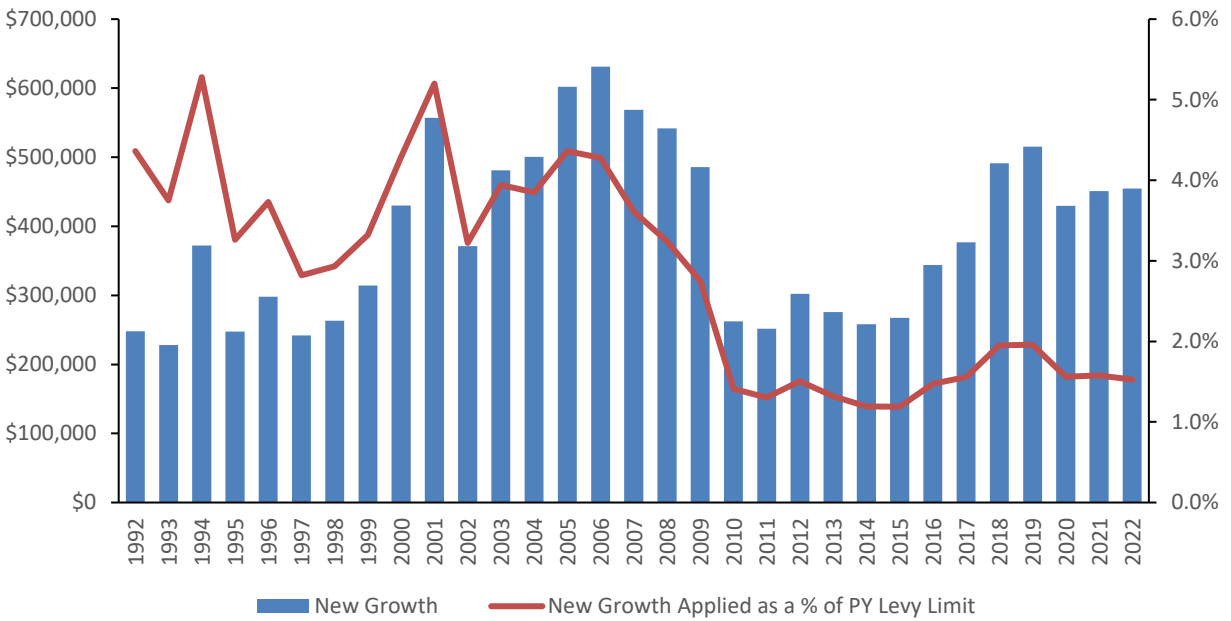
Financial Condition

To understand Belchertown's financial condition, it is important to look at the community's fiscal health across key areas. Making sense of the data also requires knowing where a fiscal snapshot fits in along with a broader trend. To establish a trend requires reaching back into historical data and updating it with current data as available. On the following pages, we highlight several key areas of Belchertown's finances, including revenue and expenditure trends, use of reserves, debt, and pension and other postemployment benefit long term liabilities. While analyzing these indicators does not definitively score a community's fiscal health, they can provide a wholistic view of trends based on data from the past.

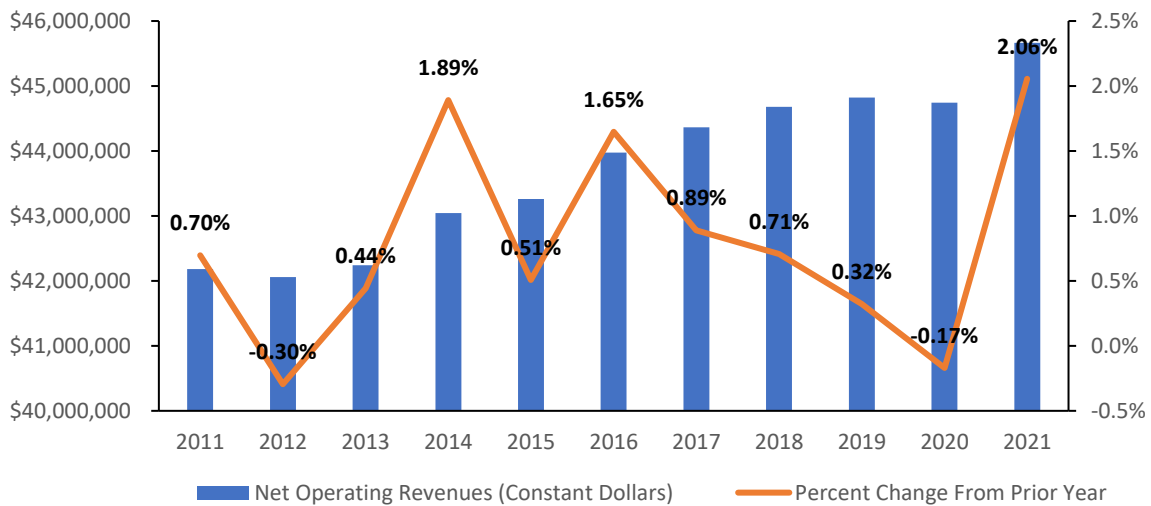
Belchertown's total operating budget for FY22 is \$55,121,829. Of that total, \$30.9M was funded from the tax levy, \$18.9M from state aid, \$3.3M from local receipts (e.g., motor vehicle excise, property rentals, and licensing and permitting fees), and the remaining \$4.8M from other available funds, such as free cash and stabilization. New revenue sources for Belchertown over the years have been largely tied to new construction like building-related fees and permits and new growth.



New growth represents additional value added to the property tax base from new construction or improvements to existing properties and other additions to the tax rolls. It can indicate when the community is experiencing real estate development, and in turn, what to expect in terms of property tax growth. It also can show what, if any, new expenditures to anticipate with new developments (e.g., additional school children, public infrastructure, etc.). As illustrated in the chart below, Belchertown for years has benefited from healthy economic activity tied to the construction of new single family homes, which created new growth for the property tax levy while also generating increased fees, and excise tax collections. Conversely, the availability of readily developable land combined with periods of economic downturn, like what was experienced in FY08 and FY20, have stalled construction, which adversely impacted this revenue stream.

