

Town of Princeton Financial Management Review

Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the town of Princeton.

We have based our findings and recommendations on site visits by a technical assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits, the team interviewed the town accountant, collector, treasurer, assessors and staff members in each of these offices. The team also interviewed the executive secretary, members of the board of selectmen and advisory committee.

Division staff also examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, the FY98 audit report and management letter, town meeting minutes and other financial documents.

In reviewing the existing financial management, we have focused on: (1) the town's budget and capital planning processes, and (2) the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report when formulating overall strategies for improving the town's financial management. The recommendations in this report can be implemented without major changes in the current structure of town government, provided that there is sufficient cooperation among town boards and officials.

October 1999

OVERVIEW**Background**

Princeton is a small, residential community located about 15 miles north of Worcester and 50 miles west of Boston. The town is governed by a three-member board of selectmen and an open town meeting. Princeton occupies a land area of 35.8 square miles and has a population of about 3,500. Physically, the most distinguishing feature of Princeton is Mt. Wachusett, the highest mountain in Massachusetts east of the Connecticut River.

From 1800 until after the Civil War, farming and small manufacturing firms were characteristic of Princeton. With the completion of the Boston, Barre and Gardner railroad in 1871, however, the town began to thrive as a summer resort. At the height of its popularity as a resort community, Princeton attracted thousands of tourists and had twelve hotels.

During the 1880s, the town benefited greatly from the foresight and generosity of one wealthy resident, E. A. Goodnow. Mr. Goodnow donated money to build the town's library and town hall and saw to it that the present town common area was preserved as a public park. The town hall and library buildings are of great historical significance and do much to define the character of the town.

The advent of the automobile and the proliferation of highways brought an end to the golden era of Princeton as a destination resort area. Today none of the large hotels remain, however, the area continues to be popular for day trips to the Wachusett Mountain State Reservation and the Wachusett Mountain ski area. Although the town has changed considerably since the turn of the century, it remains a very desirable residential suburb of Worcester.

Competing Needs and Revenue Constraints

Today, like all communities in Massachusetts, Princeton must carefully balance its operating and capital needs within the revenue constraints of Proposition 2 ½. After a period of deferring capital and maintenance projects, the town has several significant capital projects in progress and a couple of planned projects on the horizon. Currently, the town's ongoing projects include renovations to the library and the upper common area, and construction of a new highway facility. In addition to these building projects, the town has been aggressively funding a five-year road reconstruction program. In the near future, the town will face important decisions regarding construction of a new regional high school building and the renovation of town hall.

Given the potential impact of these projects on the town's tax rate, it is understandable that town officials seek to plan, fund and manage these projects in the most efficient way possible. In Princeton, the residential property class comprises nearly 97% of the total assessed value of all property and bears a corresponding share of the tax burden. With this limited commercial/industrial tax base, the town depends on residential

property taxes to be the chief funding source for the town's operating budget, school assessments and capital improvements. Many town officials we interviewed believe that residential tax bills are high, and expressed concern about adding to the residential tax burden. In **Appendix 1** we show Princeton and nine comparable communities based on population and property wealth. **Appendices 2 – 6** show average tax bills and other assorted financial data. Given the capital projects facing the town, some tax rate impact is probably inevitable. However, to minimize the impact on taxpayers will require efficient financial operations and coordinated management.

Changing Demands on Town Government

Like many New England small towns, Princeton has relied extensively on volunteer and part-time efforts of its citizens. Historically, numerous boards and officials were elected to oversee various aspects of town government, as the need arose. For over two hundred years this governmental structure served the town well. In recent years, however, the town has grown and the issues facing local governments have become more complicated. Today myriad state and federal laws and regulations exist that cut across virtually all aspects of municipal finance. Environmental, public health and land use issues also often transcend the traditional boundaries of responsibility of any one board or official. With citizens increasingly demanding both good service and accountability for their tax dollars, the need to communicate information among various boards and officials and to coordinate their actions has never been greater.

Over the last ten years, the town has taken several steps to improve the coordination of town government and strengthen its management capacity. Toward this end, the town appointed a committee to review the need for a town administrator. The report concluded that the town's numerous elected boards and officials created a fragmented government where no single board or official was responsible or accountable for the overall performance of town government. The committee recommended that the town appoint a full-time, professional executive secretary to work under the direction of the selectmen. It also suggested that several elected administrative positions such as the tax collector, treasurer and town clerk be changed to appointed positions.

In the early 1990s, the town acted on these recommendations and appointed its first executive secretary. It also changed the positions of collector, treasurer and town clerk from elected to appointed. Together, these changes were aimed at centralizing authority under the town's chief executive officers, the selectmen, and fostering cooperation among town boards and officials. While these were good first steps to improving the town's management, we have several recommendations designed to formalize the role of the executive secretary in financial management and the budget process. Our recommendations are intended to institutionalize an appropriate administrative structure to ensure that there is good communication and high levels of cooperation regarding the town's financial management. With timely and accurate financial information and analysis from the professional administrative staff, the town's policy-making bodies, the selectmen and advisory committee, will be better able to make informed decisions.

Conclusions

To hold down the costs and tax rate impacts of the town's ongoing and planned capital projects will require the carefully coordinated efforts of the various town officials, boards and committees. It is important that the town have a structure in place so that the expertise of its professional staff (e.g., accountant, assessors, collector, treasurer, and executive secretary) can be brought to bear on the decisions to be made by the town's volunteer and part-time policy-makers. To achieve this will require that the executive secretary serve as the conduit for communication among the various boards and officials and the focal point for coordinating initiatives that cut across the several boards or officials. With these objectives in mind, we present several primary recommendations designed to promote a "team approach" to financial management and capital planning.

The executive secretary should be responsible for coordinating financial management and the budget process. The town currently has no bylaws that establish the duties of the executive secretary with respect to financial management. As the town's full-time, professional administrator who oversees the daily operations of the town, the executive secretary is in the best position to facilitate communication and cooperation among town departments. Consequently, we recommend the town codify the financial management responsibilities of the executive secretary by adopting new bylaws delineating these responsibilities (**See recommendations on Overall Financial Management on page 5**).

The town should establish a financial management team consisting of the financial officers and chaired by the executive secretary. The purpose of this team will be to provide policy-makers with the financial information and analytical support they need to develop sound financial policies. Disseminating timely and accurate information among town officials and coordinating financial operations are crucial to sound financial management.

The board of selectmen should become more active in the budget process. The selectmen have traditionally played a minor role in the budget process, despite their broad fiduciary responsibility for the town's financial condition. For example, they enter into contracts on behalf of the town, review and sign all expenditure warrants, vote on tax classification and place overrides and debt exclusions on the ballot. A limited role in the budget process makes it difficult for the selectmen to be responsible for the town's fiscal health and increases the risk that the selectmen and advisory committee may pursue conflicting policies.

