



Town of Southampton

Review of the Budget Process

Division of Local Services/Technical Assistance Section

October 2014



Board of Selectmen
Town of Southamton
P. O. Box 397
210 College Highway
Southampton, MA 01073

Dear Members of the Board:

It is with pleasure that I transmit to you the enclosed Review of the Budget Process completed by the Division of Local Services for the Town of Southamton. In this report, we provide recommendations designed to strengthen the town's budget process and address other issues impacting town finance.

As a routine practice, we will forward a copy of the report to the district's state senator and representative. We will also post the report to our website a week or two after it is released to town officials.

If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Bureau Chief of the DLS Municipal Data Management and Technical Assistance Bureau at 617-626-2376 or at kingsleyf@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink that reads 'Robert G. Nunes'. The signature is written in a cursive style with a prominent 'R' and 'N'.

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

Cc: Senator Donald F. Humason, Jr.
Representative Peter V. Kocot
Heather Budrewicz, Town Administrator

Introduction

At the request of the Southampton Selectboard, the Division of Local Services has completed this analysis of the town's budget process and certain underlying factors influencing the town's financial condition. The Division provides municipal consulting services regularly through its technical assistance section. In this case, the project team was led by a staff member from the Division's technical assistance section and included the town's field representative from the Bureau of Accounts.

To complete this analysis, we interviewed, in person or by phone, members of the town's board of selectmen, finance committee and board of assessors; the town administrator, the town accountant, the treasurer/collector and staff, the assistant assessor and town clerk. We reviewed town meeting warrants and minutes, town bylaws as they relate to finance and recent tax rate recapitulation sheets and supporting documents. We analyzed town budgets and expenditure reports for the last several years, the town administrator's job description, and the audited financial statements and management letters. Proposition 2 ½ override and debt exclusion votes were examined, as well as town ballots and election results in recent years.

Initially, the project was to focus on the town's financial offices, but during our first visit to Southampton, it quickly became apparent that the budget process needed attention and that substantial reforms in this area were warranted. We also comment on various financial practices and other issues impacting the town's financial condition and offer recommendations to stabilize town finances. Unsettling trends such as rising costs in difficult to control areas, relying on reserves such as free cash and stabilization funds for operating purposes and deferring necessary capital expenditures have left the town in a vulnerable financial condition.

Background

Over the last few decades, Southampton has steadily grown from a small town to one that now has nearly 6,000 people and spends about \$17 million per year. According to a recent report issued by the Pioneer Valley Planning Commission, between 1990 and 2010, Southampton saw a 47% increase in total housing units and a 46% increase in the number of households. Population rose 29% over this period and has nearly doubled (93 percent increase) in the period between 1970 and 2012. If the state's 351 municipalities were ranked by population and then divided into three equal sized groups of 117 communities each (representing small, medium and large communities), Southampton is now among the medium sized communities.

Data from 2011 DOR tax returns indicates that Southampton also had a per capita income of \$34,054, the 5th highest among the 43 communities in the Pioneer Valley. The town's tax base includes relatively

few commercial and industrial properties though and residential properties bear close to 94 percent of the town's property tax burden. Dependence on property tax revenue has increased over the last ten years as property taxes have grown from about 50 percent of total revenue to close to 59 percent of total revenue in FY2014. Southampton's average single family tax bill in FY2014 was \$3,966, or 13th highest of the 43 Pioneer Valley communities.

The town operates in a challenging budgetary environment where certain line-items are especially difficult to control through local action. For example, large increases in certain education costs have exacerbated the town's budgetary problems and necessitated cuts in other line-items that the town can control. Rising costs have increased pressure to draw down one-time reserves such as free cash and stabilization for operating budgets. Spending reserves, combined with generally tight budgets, has left the town with only about \$93,000 in its general stabilization fund and with limited prospects for a healthy upcoming free cash certification.

Despite the escalation in difficult to control line-items, the town has been unsuccessful in every attempt to pass a Proposition 2 ½ override question since 1991. A total of 39 override questions have been put before town voters since then ranging in amount from a low of \$1,500 to a high of \$1 million. All have failed, including the \$1 million override that was rejected on July 1, 2014 by nearly a two to one margin. Town voters have been more willing to approve debt exclusions for capital purposes with successful votes for the Edwards Library, Norris School, Hampshire Regional High School and the renovation of the old Larrabee school building for town offices.

While it is difficult to interpret the reasoning behind voter decisions, it is clear from the data that they are more willing to approve temporary debt exclusions to cover capital improvements than they are to provide additional operating dollars on a permanent basis. Since there are finite limits on the amount of property taxes citizens are willing to pay, voters are likely to look critically at town government when making these choices in the future. Among the things that will influence these decisions are citizens' perceptions of the credibility of town government and its ability to manage taxpayers' money in an efficient and effective manner. It appears clear that the town must take additional steps to demonstrate to voters that it can exercise fiscal discipline, develop a well-conceived long-term financial plan that provides for both operating and capital expenses and otherwise manage its spending as efficiently as possible.