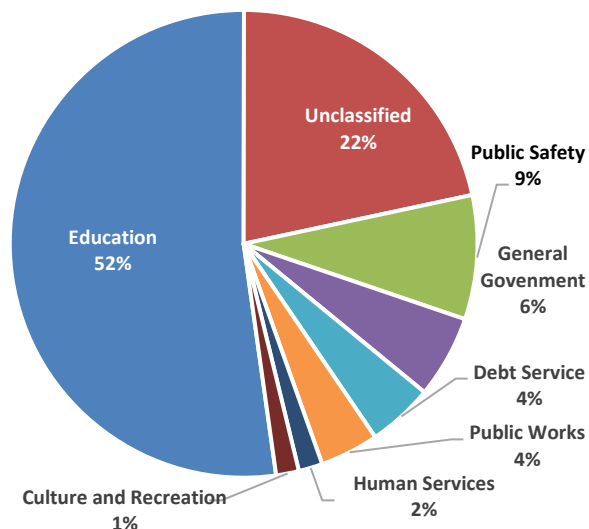


Consistent revenue growth is one measure of a town's ability to maintain existing service levels in the face of increasing costs. The below indicator shows the change in net operating revenues over time for Belchertown. Net operating revenues are calculated by using the total gross revenue available from all sources, less tax revenue raised from a debt exclusion. Ideally, the annual percentage increase from prior year revenues should be steady, positive, and predictable. Belchertown's declining net operating revenues from FY16 to FY20 is a warning indicator. Although net operating revenues bounced back in FY21, if municipal revenues decline again there is a risk to maintaining a consistent level of service.



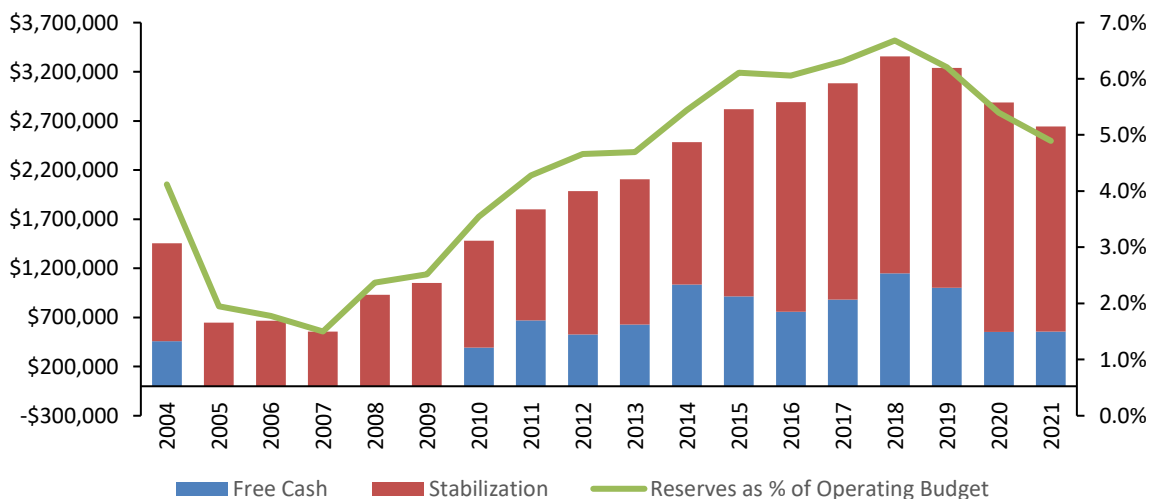
Belchertown's historical population growth has impacted its finances. With the influx of residents comes the need to expand government services. Between FY81 and FY21, the town's budget has

grown from \$4,758,307 to \$56,787,987 based on Schedule A data submitted to DLS. Today, education is by far Belchertown’s largest cost center at \$26.9M, followed by miscellaneous, unclassified expenses at \$11.1M, public safety at \$4.4M, general government at \$2.9M, debt at \$2.3M, public works at \$2.0M, while the remaining \$1.6M supports human services and culture and recreation.

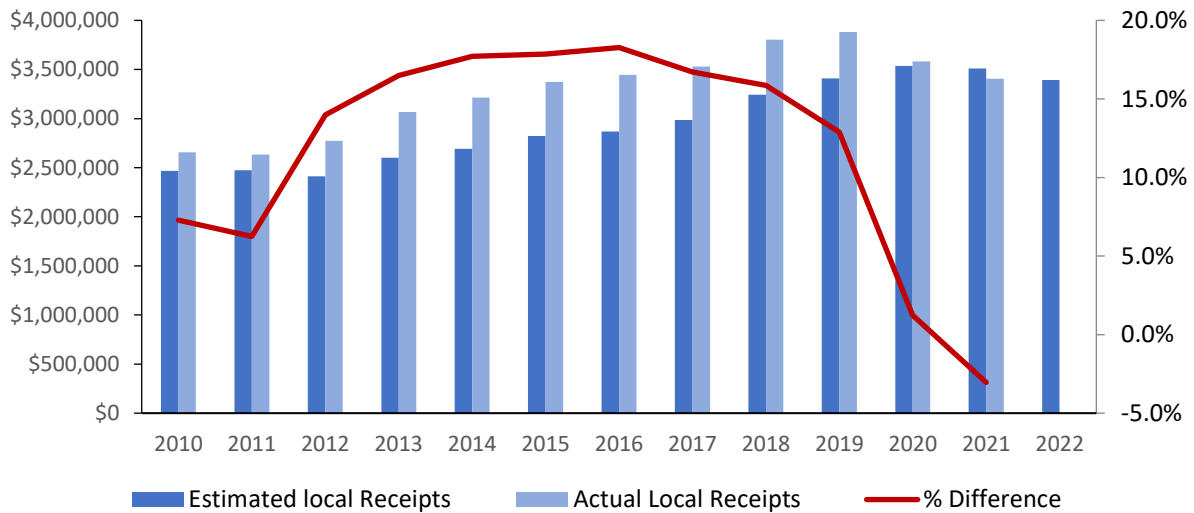


Belchertown’s budget funds the full range of municipal services customary for a community of its size, including full-time police and fire, public works, public library, senior center, and other operations. Belchertown is also known for its consistently high ranking schools, which provide pre-kindergarten through high school education. Vocational education is offered through Pathfinder Regional Technical School located in Palmer. Given Belchertown’s prioritization of public education, it is not surprising that it represents its largest expense at 52% of the general fund operating budget. However, since enrollment has declined from its peak in 2009 by 442 students, the percentage share of the budget tied to education has shrunk by 2%.