The town should appoint a Capital Improvements Program (CIP) committee to develop a capital budget and five-year capital improvement program. Although the advisory committee's 1997 report on capital needs does much of the groundwork necessary to prepare a CIP, the town needs an ongoing structure to rate and prioritize projects objectively, develop cost estimates and financing options and compile an annual capital budget to submit to town meeting. A properly developed CIP informs citizens of the community's capital needs and makes them aware of essential capital needs that may be deferred due to financial constraints.

The town should prepare written financial policies. Several officials are concerned that membership changes on town boards and committees cause changes in the town's financial policies. The town can promote greater continuity in the planning and budgeting processes by establishing written financial policies. Officials should consider written policies regarding the level of free cash and stabilization fund reserves and how these reserves are to be used.

In the body of the report that follows we provide a more detailed discussion of the above recommendations, as well as specific recommendations regarding the town's financial offices. Our most significant recommendation for the financial offices is that the town purchase new accounting software. There are several problems with the current software and it is difficult to obtain support from the vendor's headquarters in the mid-west. The current town accountant resigned early this summer after holding this position for two years. We have concerns that continued use of the current accounting software may make it difficult to retain a replacement.

OVERALL FINANCIAL MANAGEMENT

Finding 1: Coordinating Financial Management

The executive secretary is appointed by the selectmen and serves as the town's full-time professional administrator. He administers the daily operations of the selectmen's office and advises and directs department heads in administering town functions. As stated earlier, the executive secretary has not had a strong role in coordinating financial management.

In most communities with a selectmen/administrator form of government, the professional administrator is responsible for general financial management and budget coordination duties. In this role, the administrator is responsible for facilitating communication and fostering cooperation among the various town departments, with the goal of facilitating efficient financial operations and assisting policy makers in developing cohesive financial policies.

In our experience, this model has proven effective in other communities across the state. Therefore, we have designed the following recommendations to strengthen the important role we believe the executive secretary should play in the town's financial management.

Recommendation 1: Coordinating Financial Management

We recommend that the town adopt a bylaw that establishes the financial management responsibilities of the executive secretary.

The July 1997 edition of the town bylaws makes no reference to the duties and responsibilities of the executive secretary. Though the selectmen recently approved a job description for the executive secretary charging him with general financial management and coordination of the budget process, we believe a bylaw will more firmly establish this responsibility.

The duties of the executive secretary should include, but not be limited to, the following:

- Through regular meetings of the financial team (**see Financial Management Team Recommendation below**), coordinate financial operations by facilitating communication and by identifying areas where additional resources may be needed to accomplish important financial goals.
- Coordinate the performance of financial analyses and develop recommendations for the selectmen pursuant to the analyses.
- Manage the town's budget process, including coordinating annual revenue estimates, analyzing operating budget requests, and recommending financial

strategies to the selectmen and advisory committee (**see Budget Process section**).

To assist the executive secretary in coordinating financial management, we recommend that the town establish a financial management team through the adoption of a bylaw. We suggest that this financial management team include the executive secretary, accountant, collector, treasurer, school business manager and a representative from the assessors. The financial management team would be chaired by the executive secretary and meet on a regular basis throughout the year. The bylaw would formalize the participation of the above officials in the financial team process.

The financial management team would assist the executive secretary and policy-makers in a number of areas. Generally, it would combine the information from each financial office to provide a comprehensive picture of the town's financial health at any point in time. It would also assist in long-term fiscal planning by analyzing the impact of future events on the financial condition of the town (e.g., collective bargaining agreements, education reform, prospective debt issuance, etc.)

We want to emphasize that our recommendations are not intended to place the executive secretary or finance officers in a policy-making role. Their roles should be advisory and administrative: providing information to boards and committees to be used in policy development, and assisting in the coordinated implementation of policies. This recommendation is not intended as a fundamental organizational change with all department heads reporting to the executive secretary. Rather, it is intended to provide formal channels of communication and a vehicle for coordinating financial management.

Finding 2: Annual Audits

An audit is an independent examination of a municipality's financial systems, procedures, transactions and account balances that determines whether a town's financial statements are "fairly presented." The presence of the auditor, an outside professional, is an incentive for financial officials to maintain sound procedures and accurate records.

Auditors recently completed the town's audit for the fiscal year ending June 30, 1998. The town's last audit prior to this most recent one was for the fiscal year ending June 30, 1995. According to the executive secretary, the town's policy is to conduct an audit every three years.

Recommendation 2: Annual Audits

We recommend the town conduct audits annually rather than every three years. While conducting annual audits will require additional funds, the cost for each audit is likely to be less than what the town pays now. Audits conducted every three years involve more work for the auditor, and more work means more cost to the town. For example, when audits are conducted every three years, the auditor cannot rely on the accuracy of the prior year's ending balances, since that year was not formally audited (nor was the year before it). Consequently, it takes more time and effort to verify the accuracy of beginning balances, and this additional work is reflected in the auditor's fee.

Towns that conduct annual audits usually contract with an auditor for a few years. As a result, the town can use the auditor as a resource to help resolve issues raised in the management letter or other difficult technical issues. Annual audits will enable local officials to act more quickly to take corrective action when problems are detected. This not only improves the financial condition of the town, it helps local officials demonstrate to the public that the government's assets are safe and in responsible hands.

THE BUDGET PROCESS

Finding 1: Working Toward a More Integrated Process

Historically, the budget process has primarily been the responsibility of the advisory committee, a part-time board. In past years, the advisory committee has prepared preliminary revenue estimates, reviewed initial budget requests and interviewed department heads. The advisory committee then conducted deliberations and published its budget recommendations.

While the advisory committee has devoted much time and attention to the budget process, we found this process to be somewhat fragmented. For example, though the selectmen are the town's chief executive officers with broad fiduciary responsibilities, they have had little involvement in the budget process. Also, the executive secretary and financial officers have not played a significant role in the budget process.

The "team approach" to budget preparation involves the year round interaction of many boards, committees and officials. This approach is the key to making sure critical information is communicated to the appropriate parties during the budget process. It will help the town adopt cohesive policies and guard against the possibility of various boards and committees pursuing conflicting policies.

Recommendation 1: Working Toward a More Integrated Process

We recommend that the executive secretary coordinate the budget process. As the full-time professional staff member with overall administrative responsibilities, the executive secretary is the logical choice to serve as the focal point during the budget process. In this role, the executive secretary will work as a liaison between the selectmen and the town's other policy-making bodies. He will also solicit technical and financial information from the financial management team and communicate it to the town's policy-making bodies.