Belchertown’s reserves consist of general “rainy day” stabilization funds and free cash. It is recommended that the combined reserves amount to 7-10% of the operating budget. Belchertown has been proactive in building its reserves over the last decade from the early 2000’s when they were at an all-time low of less than 2% of the budget. Depicted in the chart below, Belchertown’s reserves peaked in FY18 at \$3.3M or 6.68% of the budget and declined since to their current level of \$2.6M or 4.89%.



The free cash portion of Belchertown’s reserves represents the remaining, unrestricted funds from operations from the previous fiscal year including any unexpended prior year free cash, actual receipts in excess of revenue estimated on the tax recapitulation sheet, and unspent amounts in budget line items. Free cash must be certified annually by the Division of Local Services before it can be appropriated by town meeting.



Belchertown consistently generates the bulk of its free cash from excess local receipts and unencumbered/unexpended appropriations. While there have been reductions to Belchertown’s free cash calculations over the years related to the timing of grant expenditures and reimbursements, procedures can be easily implemented to eliminate these deductions. More concerning is the recent decline in excess local receipts, which impacts the total amount of certified free cash that is already below recommended levels.

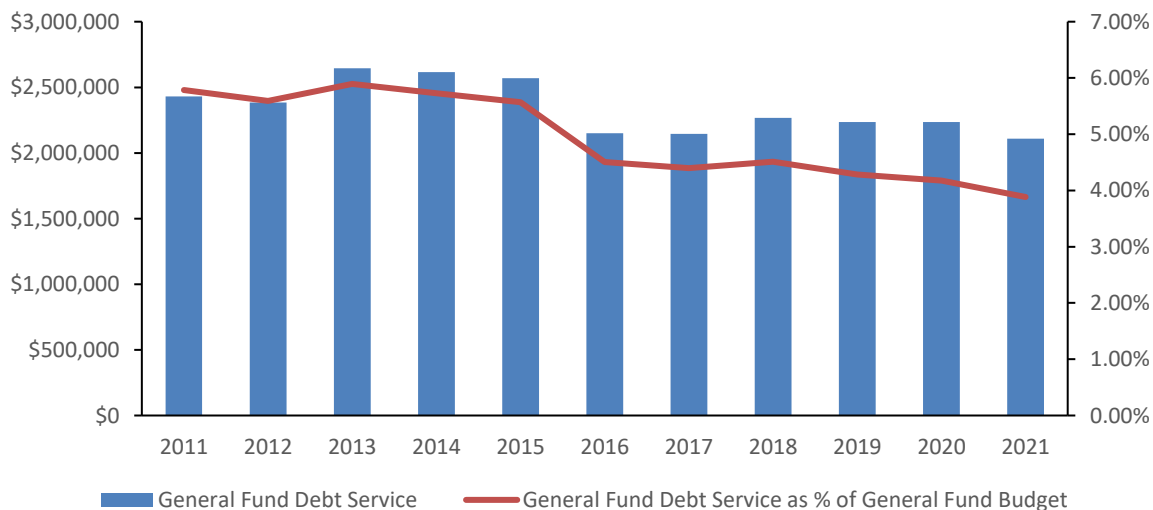
Belchertown’s total local receipts collected in FY19 through FY21 declined from \$3.88M to \$3.40M, or by \$476K, because of a decline in motor vehicle excise, investment income, and Medicare reimbursement. Additionally, Belchertown now finds itself in a position in FY21 where it over estimated local receipts by \$105K, representing a -3.5% in excess local receipts, which will have a direct impact on the amount of free cash certified for FY22.

Belchertown also historically appropriates its entire certified free cash balance, most of which is used to supplement ongoing operational expenses likely because of diminished revenue growth and rising service costs. The table on the following page identifies Belchertown’s use of free cash and stabilization funds over the last five fiscal years. Items marked in red are appropriations to supplement the operating budget. In the last three years alone, the community has annually spent nearly \$800k from free cash and stabilization funds to support the budget. The correlation between the decline of excess local receipts and the dependence on free cash to fund the budget is

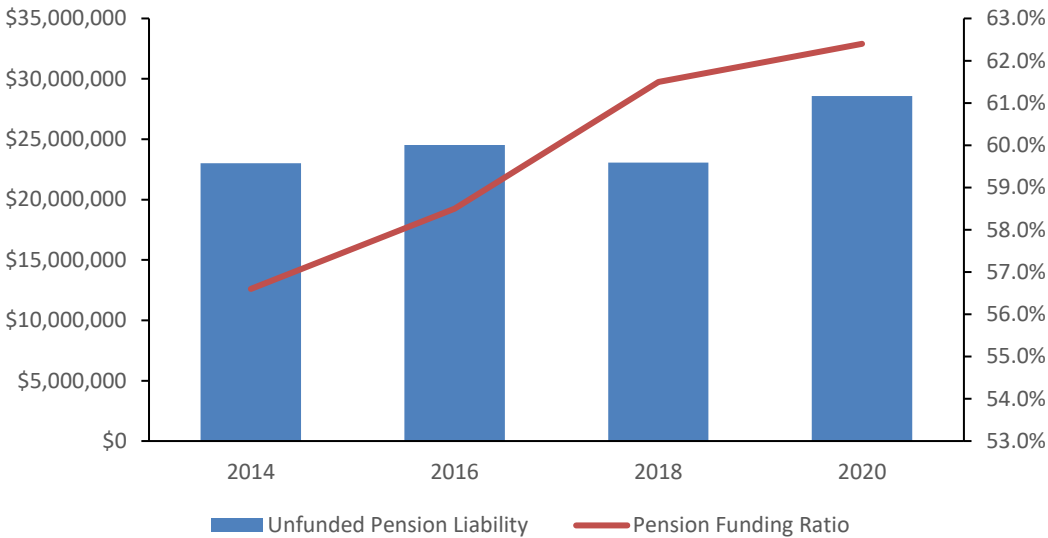
problematic for Belchertown. With the main sources of free cash declining, the town will have to reduce its dependence on this reserve to fund the budget.