We recommend the financial management team periodically hold joint briefing sessions on the town's current and projected financial condition for the selectmen, advisory committee, school committee and other policy-making bodies. Holding these sessions at the onset of the budget process will foster a common and accurate understanding of the town's financial outlook among the town's policy-making bodies. Policy-makers can then use this information as a starting point for discussions at subsequent meetings to determine the town's financial policies.

Conducting joint meetings of these policy-making bodies to identify strategies early on in the budget process has several advantages. First, it reduces the chances for surprises at critical junctures such as town meeting or tax rate setting time, where one board or committee may pursue a policy direction that undermines the planning efforts

of another board or committee. Second, it gives town leaders ample time to negotiate compromises in an effort to reach a consensus on the town's policy direction prior to town meeting. Finally, identifying these policies early on in the budget process ensures that any associated funding requirements can be incorporated into the budget process.

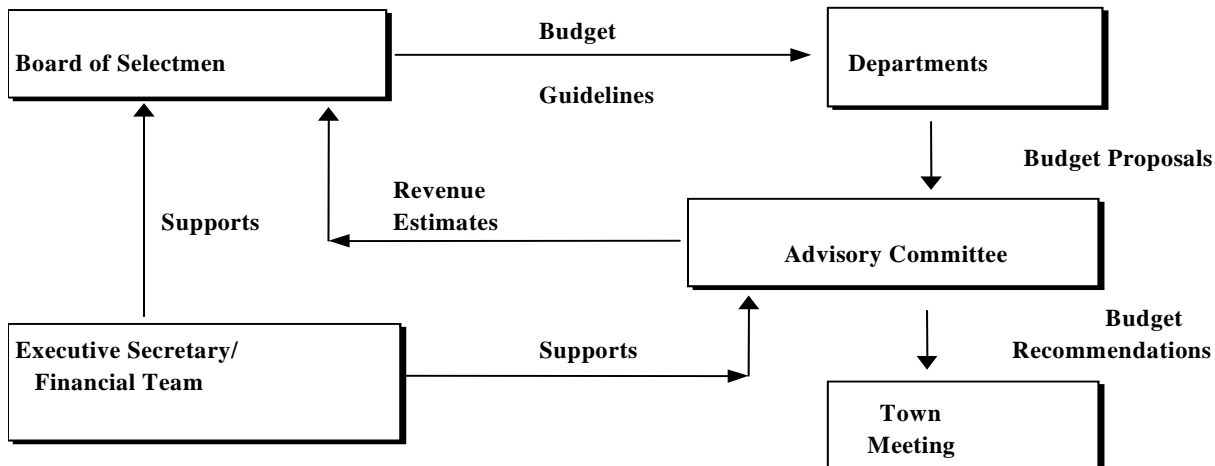
This recommendation is not intended to impinge on the advisory board's important role as advisor to town meeting. Rather, the intent is to provide the administrative and analytical support the advisory committee, selectmen and other boards and committees need to establish and implement coordinated financial policies.

We further recommend that the executive secretary establish a formal budget calendar, including a clear timeline of events and thorough descriptions of the roles of town officials in the budget process. The budget process should begin in the fall with the recommended briefing sessions for policy-makers on the town's financial condition. These sessions should cover estimated revenues based on an analysis of the town's past and current collections and any known or proposed changes (e.g., fee increases, debt exclusions) that will affect the town revenues. Estimates of local fixed costs should also be prepared. These should include such items as debt service, insurance, and deficits that must be raised (e.g., operating, overlay, snow & ice). The combined revenue and fixed cost estimates will provide an indication of how much money is available to fund operating budgets in the coming fiscal year.

Based on the amount available for operations, the selectmen and advisory committee should jointly develop budgetary guidelines for departmental requests. These guidelines should provide parameters to department heads to assist them in preparing budgets that will be compatible with the town's overall financial goals.

After receiving the budget guidelines jointly issued by the board of selectmen and the advisory committee, the department heads should complete their budget requests and return them to the executive secretary. He can then compile the requested budgets and provide a first level of review for the selectmen and advisory committee. The work of the executive secretary in this regard can provide the selectmen and advisory committee with a more focused starting point when considering important financial issues. Once budget requests have been compiled and reviewed by the executive secretary, they should be forwarded to the advisory committee.

While the advisory committee conducts its budget hearings, the financial management team should continue to refine the initial revenue and fixed cost estimates as new information becomes available. Any changes should be communicated to the advisory committee so they can be reflected in the committee's final deliberations. After its final deliberations, the advisory committee should meet with the selectmen to discuss the budget in an effort to reach consensus on proposed spending in advance of town meeting. **Diagram 1** depicts how this proposed budget process should flow.

Diagram 1**Town of Princeton****Proposed Budget Process****Finding 2: Preparing Revenue and Expenditure Estimates**

As stated earlier, members of the town's financial management team should become familiar with the revenue/expenditure estimating function of the budget process. Revenue/expenditure forecasting is the essential first step in the annual budget process, and can be used to determine whether a community should reduce, level fund or expand services.

From our interviews with town officials, it appears that in past years, only a small group of town officials were involved in preparing revenue/expenditure estimates. The chairman of the advisory committee was usually involved in this process, as well as the former executive secretary. These estimates were used primarily by the advisory committee during its annual budget deliberations. The board of selectmen or other town financial officers had little involvement in this process.

Recommendation 2: Preparing Revenue and Expenditure Estimates

We recommend that the financial management team make revenue/expenditure forecasts available to policy-makers in the early stages of the town's budget process (November or December). Multi-year revenue and expenditure forecasting should also be used to evaluate budget requests with multi-year impacts and to develop long-range financial plans. Used in conjunction with a well-developed capital plan, multi-year forecasting will also help the town determine whether capital projects should be funded from current revenues, the issuance of new debt or debt that is excluded from the limits

of Proposition 2 ½. When preparing these estimates, either for long range planning or the annual budget, we recommend members of the financial management team keep the following guidelines in mind.

The typical revenue and expenditure forecast consists of a summary identifying all of the major revenue and expenditure centers of the community. For example, towns primarily raise revenues from the following sources: property taxes; state aid; local receipts; and other available funds (free cash, the stabilization fund, and miscellaneous revenue and other funds (federal and state grants, gifts, funds from the sale of assets, insurance proceeds and transfers from other town accounts).

There is no “tried and true” formula for projecting revenues. However, the key to making good projections includes the following considerations:

- **Concentrate on the revenue sources that generate the most revenue within a particular fund**—In the general fund, the property tax is the largest single source of income. Therefore, it is important that this figure is as accurate as possible. Usually it does not pay to spend a great deal of time on minor revenue sources that will not have a substantial impact on the fund.
- **Rely on historical data in order to establish a trend in revenue collection**—This information provides actual collections during previous fiscal years and is the basis for how trends in revenue collections are determined.
- **Account for seasonal or irregular fluctuations in past collections of each revenue source**—In a particular fiscal year, a town may receive a one-time grant for a specific purpose. Revenue estimators need to take this into consideration so as not to over estimate revenues for the upcoming fiscal year.
- **Project each revenue source in a conservative manner**—Revenue projections should be as accurate as possible, however, it is important to the revenue projection process to underestimate rather than overestimate revenue projections. The main reason for this is that once revenues are estimated and appropriated for expenditure, it is extremely difficult to go back to the chief policy-makers and town meeting and tell them that there will not be enough revenue to cover the estimated expenditures.
- **Use good judgment**—Revenue estimation is more an art than a science. Often, it is up to the financial team and executive secretary to use their best judgment in estimating a realistic figure.

Expenditures can be summarized as school expenditures, municipal departmental expenditures, employee benefits, debt service, reserves, state and county charges and other amounts to be raised. To project expenditures, we recommend a “maintenance budget” approach to forecasting. By this we mean projecting what it costs to maintain the same level of staffing and mix of services in the future.

The revenues are grouped together and added to provide a total estimated annual revenue forecast for that year. The cost centers are grouped together below the revenue total and are added to provide a total estimated annual expenditure forecast. A simple calculation, subtracting estimated annual expenditures from estimated annual

revenues, provides a community with a projected annual surplus or deficit. That surplus or deficit then shapes a municipality's policy decisions.

The assumptions upon which projections are made change with time. Therefore, it is necessary to periodically update completed forecasts with current information in order to keep the forecasts useful.

Finding 3: Establishing Financial Policies

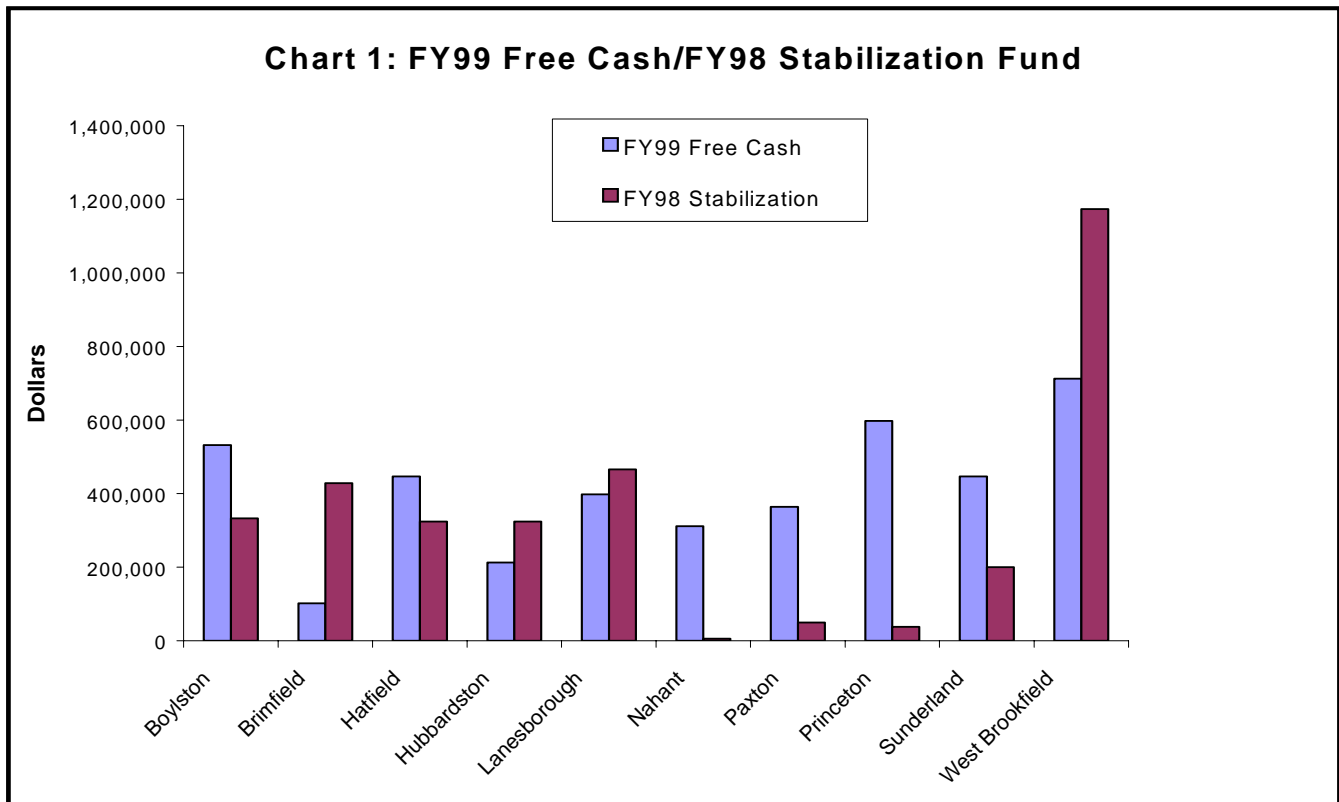
Princeton officials are concerned that the town changes its financial policies from year to year. According to these officials, changes in membership on various town boards and committees are a significant factor in causing policy shifts and alterations.

Recommendation 3: Establishing Financial Policies

We recommend the town prepare written policies that provide a solid framework for budget decisions and promote continuity in the planning and budgeting processes. Since the budget allocates scarce resources among many competing needs, it implicitly establishes the town's financial policies. However, in a good budget, these fiscal policies are stated clearly and explicitly so that those reviewing the budget can readily understand, discuss and debate these policies.

The town should consider policies regarding the level of free cash and stabilization fund reserves and how these reserves are to be used. For example, it is prudent to avoid using these reserves for operating expenses as they are not "recurring" revenue sources. Maintaining free cash balances in the area of three to five percent of the budget provides funding for unforeseen or emergency expenses, reduces the need for cash flow borrowing and demonstrates to bond rating agencies that a community is living within its means.

The town may want to bolster the stabilization fund by requiring that any amount of free cash that exceeds three to five percent of the budget be transferred to the stabilization fund. **Chart 1** shows that out of the comparison group, there are only two communities that have less money in the stabilization fund than Princeton. On the other hand, Princeton has the second highest amount of free cash of all the comparison communities. In all likelihood Princeton will soon have to fund its share of the new regional high school. Therefore, the town should consider building the stabilization fund more aggressively. This may help reduce the amount to be borrowed and cushion the impact on the tax rate.