	Free Cash	Stabilization
FY17	\$213,958 ATM-budget 10,000 OPEB 550,000 Stabilization 65,516 snow deficit 42,242 final health insurance payment FY17	\$560,000 Pension & Insurance
FY18	704,688 ATM-budget 50,000 OPEB 300,000 Stabilization 4,000 local cultural council budget 88,691 snow deficit	200,000 Pension & Insurance 50,000 School Dept
FY19	898,502 ATM-budget 100,278 OPEB 4,000 local cultural council budget	298,000 Tank removal/building repairs
FY20	551,684 ATM-budget	298,000 Tank removal/building repairs
FY21	556,916 ATM-budget	61,000 Unclassified 300,000 School Dept 39,000 public Safety

In FY21 Belchertown’s annual non-excluded general fund debt service totaled \$2.1M, or 3.88% of the general fund operating budget. While the town has a manageable debt load, officials should examine their future capital needs and determine whether increased investment will be necessary to avoid deferred maintenance. It is important to maintain a prudent, consistent debt level so that as debt is retired, new debt is issued. Otherwise, the capacity to cover debt obligations within the operating budget can be replaced by other costs. The chart below illustrates this issue in Belchertown, which is slowly losing capacity to fund debt in the future.



Belchertown maintains a AA bond rating from S&P Global with a stable outlook. According to the town’s most recent profile, this rating reflects Belchertown’s “stable economic base and conservative budget practices, which have allowed the town to maintain adequate-to-strong reserves and liquidity.” However, the profile continues by stating that the community’s “long-term liabilities, including future pension and other postemployment benefits (OPEB) costs are manageable. Over time, they could strain future operations, particularly if costs begin to outpace the town’s future revenue generating capacity.” As of the close of last fiscal year, Belchertown has appropriated \$221,063 towards its total estimated OPEB liability of \$54.1M. Additionally, Belchertown is a member of the Hampshire County retirement system with an unfunded pension liability of \$28.58M, which is 62.4% funded. The system is expected to be fully funded by 2033. The chart below illustrates Belchertown’s unfunded pension liability, which is actuarially evaluated every two years, and the total funding ratio for the system.



Overall, Belchertown has experienced tremendous economic growth since the early 1970’s relative to the region. Largely tied to the construction of single family homes and the influx of families, the town’s growth has resulted in expanded services across education, public safety, public works, and other departments. While Belchertown is often characterized by its rural atmosphere and small town charm, it is a sizable community. Today, Belchertown is approaching a critical operational and financial juncture. Several key personnel, including the town administrator, are expected to retire soon and the pandemic, combined with local economic trends and other factors tied to expanding services, are putting pressure on the operating budget. As a result, our recommendations that follow focus on restructuring administrative operations around a town manager, succession planning due to anticipated retirements, addressing the structural budget deficit, and enacting financial forecasting, capital planning, and financial policies to ensure long term stability.

RECOMMENDATIONS

1. Consider Town Charter and Review Bylaws

We recommend that the select board appoint a Charter Study Committee to consider developing a special act for that purpose. Unlike the charter process allowed under MGL c. 43B, which sets specific guidelines and time frames, petitioning the legislature for a special act has no specific requirements and offers the community more flexibility to develop a process that makes more sense for its purposes. By establishing a charter, the town can succinctly and clearly define its government structure, establish the distribution of powers, delineate lines of authority, and codify annual strategic planning, budgeting and capital planning protocols.

The Charter Study Committee should be charged with drafting a special act for presentation to the Select Board. The Select Board would then put the finalized draft in an article to be voted on at the next annual town meeting. If approved there, the town would submit the proposed special act to the state legislature for review and approval. Local action to adopt a charter through a special law need not be approved by voters after the legislative branch's enactment to take effect. However, as a matter of practice, the legislative body or town meeting almost always make special laws to adopt or change a charter contingent on ballot vote approval.

In conducting its work, we suggest the Charter Committee consider the following:

- Approach the process without bias or predetermined outcomes
- Seek assistance from Town Counsel or an experienced consultant familiar with governmental organizations including drafting of charters
- Set a timeline for key milestones and report progress to the Select Board
- Meet with Department Heads and other local officials
- Encourage local input through surveys and public forums
- Research and review other Massachusetts town charters
- Speak with officials from other communities about their experiences establishing charters

Concurrent with the work of the Charter Study Committee, it is appropriate that Belchertown conduct a comprehensive review of its town bylaws. Bylaws establish the codes, policies, and procedures under which the town operates (e.g., personnel rules, health codes, and zoning regulations). The process of establishing or amending bylaws requires only a majority vote of town meeting (and subsequent submission to the Attorney General's office), which is substantially less cumbersome than creating or revising a charter.

2. Elevate Role of Town Administrator to Town Manager

We recommend that Belchertown adopt a town manager administrative structure. The retirement of the community’s long-time town administrator in the near term presents an opportunity for the select board to reexamine the position’s responsibilities and how this job might be structured going forward. The role in Belchertown today is defined only through job description and employment contract, which includes only the authority and responsibilities the select board chooses to delegate and a very limited [bylaw](#).