Augmenting the stabilization fund with free cash is a wise policy since all monies remain in the stabilization fund until appropriated by a two-thirds vote of town meeting. In the event of an economic downturn, the town can count on the availability of money in the stabilization fund. Free cash, on the other hand, is an available fund that might not recur in the next fiscal year if operating results are not favorable.

Debt management is another area where financial policies make sense. Some communities set limits on debt service (principal and interest costs) as a percentage of the annual operating budget. Others set aside a percentage of operating revenue for routine capital purchases and maintenance (e.g., police cruisers, public works equipment). Essentially, effective debt management policies require the balancing of competing claims against the current annual budget and future annual budgets.

Finding 4: Establishing a Capital Improvements Program Committee

In 1997 the advisory committee prepared a long-range capital plan for fiscal years 1998-2008. This plan provides cost estimates and timelines for facility and infrastructure improvements and equipment purchases. By preparing this detailed outline of improvements, the advisory committee has completed much of the groundwork for the town's CIP. However, in order for the town to have a complete long-range CIP, there are other elements of the plan the town needs to implement.

The first step in preparing a CIP entails deciding which projects are the most important. The advisory committee plan provides a detailed list of proposed projects based on input from department heads and advisory board deliberations. However, the plan does not clearly state which projects are most critical and how projects were scheduled for completion. If limited funding is available for the capital budget, the absence of clear priorities makes it difficult to decide which projects must be put off.

Due to the dynamic and evolving nature of a town's capital needs, it is important that the capital plan be reviewed periodically throughout the year and updated as needed. While the advisory committee's 1997 plan seemed to be a comprehensive list of needs at the time, the plan has not been updated to reflect new or revised needs.

Another significant element of the CIP is the annual capital budget. Though annual town meeting warrants in Princeton contain several articles for funding capital improvements, town officials say the town does not prepare a formal capital budget on an annual basis. In fact, town officials we interviewed had differing opinions on the extent to which the town relied on the 1997 plan when funding capital items.

Recommendation 4: Establishing a Capital Improvements Program Committee

We recommend that the town establish a capital improvements program (CIP) committee to develop a comprehensive capital plan and submit an annual capital budget to the selectmen, advisory committee and town meeting. The town can create this committee through the adoption of a town bylaw (MGL Chapter 41, Section 106B).

The capital planning committee should develop a multi-year capital plan and annual capital budget for all town departments (see the Department of Revenue's workbook: "Developing a Capital Improvement Plan"). These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (current revenue, debt or debt excluded from the limits of Proposition 2 ½) for each project.

A complete CIP provides an objective evaluation of each project in relation to other projects and determines their relative importance. Projects can be ranked based on criteria such as whether or not they are critical to public safety, public health or are legally required or whether they will replace or improve an obsolete facility. In making these decisions, the committee needs to also consider which projects benefit the most people in the community (See sample rating sheets in "Developing a Capital Improvement Plan").

The capital budget reflects the items in the capital plan that will be presented to town meeting for funding. The capital budget can be included as a separate capital improvement section within the annual budget. In order to prepare a yearly capital budget, officials must identify the most appropriate means of financing these projects. Some of these options include financing capital with current revenues, issuing bonds, or a Proposition 2½ debt or capital outlay exclusion. The town may also want to seek non-tax levy sources of funding such as federal and state aid, private contributions,

user fees or betterments. Regardless of funding ability, annual presentation of a capital budget to town meeting has merit. It serves to inform citizens of the community's capital needs and makes them aware of essential capital needs that may be deferred due to financial constraints.

In many towns, CIPs are initially developed and never reviewed after that, or modified without full review. Though the advisory committee has shouldered a large portion of the burden of preparing an initial CIP, it already has its work cut out for it advising town meeting on the budget and other areas of finance. A separate committee, with an advisory committee representative, would be better suited for the ongoing task of maintaining the town's CIP.

Finding 5: Appointing a Building Committee for the Highway Facility

Town meeting has appropriated funds for site assessment, design and construction of the highway facility. However, some town officials say they are unaware of how much has been spent from these appropriations. They also say they have received little, if any, information regarding any work performed on this project.

The highway superintendent says he is more or less in charge of this project and that town volunteers have performed some preliminary work on this project.

Recommendation 5: Appointing a Building Committee for the Highway Facility

We recommend the town appoint a building committee to coordinate the construction of the highway facility. There is no statute requiring the town to appoint a building committee. However, since work on the facility is already in progress and some town officials need more information about the project, we think it would be in the town's best interest to establish a building committee.

There are no laws regarding the committee's responsibilities, though building committees commonly select engineers and building contractors, make periodic status reports to town officials and track expenditures from the appropriations. Since the highway superintendent has knowledge of the needs of the department and has already been involved with the project, he could serve the committee as a valuable resource.

Finding 6: Role of the Advisory Committee in Transferring Funds

The management letter accompanying the FY98 audit notes that the May 19, 1997 annual town meeting warrant listed salaries and expenses separately for the various town departments. The warrant, however, states that town meeting is actually voting on each departmental subtotal. Traditionally, the advisory committee approves transfers between a department's salary and expense accounts as they become necessary. We believe that voting on a subtotal, while also listing salaries and expenses separately in the warrant, creates confusion regarding the binding amounts

appropriated for each department. If only the subtotal were legally binding, it would not be necessary for department heads to seek advisory committee approval for transfers.

Recommendation 6: Role of the Advisory Committee in Transferring Funds

We recommend that the advisory committee discontinue the practice of approving transfers between salaries and expenses. MGL Chapter 44, Section 33B vests appropriation transfer powers with the town meeting. Therefore, it is doubtful whether the town meeting can delegate that power to the advisory committee or anyone else.

To avoid confusion, the town should either vote salaries and expenses separately for each department or consider submitting the budget to town meeting as a single appropriation for each department.

REVIEW OF FINANCIAL OFFICES

Accountant's Office

The town accountant's chief responsibility is to maintain the municipality's financial records. This involves maintaining the general ledger and producing year-end reports such as the statement of revenues and expenditures, balance sheet, and any other records required by law or regulation. The accountant also prepares interim reports such as monthly expenditure reports for use by department heads and other fiscal officers. In addition, no bill can be paid without the approval of the town accountant.

In Princeton, the town accountant is a part-time employee appointed by the board of selectmen. The current town accountant works between 12-15 hours a week. During the early summer, the accountant resigned her position. However, she has agreed to work for an additional period of time to close out the books for FY99.