While Massachusetts General Law lacks a fixed definition distinguishing a town administrator from a town manager, a manger is generally viewed as having more authority to direct day-to-day operations independent of the select board. The power to appoint and manage department heads, negotiate and execute contracts, and approve invoices for payments are just some examples that typically separate the two titles from one another. In many ways, these responsibilities in combination with precedence set through the current town administrator’s longevity, competency and institutional knowledge in the job already align more closely with the expectations of a town manager.

Additionally, changing to a town manager versus a town administrator may attract more seasoned and qualified job applicants when a vacancy arises because of the more CEO-like responsibilities and authority. A town manager would be expected to execute the goals, objectives, and policies of the select board, coordinate the annual budget and capital planning development, manage personnel, and otherwise direct the work of town departments. Given the pending retirement of the incumbent, the select board would be wise to explore all avenues to expand the appeal of this job to the most highly qualified candidates. Among six towns that we consider Belchertown’s peers, half have a town manager.

Belchertown Peer Communities

Municipality	County	Population	FY2021 Single Family Tax Bill	2021 DOR Income Per Capita	2020 EQV Per Capita	2021 Total Budget	Administrative Structure
Belchertown	HAMPSHIRE	15,098	5,250	34,798	113,048	54,025,122	Town Administrator
East Bridgewater	PLYMOUTH	14,526	6,370	35,011	132,647	52,160,433	Town Administrator
East Longmeadow	HAMPDEN	16,192	6,116	44,995	132,409	65,666,922	Town Manager
Northbridge	WORCESTER	16,679	4,938	33,597	113,595	52,802,719	Town Manager
South Hadley	HAMPSHIRE	17,625	4,824	32,113	99,019	47,181,169	Town Administrator
Uxbridge	WORCESTER	14,195	5,475	36,665	142,362	57,605,754	Town Manager
Webster	WORCESTER	16,949	4,354	26,992	108,809	50,216,218	Town Administrator

Because of its parttime nature, the select board seems to recognize the need to enhance the town administrator’s authority to carry out the board’s policies, goals and objectives as the management of municipal government has only grown more complex over time. A town manager would have the authority to be more effective in representing the select board, developing the annual budget,

overseeing projects, managing procurement, hiring and holding personnel accountable, and generally coordinating the day-to-day business operations.

3. Plan for Department Head Turnover

Many of Belchertown's departments rely heavily on the expertise of one or only a few staff. While the collected institutional knowledge of veteran employees is always an asset, it is in danger of being lost if there is no plan for succession when employees inevitably leave. We recommend that the select board, town administrator, and department heads begin taking steps to ensure that any future personnel transitions happen with the smoothest transfer of knowledge and minimal service disruption.

Maintain Updated Job Descriptions: We recommend that the town administrator engage with department heads and applicable collective bargaining units to discuss current duties, skills, and processes, potentially revise or eliminate old practices, and explore other opportunities to streamline operations. With job descriptions last updated in March 2013, these interviews could include discussions of whether changes in job duties are necessary.

Create Procedure Manuals: We recommend that the town accountant, treasurer/collector, and assessor work with their teams to develop written departmental policies and create procedures manuals. The purpose of a written procedures manual is to contextualize work activities within departmental goals, responsibilities, and legal requirements. A procedures manual outlines the specific steps required to accomplish the objectives spelled out in the policies, emphasizing the internal controls designed to ensure intended outcomes. Examples include the handling and turnover of cash receipts, reconciliations, purchase orders, payroll and vendor disbursements, grant administration, month- and year-end closing procedures, cyclical reviews, and property record card maintenance.

Without these documents, employees are often limited to on-the-job training examples without proper context. Manuals also help to maintain services when there are unexpected employee absences, and they support the training of new hires. Furthermore, outside auditors and credit rating agencies look favorably on communities with formal policies and procedures. While some policies have applicability within a department only, others, like turnovers or purchasing, apply universally and should be distributed accordingly.

Ensure Cross Training: We recommend that department heads cross train staff in each other's duties so that an individual employee's tasks can be completed during absences or vacancies. Cross-training employees and developing a plan for mutual coverage will prevent critical work from being overlooked due to absences.

Encourage Professional Development: We recommend that finance staff, including assistants and clerks, regularly attend annual classes and certification programs that are available through related professional associations, such as the Massachusetts Collectors and Treasurers Association (MCTA), Massachusetts Municipal Auditors and Accountants Association (MMAAA), and Massachusetts Association of Assessing Officers (MAAO). Participating in these types of trainings allows staff to benefit from their colleagues' experiences across the Commonwealth and develop relationships they can draw on to improve their own work and grow professionally.

4. Explore Shared IT and HR Operation Between Town and School

We recommend that Belchertown explore merging its information technology and human resource functions between the town and school district. Local officials appear receptive to consolidating IT and establishing a shared HR operation. By merging such operations and aligning their strategic plans, the town and school can benefit from shared resources and potential cost savings from not duplicating common processes through economies of scale. It also better positions the community to scale these services more readily, if need be.

In the communities that have consolidated town and school IT and/or HR services, there appears to be several characteristics that most contributed to their success. Leadership, especially by the town administrator and school superintendent, was critical to acquiring necessary buy-in from all parties and for moving the process forward. Also fundamental was the ability of the select board and the school committee, as well as management and staff, to trust one another and to work together toward unified goals. This collaborative spirit facilitated a broader, town-wide perspective for decision-making. Lastly, beyond individuals possessing the necessary skills to be competent in their new roles, key position vacancies facilitated the merger process.