Finding 1: Problems with the Accounting Software System

The town's accounting software package makes it difficult for the accountant to carry out various routine duties. A former town accountant acquired this software package in the early 1990s because it was compatible with the Macintosh computers the town was using at the time. Although the current software is intended for business use, a former town accountant who acquired the system made several modifications to adapt the software for municipal use.

Problems contacting the software manufacturer for technical support

Although the town pays a yearly maintenance fee, the accountant says it is very difficult to acquire technical support from the company. The accountant has often stayed on the phone for extended periods in an effort to contact the vendor's headquarters in the mid-west. Also, no other towns in the state use this software so seeking assistance from other towns using the system is not an option.

Problems with maintaining an accurate chart of accounts

The software has a limited number of accounts which makes it difficult to name new accounts and keep track of an account's history. For example, the system uses one of 35 characters (the 26 letters of the alphabet and numbers 1-9) to designate accounts in the general ledger. Since the accountant has run out of characters to designate new accounts, an old account that is no longer in use must be re-named.

For example, "S" designated the school lunch account. Since the town no longer maintains this account, the accountant has re-named the "S" account "State Grant: Fire

Hose & Apparatus.” However, older records corresponding to the school lunch program will appear under the new description “State Grant: Fire Hose & Apparatus.”

Difficulty producing financial reports and the need to use Excel

Though the accountant can generate budget to actual statements for the general fund accounts, the system cannot produce budget to actual statements for the special revenue accounts. In Princeton, the accountant’s general ledger contains numerous special revenue funds (such as federal grants, state grants, receipts reserved for appropriations, revolving funds and other special revenue funds).

Another problem is that the system will not calculate ending balances for special revenue funds. As a result, the accountant must use an Excel spreadsheet to manually calculate ending fund balances for special revenue funds.

One user at a time

In addition to the town accountant, the treasurer uses the system for running accounts payable checks for the town as well as the Princeton Municipal Light Department. The treasurer uses the accountant’s PC to run vendor checks because her own computer is not connected to the printer that prints these checks. As a result, the treasurer and accountant must coordinate the times they use the system.

Duplicate data entry

The treasurer and accountant each enter the same data when recording receipts. The treasurer records receipts in a Lotus spreadsheet and produces a copy for the accountant; the accountant enters this same data into the accounting software. Depending on the number of receipts each month, it could take the accountant several hours to input this data, run a copy of these entries and verify that the data entered is correct.

Computer system security

Some town officials use the accountant’s screensaver password to access her computer systems when she is not working in the town hall. Any unauthorized changes made to the general ledger could cause problems that may be very difficult to rectify.

Recommendation 1: Problems with the Accounting Software

We recommend the town should consider acquiring a new accounting software package to replace the current system. We suggest the town contact towns of similar size to learn more about alternative software packages. Whatever software the town chooses, it should include a package that allows the treasurer to report her receipts directly to the accountant. This will avoid the duplication of data entry that presently exists between the accountant and the treasurer.

We contacted one vendor who services towns in western and central Massachusetts comparable in size to Princeton. A basic accounting software package that includes accounts payable, cash receipts, and journal and general ledger components would cost about \$3800. This includes free support for the first year and about \$500 each subsequent year for support services. It also provides password security so that only the accountant can enter information into the general ledger.

Finding 2: Processing Accounts Payable for the PMLD

Accountants are empowered to prepare all warrants for payment and to withhold payment of a particular item if they believe the expense is illegal or not an approved appropriation. In Princeton, the accountant processes all vendor and payroll warrants for the Princeton Municipal Light Department (PMLD). For bill payments, the PMLD does not provide the accountant with detailed invoices, only the total that must be paid to each vendor.

Receiving only bill totals from the PMLD makes it impossible for the accountant to determine whether these charges are legitimate; i.e., that all services have been performed, that the expenditure is for a legal purpose and that procurement of the good or service occurred in conformance with purchasing requirements.

Recommendation 2: Processing Accounts Payable for the PMLD

We recommend that the town accountant require the PMLD to provide detailed invoices before authorizing payment for these expenses. This detailed information will help the accountant verify that these charges are for legitimate and legal purposes.

Finding 3: Verifying Town Meeting Appropriations with the Town Clerk

In order to establish accounts based on town meeting appropriations, the accountant should have an accurate record of appropriations voted at town meeting. In Princeton, it may take the town clerk several weeks to produce certified minutes containing a record of town meeting appropriations.

The town clerk is also responsible for recording all appropriations on the tax rate recapitulation. Page 4 contains a Certification of Appropriations and sources of funding where all financial votes of the annual and special town meetings are to be summarized. In the past, the executive secretary prepared page 4 of the tax recapitulation; the town clerk then reviewed and signed the page. The March 2, 1998 special town meeting action that authorized borrowing \$896,330 for the library building project was not included on the 1999 tax rate recapitulation.

Recommendation 3: Verifying Town Meeting Appropriations with the Town Clerk

We recommend that the accountant attend each town meeting and then compare notes on each article with the town clerk soon after the meeting. This will help ensure that the two town officials most responsible for understanding town meeting actions are in agreement over what occurred. This approach should also enable the town clerk to accurately certify town meeting minutes shortly after every town meeting. This meeting between the accountant and the town clerk, coupled with the certified minutes, will provide the accountant with correct information when establishing appropriation accounts.

We also recommend that the town clerk prepare a summary certification of all appropriations and their sources of funding, including any borrowing authorizations. This should be done in the format required by the tax recapitulation sheet so that the clerk can refer to these lists and simply transfer this information when preparing the recapitulation sheet.

Finding 4: Ambulance Receipts

At the May 1999 town meeting, the town voted to establish a revolving fund for ambulance receipts. Revolving funds are used to account for certain fee based programs. Monies cannot be expended from a revolving fund until a corresponding amount has been collected and deposited in the fund. State statute caps the amount allowed to be expended from a revolving fund at one percent of the prior year's tax levy.

The town meeting action that created the revolving fund capped the expenditure amount at \$40,000 for FY2000 (the statutory one percent cap was \$40,370). The plan was that any receipts received in excess of \$40,000 would be credited to a "receipts reserved for appropriation account" known as the "ambulance replacement account." According to the Bureau of Accounts, all program receipts should be deposited in one account or the other, but not split between two accounts. If the town were to place *all* receipts in the revolving fund, the amount would most likely exceed the statutory one-percent cap and the town could spend only a portion (\$40,370) of the total amount in the revolving fund.