5. Curtail use of One-time Revenues to Address Structural Budget Deficit

It is important for all those involved in the budget process to strive for a structurally balanced budget whereby recurring operating expenses are balanced against the town's recurring revenue sources. Belchertown historically appropriates a significant amount of onetime revenues to balance its annual operating budget. In the last three years alone, the town appropriated an average of nearly \$800k from its free cash and stabilization fund reserves to cover ongoing expenses. Continued use of these onetime revenue sources, especially free cash, during periods of economic volatility can set up a fiscal cliff if they can no longer be generated or replaced. In FY20, for example, Belchertown experienced a significant reduction in its free cash because of a reduction in excess local receipts.

To this end, we recommend that the Belchertown adopt a clear budget policy. At a minimum, a well-defined budget policy outlines the annual budget process, including the roles and responsibilities of

those involved, various timelines, and controls and other fiscal parameters for a balanced budget (i.e., use of onetime revenues). Such a policy should consider the following points:

- The annual budget as presented to town meeting should be balanced, meaning estimated expenditures are no greater than projected recurring revenues. Recurring revenue is total revenue less capital and debt exclusions and any other specific non-recurring revenue items (e.g., free cash, stabilization).
- Revenue projections should be conservative and based on the latest available trend data. Initial state aid should be projected at no greater than the prior fiscal year allocation, property taxes should be calculated in accordance with Proposition 2½ guidelines, new growth should be estimated on the advice of the assessors and at no greater than in the prior fiscal year, and local receipts, in total, should be projected as a percent of the prior year actuals.
- Departmental expenditure requests should fully fund operations for the entire fiscal year without supplemental funding once the fiscal year has begun, unless unforeseen, emergency, or extraordinary circumstances arise.
- Establish fiscal parameters through policy on use of free cash, stabilization, and debt (see recommendation 6).
- Monitor the budget throughout the year to measure performance. Budget-to-actual revenues should be reported at least quarterly to ensure timely budget adjustments, if needed, and thereby prevent any potential revenue deficit. Budget-to-actual expenditure balances should be reported monthly to ensure that the total of expenditures and purchase commitments in any account does not exceed the authorized budget for that account.
- The Town will take immediate corrective actions if at any time during the fiscal year expenditure or revenue estimates indicate a projected operating deficit by year-end. Corrective actions can include, but are not limited to, hiring freezes, expenditure reductions, layoffs, or use of contingency funds.

A sample annual budget process policy is included in the Appendix at the end of this report for reference.

6. Adopt Formal Financial Policies

To provide instructive guidance for promoting sound, consistent fiscal planning and effective financial management, we encourage the select board to adopt a set of formal financial policies. At minimum, the topics we recommend for Belchertown include:

- Antifraud
- Capital planning
- Disbursements
- Financial reserves
- Financial management team
- Forecasting
- Investments
- Procurement conflict of interest
- Reconciliations
- Revenue turnover
- Tax enforcement

As a model that could be converted for local adoption, Belchertown could look to the policy manual that we recently created for the Town of Clinton, which we are transmitting along with the report as a Word document. If the town wants to adopt further policy topics over time, it can review the other manuals we have posted: <https://www.mass.gov/consulting-reports>.

We suggest the town administrator review our policy manuals and seek input from the select board and finance committee on specific policy decision points, such as targets for reserve and debt levels, forecasting assumptions, and other specifics surrounding Belchertown's capital planning procedures and financing options. A consensus between the two boards is desirable. The policies that relate to day-to-day operations should be discussed with the financial management team, as well as the select board. Once any operational policy has been adopted, ensure that it is distributed to all applicable parties, including all relevant department heads. Lastly, adopted policies should be reviewed periodically and updated as needed.

7. Build Long Range Forecast

We recommend that the finance team, under the direction of the town administrator, consolidate the current revenue trending analysis and expenditure reports for the budget into a comprehensive multiyear forecast. A forecast will enable Belchertown to promote long-term financial health and strategize for capital investment and community development by allowing for various budget scenarios. It allows for the evaluation of the effect of budget choices, including wage increases offered via collective bargaining and the addition to or subtraction from existing town and school services. A well-developed forecast has the potential to provide surety and stability even more so in times of economic uncertainty like is currently being experienced.

8. Maintain Capital Improvement Plan

The maintenance of annual capital planning program is one of the most important responsibilities of municipal government. Done effectively, it is a tool for managing the risks that Belchertown will fail to cost-effectively maximize the value of its assets, maintain service continuity, protect the health and safety of employees and residents, support future development potential, and enhance the local quality of life. When making decisions on the annual budget proposal each year, the town administrator, select board and finance committee should have context of Belchertown's near and longer term capital needs.

With a comprehensive capital planning program shaped by clear, consistent standards and spending priorities, the town can more effectively direct funds to identified needs and make strategic plans based on agreed to long-term goals. Although the town's limited borrowing capacity or direct capital outlay margins may only allow for a minimal program, the review and prioritization of town capital

needs should be ongoing. For further guidance, our website provides a wealth of instructional material on capital planning, as well as a sample request form and manual here: www.mass.gov/info-details/municipal-financial-management-training-and-resources.

9. Submit Schedule A Timely to DLS

We recommend that the town administrator and town accountant ensure timely submission of Belchertown’s Schedule A. The Schedule A is a year-end statement of revenues, expenditures, and certain fund balances that is due by November 30. Communities that do not submit the report timely may have future local aid payments (regardless of fiscal year) withheld until it is submitted and accepted under [G.L. c. 58, § 18F](#).

Fiscal Year	Date Received	Date Accepted
2021	-	-
2020	02/15/21	05/03/21
2019	02/04/20	03/02/20
2018	12/18/18	01/17/19
2017	03/12/18	03/22/18

Belchertown’s Schedule A is historically received between December and February, but as late as mid- to late-April in the past (see table). DLS will begin withholding monthly local aid if not filed by February and any local aid will be forfeited if not received by August of that fiscal year with all future local aid withheld until it is filed.

10. Modernize and Expand Performance Review System to all Employees

Belchertown’s performance evaluation process, which was last revised in 2001, measures employees on a four-level rating scale across nine criteria. These criteria are adhering to safety requirements, following directions, working with others, customer service, dependability, technical knowledge, judgement and initiative, quality of work, and time management. Employees are granted certain points based on their rating scale score for each of the criteria and those whose total points “meet requirements” or greater in their performance are eligible to receive one step increase in their salary scale. Department heads are not included as part of the existing evaluation process.

Rather than a somewhat muddled, check-the-box evaluation process, we encourage the town administrator, department heads, and others as appropriate to conceive of an approach that encourages dialog and a one-on-one conversation between employees and their supervisors around individual and organizational goals. A well-conceived performance appraisal program can be a valuable tool when it involves constructive, one-to-one discussions between employees and their supervisors at regular intervals. While the goal includes assessing an employee’s strengths and providing feedback, the program should also encourage future performance by developing talents and addressing employee career goals. Such a constructive program can be a communication tool that supports organizational objectives by developing employee skills and proactively improving their talents. Like the existing approach, this process would withhold step and COLA increases for poor performers but might award compensated time for those who exceed expectations.

Such a constructive program can be used to support organizational objectives by developing employee skills and providing a framework to actively improve their talents.

11. Hold Regular Financial Management Team Meetings

We recommend that Belchertown establish a financial management team that meets on a monthly basis. With the town administrator as chair of the meetings, the rest of the team would include the accountant, treasurer/collector, and director of assessments. Many communities find financial team meetings effective for coordinating activities to meet interdepartmental objectives. They can be useful in identifying critical junctures and gaining input on early strategies to deal with anticipated fiscal events. These sessions also help to enhance dialogue, spur creative thinking, and assure attendees that important information is imparted to all at the same time. They also facilitate the collection and analysis of data that can serve as the basis for decisions in areas like debt limits, reserve fund levels, and annual budget guidelines.

12. Develop Refresh Cycle for all IT Software and Equipment

We recommend that the IT director develop a replacement cycle for Belchertown's IT equipment and software, so it can be refreshed or replaced according to the schedule, rather than when it fails or is no longer supported. Without consistent and timely upgrade and replacement schedules, security vulnerabilities may develop. Prudent lifecycle planning will not only ensure efficiency through functional software and equipment, but also enhance data security. Once the need for replacing or upgrading software and equipment has been determined, it can be factored in for budget planning purposes. Being able to anticipate replacement needs adds a measure of predictability to the IT planning process, allowing the town to be more proactive in the long term.

13. Develop an IT Disaster Recovery Plan

We recommend that Belchertown develop an IT disaster recovery plan in the event that critical data is destroyed. At its core, the town's a disaster recovery plan should address the following issues:

- Identify the maximum acceptable downtime in terms of workdays
- Create routine backup and storage procedures around downtime limitations
- Create a detailed procedure to follow in the event of a minor or major data loss event
- Schedule regular training for staff
- Test and update the plan regularly

APPENDIX

Sample Annual Budget Process Policy

PURPOSE

To promote transparency, procedural consistency, and fiscal sustainability, this policy establishes guidelines for developing, documenting, and adopting the annual budget. As the Town’s central policy document, the budget prioritizes annual and longer-range objectives and is the means for turning strategic plans into fiscal reality. It constitutes a contract between the Town and its residents, explaining how funds are to be raised and allocated for the delivery of services.

APPLICABILITY AND SCOPE

Applies to:	<ul style="list-style-type: none">▪ Board of Selectmen, Financial Advisory Committee, and School Committee in their budget decision-making roles▪ Town Administrator, Town Accountant, and Board of Assessors job duties▪ All department heads and the boards and committees that have spending authority (all referred to here as “department heads”) in their budget planning duties
Scope:	<ul style="list-style-type: none">▪ Annual budget development, documentation, and adoption processes

POLICY

Town officials will work together to prepare a balanced budget for the approval of voters at annual town meeting. The creation of the budget will be guided by and reflect all the other financial planning policies adopted by the Town and contained in its policy manual. Town meeting has the sole authority to appropriate funds for the budget, except for specific instances where appropriation is not required by statute (such as grants, gifts, and offset receipts). Furthermore, only a subsequent annual or special town meeting vote can amend any previously approved appropriation.

The Town Administrator is responsible for developing the annual budget and will do so according to the vision, goals, and strategic plans laid out by the Select Board. As the advisor for the interests of town meeting voters, the Financial Committee will make recommendations on all finance-related warrant articles, including the annual budget article. The Town Administrator will analyze departmental submissions for the annual capital budget. To ensure early knowledge of the school’s expenditure projections and smoothly integrate its budget, the Town Administrator will cultivate a strong, communicative relationship with the School Superintendent. It is the goal of all these parties to work in a cooperative manner to present voters with a consensus budget.

All parties applicable under this policy are expected to comply with the milestone deadlines in the annual budget calendar when they are set each year. As part of this, department heads will timely provide the Town Administrator with all information needed for the creation of an informative budget document, which will be made available to voters in advance of town meeting.

A. Budget Goals

At minimum each year, the Town's budget goals will include the following:

General fund – The goals for the general fund budget include preserving core services, fulfilling required mandates, and maintaining or enhancing the local quality of life, while also ensuring reserve levels that will allow flexibility to respond to changes in the economy and other unanticipated issues that could potentially affect the Town's fiscal health.

Capital investment — To pay for items in the capital plan, the Town will strive to achieve and maintain the annual capital funding levels spelled out in the Capital Planning and Debt Management policies. Additionally, the Town will plan to regularly fund, within departmental operating budgets, the maintenance costs for equipment, facilities, infrastructure, and other capital assets to maximize their useful lifespans.

B. Tax Levy Considerations

The Town Administrator will evaluate the estimated tax rate for the forthcoming year based on level of affordability, including the estimated average single-family tax bill as a percentage of the Town's per capita income. The Town Administrator will provide this analysis to the Select Board and Finance Committee when presenting them with the proposed budget.