Recommendation 4: Ambulance Receipts

We recommend town meeting not reauthorize the revolving fund for FY2001 and credit all ambulance receipts to the "ambulance receipts reserved for appropriation" account. The town could then fund all ambulance operating and capital expenses from the receipts reserved for appropriation account in any percentage split it chooses. Monitoring this account carefully will allow the town to determine if ambulance fees and

collection rates are sufficient to cover the costs of operating the ambulance service and replacing the ambulance.

Collectors' Office

The collector's office is staffed by a full-time, appointed collector who has worked in this capacity since 1986. She collects about 1,600 real estate and 150 personal property tax bills. Since the town participates in semi-annual tax billing, these bills are collected two times each year.

The collector uses the Computer Assisted Mass Appraisal (CAMA) software package for real estate tax, motor vehicle excise and personal property tax collections. Using CAMA, the collector also produces reports of outstanding bills, prints tax bills, prepares municipal lien certificates and maintains automated cash and commitment books.

The collector uses the cash book to record batches of tax payments received. The totals of these batches must agree with the amount the collector deposits. Usually, the collector deposits monies received weekly. During tax payment time, she makes daily deposits. The collector uses the automated commitment book to record payments and track outstanding balances for each account.

In addition to these duties, the collector is responsible for pursuing delinquent tax amounts. In Princeton, the collector has been especially successful in maintaining a low level of real estate tax receivables (**see Table 2**). For FY96

TABLE 2: TAXES RECEIVABLE (YEAR ENDED JUNE 30, 1999)	
Real Estate	Uncollected as of June 30, 1999
1999	108,431.00
1998	188.35
1997	-----
1996	-----

and FY97, real estate taxes have been collected, abated or transferred into tax title. For FY98, the entire amount that remains uncollected is for taxes owed by a state agency, the Metropolitan District Commission (MDC), for land taken by eminent domain.

Within a couple of weeks after a bill becomes past due, the office issues a demand notice requesting payment. Princeton also participates in the Registry of Motor Vehicles' non-renewal program that allows the town to mark the registrations and licenses of delinquent vehicle owners for non-renewal.

With final payments due on real estate tax bills on May 1st, the collector usually waits until June of the following year to institute tax title proceedings. At this time, outstanding FY98 real estate tax accounts have been placed into tax title. The

collector intends to institute tax title proceedings for overdue FY99 tax bills in June of the year 2000.

In addition to these duties, the collector in Princeton works about 6 hours per week as a clerk in the assessors' office. Her duties include recording ownership changes, and updating records relating to lot splits, subdivisions and personal property accounts. She also provides assistance in the preparation of abatements for taxpayers.

The assessors are currently in the process of training a clerk in town hall to take over the collector's position as the assessors' clerk. The town's auditing firm recommended that in order to "maintain adequate segregation of duties," someone other than the collector should handle responsibilities associated with the assessors.

Treasurer's Office

The town employs a part-time treasurer who works about 18 hours per week. The treasurer is newly hired and has been with the town for only a few months. She replaced the former treasurer who recently retired after twelve years of service. The new treasurer has several years of experience as a municipal treasurer and also works as the treasurer in another nearby community.

The treasurer is responsible for payroll and cash management, including the investment, disbursement and borrowing of cash. She maintains an automated cash book reflecting the breakdown of all receipts, disbursements, and cash balances. She recently contracted with a payroll service to pay employees in all town departments (except the Princeton Municipal Light Department). The town pays 45 employees biweekly. Overall, the treasurer is pleased with this service.

The town has thirteen unclaimed checks totaling approximately \$500 on the outstanding list. These checks have languished for some time on the town's books. She is following the procedures outlined by the Department of Revenue for disposing of these unclaimed monies.

One of the treasurer's top priorities is to address the large number of parcels in tax title. According to the treasurer, some of parcels have been in tax title since the mid-1960s.

Finding 1: Pursuing Delinquent Real Estate Accounts

A formal tax taking transfers responsibility for collection of the tax from the collector to the treasurer. The treasurer may then initiate foreclosure proceedings and the town may ultimately obtain possession of the property. The creation of a tax title and the ability to ultimately foreclose on property have proven to be the most effective remedies for communities in the collection of real estate taxes and other local charges lien on a tax bill.

As of June 30, 1999, the town had twenty-three parcels of property in tax title with a total balance due of approximately \$197,427. A review of tax title receivables from FY95-FY99 shows significant balances due for each of those years (**see Table 3**).

TABLE 3	FY95	FY96	FY97	FY98	FY99
Tax Title Receivables	247,514	269,508	239,427	179,693	197,427

Recommendation 1: Pursuing Delinquent Real Estate Accounts

We recommend the treasurer make aggressive efforts to collect outstanding tax title amounts. Once the lien is secured, there are several avenues the treasurer can take, short of foreclosure, to urge payment. For example, the treasurer can send letters to the owners of the property in tax title suggesting a payment plan. A treasurer, upon acceptance of a payment plan, may delay foreclosure proceedings. This is especially helpful if treasurers can negotiate payment plans with owners who have large outstanding balances.

If the title is not redeemed, the treasurer should commence Land Court foreclosure proceedings. For longstanding tax title accounts, the treasurer should resort to foreclosure immediately. Initiating foreclosure, especially on properties of high value, encourages back payments and will convey the message to residents that the town is serious about collecting overdue taxes. This process allows the town to take possession of the parcel, which can then be auctioned or preserved, as town-owned land.

Assessors' Office

The town's part-time, elected board of assessors is responsible for the classification and valuation of approximately 1,600 real property parcels and 150 personal property parcels. The combined FY99 assessed value of this property was \$245,556,628, with a total tax levy of \$4,036,950. In addition, the office administers about 5,500 motor vehicle excise accounts annually.

In Princeton, the assessors do most of the appraisal work and property inspections themselves. They are responsible for analyzing sales data, adjusting land and cost schedules and valuing residential property. The town uses the state's Computer Assisted Mass Appraisal (CAMA) system to generate residential property values and maintain a property database. The assessors contract with an outside vendor to update personal property values, including the Mt. Wachusett personal property account. Since FY2000 is a recertification year, the assessors are currently in the process of conducting a revaluation of real property.

For the purpose of inspecting property to ensure that property data is current and accurate, the assessors have divided the town into three sections. Each assessor is responsible for inspecting one section. During the course of the revaluation, the field representative from the Bureau of Local Assessment conducted a data quality study to determine the accuracy of the information recorded and sketched on the property record cards. Based on this review, he determined that the data quality was very good.

The town bills property taxes semi-annually. Under this system, October 1st and April 1st are the target dates for mailing property tax bills each year. Taxes are collected twice a year with November 1st and May 1st being the ideal due dates.

Finding 1: Improving Cash Flow

In past years, Princeton has experienced some cash flow problems. For example, often when the regional school district assessments were due and the town was waiting for revenue from the first semi-annual tax payments, the former treasurer was short of cash. He would negotiate an agreement to pay a portion of the school assessment in November, with the rest following after the receipt of tax revenue.

The following table indicates the dates that the tax rate was set and the tax bills were mailed for each semi-annual commitment from FY96 through FY99. Delays in receiving the first semi-annual payments, particularly in the recertification year, have caused cash flow shortages for the town.

TABLE 4

TAX BILLS	TAX RATE APPROVED	FIRST COMMITMENT		SECOND COMMITMENT	
		Date Mailed	Taxes Due	Date Mailed	Taxes Due
FY96	10-06-95	10-13-95	11-13-95	03-27-96	05-01-96
*FY97	12-04-96	12-09-96	01-09-97	04-01-97	05-01-97
FY98	11-06-97	11-12-97	12-12-97	04-01-98	05-01-98
FY99	10-08-98	10-19-98	11-19-98	04-01-99	05-01-99

*Recertification year

Recommendation 1: Improving Cash Flow

As a means of improving cash flow and financial management, Princeton should consider billing real estate taxes quarterly. Quarterly billing gives the assessors additional time to finalize values and set a tax rate while guaranteeing that the town has an adequate cash flow.

How the quarterly tax payment system works

Using a system of quarterly bills, payments would be made four times a year—due on the first of August, November, February and May. This provides communities with a more evenly distributed flow of tax revenue, a potential to increase investment income and reduce, if not eliminate, tax anticipation borrowing costs.

The first two payments under a quarterly system are estimated at one half of the prior year's tax. The final two quarters reflect the total actual tax liability based on the new assessed values and tax rate minus the first and second payments. For example, if the town used the quarterly billing system to collect FY2000 taxes, it would receive one-quarter of the previous fiscal year's taxes (FY99) by August 1st (**see Table 5**).

TABLE 5: FY2000 REAL ESTATE TAXES	
FY99 Tax Levy	4,036,951
Amount anticipated to be received by August 1, 1999 <i>(using a 95% collection rate)</i>	$4,036,951 / 4 = 1,009,338 \times .95 =$ 958,871
Interest earned by November 1, 1999	$958,871 \times 4.72 \% \text{ (*MMDT annual interest rate)} = 45,258$ $45,258 / 4 \text{ (3 months)} =$ 11,315

**The Massachusetts Municipal Depository Trust (MMDT) is an investment pool created by the Commonwealth under the supervision of the state treasurer's office.*

If this money were deposited in an interest bearing account for three months (August 1st-November 1st), it would have earned over \$11,000 in interest. In comparison, Princeton usually does not begin receiving tax payments until mid-November or December under the semi-annual tax payment system. As a result, tax payments do not begin earning interest until later in the fall.

The most important benefit of the quarterly system will be in the form of increased investment income and/or reduced tax anticipation borrowing costs. In addition, a quarterly system allows taxpayers to make smaller payments. It also provides a more predictable billing cycle. Since the first two bills are estimated, these bills should always be mailed by July 1st and October 1st.

Under the semi-annual system the town must set the tax rate before the October 1st mailing date. In most communities using semi-annual billing, tax bills are mailed late with delays often attributable to revaluation or finalizing values. Towns using the quarterly system have additional time to set the tax rate, since the actual tax bills will not be mailed until the end of the year.

Implementing quarterly tax payments

Quarterly bills need not be mailed four times a year. By mailing two quarters together the town can save on mailing costs. Though bills would be mailed only twice per year, the collector would have to process payments four times per year. As a result, the collector may require additional help during the four times per year when taxes become due.

In the assessors' office, quarterly billing will mean that certain work must be completed prior to the July 1st mailing of the estimated bills. For example, real estate transfers (about 150 a year) and lot splits (15-20 per year) must be input prior to issuing the estimated bills. Using the quarterly system, the assessors' clerk would have to update these records about four months earlier than under semi-annual billing.

Interest comparison—quarterly v. semiannual

The next table shows that Princeton could earn almost \$30,000 more in investment income in FY2000 under a quarterly tax payment system. To determine these estimates we assumed that the semi-annual bills would be payable based on the average due date over the last three fiscal years (FY97-FY99).

TABLE 6: *INTEREST COMPARISON FY98-FY2000—QUARTERLY V. SEMI-ANNUAL TAX PAYMENTS			
Fiscal year	Quarterly Interest	Semi-Annual Interest	Difference (Quarterly minus Semi-Annual)
FY00	100,565	71,180	29,385

**Calculations are based upon a 95% collection rate and the current MMDT rate of return of 4.72%. The FY2000 tax levy was estimated to increase by 1.05 % over the FY99 levy.*

While town officials anticipate there may be some increased administrative costs in the assessors' and collectors' offices, the increase in investment income using the quarterly tax payment system should more than offset these costs.

Appendix 4

Assessed Values by Class (FY99)

<i>MUNICIPALITY</i>	<i>RESIDENTIAL</i>	<i>OPEN SPACE</i>	<i>COMMERCIAL</i>	<i>INDUSTRIAL</i>	<i>PERSONAL PROPERTY</i>	<i>TOTAL</i>	<i>Res/Open Sp % OF TOTAL</i>	<i>Comm/Ind/ Pers Prop % OF TOTAL</i>
BOYLSTON	265,746,000	380,100	17,661,900	10,019,900	5,074,180	298,882,080	89.00	11.00
BRIMFIELD	154,252,585		13,750,466	2,637,300	5,643,740	176,284,091	87.50	12.50
HATFIELD	177,761,117		61,920,871	11,580,735	8,888,130	260,150,853	68.30	31.70
HUBBARDSTON	154,745,600		5,463,100	1,894,800	4,191,959	166,295,459	93.10	6.90
LANESBOROUGH	151,653,655		68,922,036	2,232,950	6,078,330	228,886,971	66.30	33.70
NAHANT	316,502,015		7,539,185	165,000	3,629,835	327,836,035	96.50	3.50
PAXTON	218,043,300	4,351,600	5,475,400	2,501,600	3,870,371	234,242,271	94.90	5.10
PRINCETON	236,730,993	115,500	4,842,398	1,059,300	2,808,437	245,556,628	96.50	3.50
SUNDERLAND	143,562,693		15,530,630	2,648,400	4,573,980	166,315,703	86.30	13.70
WEST BROOKFIELD	162,122,191		10,991,409	5,472,300	5,019,315	183,605,215	88.30	11.70