C. Principles for Balanced, Sustainable Budgets

The Town Administrator, with the Town Accountant's assistance, will prepare an annual budget proposal for the approval of the Select Board and Finance Committee and eventual inclusion in the annual town meeting warrant. Along with the proposal, the Town Administrator will also report to these boards on the Town's methods of operation, program service delivery, resource expenditures, and workforce allocations. To assure the creation of a budget that is both balanced and sustainable for future years, the following principles will apply:

1. Recurring revenues (e.g., property taxes, vehicle excises, service fees and charges, interest earnings, state aid) will be sufficient to support recurring expenditures (e.g., employee wages and benefits, materials, supplies, contracted costs, debt service).
2. Because free cash is not a current or recurring revenue source, it should not be relied on to balance the operating budget, which is, in effect, what happens when it is applied to reduce the tax rate on the tax recapitulation sheet.
3. The Town will avoid using any one-time revenue source to fund ongoing services unless necessitated by exceptional circumstances, and any such usage will require the Town Administrator to document a plan to replace this source in future years.
4. The Town Administrator will review fee schedules every year and propose increases when necessary to ensure coverage of service costs.
5. All departmental budgets will be prepared to reflect the full costs of providing the services and list the proposed and prior-year actual allocations of full-time-equivalent employees.
6. The Town will not underfund any fixed, recurring costs in the annual town meeting budget with the expectation that budget supplements will be available during the year but will instead fund them at the realistic amount necessary to complete the year.
7. When a forecast predicts annual revenues to exceed annual expenditures, the following options should be considered for the excess revenue:
 - building up reserve fund target levels

- reducing debt
 - advancing deferred capital expenditures
 - funding the other postemployment benefits liability
 - accelerating payments on other long-term obligations
 - restoring services reduced from prior years
 - new initiatives
 - tax relief
8. The Board of Assessors will vote to authorize a contribution to the overlay account to offset the Town’s liability for unpaid property taxes caused by abatements and exemptions. This amount shall be based on:
- Current balance in the overlay account
 - Three-year average of granted abatements and exemptions
 - Cases pending before, or on appeal from, the Appellate Tax Board
 - Timing of the next five-year certification review by the Division of Local Services

D. Budget Calendar

The annual budget process begins in November with the Town Administrator’s forecast presentation to a joint meeting of the Select Board and Finance Committee, and it ends with annual town meeting in May. The Town Administrator will coordinate a budget process that enables early identification and review of major policy issues and allows adequate time for public input and analysis of options, leading to the timely publication of the annual town meeting warrant.

At the start of the process each year, the Town Administrator will establish specific calendar due dates for each of the sequential tasks listed in the table below, at minimum, and distribute the updated calendar to all applicable parties.

Month	Date	Milestones
October		<ul style="list-style-type: none"> ▪ Budget schedule to departments ▪ Capital project requests due from departments
November		<ul style="list-style-type: none"> ▪ Cost-of-living adjustment (COLA) ▪ Town Administrator and Town Accountant meet with School Committee and Superintendent ▪ Board of Selectmen (BOS) and Finance Committee hold first budget meeting and review Town Administrator’s forecast ▪ Distribute budget instructions to departments
December		<ul style="list-style-type: none"> ▪ Town Administrator and Town Accountant meet with School Committee and Superintendent ▪ All money articles due (hard copy to Town Clerk and electronic to Town Administrator) ▪ Departments enter their budget requests in Munis ▪ Town Administrator identified capital project recommendations ▪ Town Administrator forwards department budgets to Finance Committee
January		<ul style="list-style-type: none"> ▪ BOS and Finance Committee hold joint budget review workshop ▪ Departments’ annual reports due ▪ Annual town meeting (ATM) warrant closed

Month	Date	Milestones
February		<ul style="list-style-type: none"> ▪ Finance Committee budget recommendations due ▪ Distribute personnel spreadsheets with next-year COLAs to departments ▪ Departments return COLA spreadsheets to Town Administrator ▪ Special town meeting (STM) warrant closed
March		<ul style="list-style-type: none"> ▪ Last day for ballot questions ▪ BOS sign ATM & STM warrants ▪ ATM and STM warrants to the printer ▪ Annual town report to the printer ▪ Last day to post STM warrant (14 days before)
April		<ul style="list-style-type: none"> ▪ Last day to post ATM warrant (7 days before) ▪ Warrant booklets and annual town report available for voters ▪ Hold annual and special town meetings ▪ Hold annual town elections
May		<ul style="list-style-type: none"> ▪ Town Clerk send any certified bylaw votes to Attorney General and any override or exclusion referendum voting results to DLS

E. Budget Document

The Town Administrator will produce a transparent and reader-friendly budget document that presents short- and long-term strategic objectives and explains fiscal challenges. It will incorporate narrative information on departmental and organizational goals, the plans and resource allocations needed to meet them, graphical information about available finances, analyses of revenues and expenses, and outstanding debt, and summary of the Town's capital plan.

REFERENCES

[M.G.L. c. 39, §§ 10, 16](#) [M.G.L. c. 40 § 6](#) [M.G.L. c. 41, §§ 15A, 59, 60](#) [M.G.L. c. 44, §§ 33A, 33B](#)
[M.G.L. c. 58, §§ 25, 25A](#) [M.G.L. c. 59, § 21C](#) [M.G.L. c. 71, §§ 16B, 16B½](#)

Division of Local Services Best Practice: [Annual Budget Process in Towns](#)

Government Finance Officers Association Best Practices: [Achieving a Structurally Balanced Budget](#), [Working Capital Targets for Enterprise Funds](#), and [Distinguished Budget Presentation Criteria](#)

EFFECTIVE DATE

This policy was adopted on [date].

ACKNOWLEDGEMENTS

The following individuals were interviewed in preparing this review:

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Ronald E. Aponte, Select Board
Nicholas W. Pucel, Select Board
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Lisa M. Banner, Treasurer/Collector
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