FY2014 and FY2015 Budget Processes

The town's budget for FY2014 was still in flux as late as the last night before the annual town meeting warrant had to be finalized for posting. Despite these eleventh hour maneuverings, this budget proved not to be balanced as adopted and the town had to use a sizable amount of its newly certified free cash (\$371,778) to balance the budget in December, just prior to setting its tax rate. Apparently, an article to

appropriate free cash to reduce the tax rate was not included in the annual town meeting warrant so the town had to wait for its new free cash certification to balance the budget.

At the same time, analysis of the tax rate reveals that the town levied about \$95,000 less than its maximum levy limit. This is evidence that the budgeting and tax rate setting processes were not well coordinated since the town left scarce tax dollars on the table for FY2014 at the same time it spent down its newly certified free cash. A better approach would have been to levy the additional tax dollars and either use a smaller amount of free cash to balance the budget or lower the town's estimated receipts to increase free cash in the subsequent year.

The extensive use of newly certified free cash for operating purposes was a departure from recent practice where free cash from the prior fiscal year was used for the upcoming year. Adopting an unbalanced budget at annual town meeting and hoping that the new free cash certification will be sufficient to balance the budget is a risky practice. If the free cash had not materialized, then the town would have found itself nearly mid-way through the fiscal year with the need to make cuts. Given that appropriations will be significantly spent down by this time, the necessary cuts implemented halfway through the year need to be nearly twice as deep compared to reductions taken at the start of the fiscal year.

With little available free cash remaining after the large appropriation to balance the FY2014 budget, the town started the FY2015 budget process in a weakened position. For both FY2014 and FY2015, the finance committee requested that departments develop their budgets using "zero-based budgeting," where all proposed spending must be justified by department managers. The end result, however, was that departments submitted their desired budget requests and, once compiled, the FY2015 budget was about \$800,000 to \$1 million out of balance. The finance committee yielded to the selectmen's request to involve the interim town administrator more in the budget process and subsequently turned over the out of balance budget to the selectmen.

During a joint meeting of the selectmen and finance committee at the end of April, much of the discussion centered on implementing a two percent across the board cut to all budgets. Of course, this approach proved to be unworkable as certain accounts such as the pension assessment, debt service and the Hampshire Regional School assessment cannot realistically be cut, thus requiring deeper cuts in other accounts. The town's new administrator started in March of 2014 and, ultimately, it was left to her, the town accountant and treasurer to create a balanced budget, with additional appropriations made contingent on successful passage of a Proposition 2 ½ override. This occurred in early May just before the town's scheduled annual town meeting. The operating override vote for \$1 million was scheduled shortly thereafter on July 1, 2014 and was rejected soundly by town voters by nearly a two to one margin.

It should be noted that there are certain line-items in the town's budget that are especially difficult to project or control through local action. This makes it more difficult to balance the town budget, requires

cuts to other line-items and creates pressure to draw down limited reserves. For example, Southampton is contractually obligated to provide its assessment to the Hampshire Regional School District if the four smaller towns approve their assessments. At the Northampton Smith Vocational School, Southampton pupils are admitted on at tuition basis. The town, however, has little control over the number of pupils that elect to attend this school. Large increases in the assessments to Hampshire Regional and the Northampton Smith alone have contributed significantly to the town’s budgetary problems over the last three fiscal years. For example, between FY2012 and FY2015, assessments for these two school districts combined increased by \$1,275,985, consuming all of the town’s revenue growth over this period (See table below for spending trends).

Town of Southampton
Actual Spending versus FY2015 Budgeted Amounts

	Norris School	Hampshire RSD	Northampton Smith	Police	Fire & EMT	Public Works	Pension	Health Insurance
FY2011	\$4,025,152	\$3,807,385	\$561,993	\$723,221	\$261,159	\$775,018	\$451,533	\$769,961
FY2012	\$4,021,678	\$3,820,150	\$513,587	\$784,369	\$253,115	\$548,012	\$449,168	\$833,639
FY2013	\$4,029,053	\$4,158,552	\$527,401	\$836,765	\$304,983	\$879,268	\$492,593	\$846,487
FY2014	\$4,119,385	\$4,631,436	\$565,599	\$833,433	\$443,700	\$853,126	\$495,677	\$846,760
FY2015 *	\$3,804,160	\$4,726,512	\$883,210	\$827,357	\$498,681	\$763,553	\$572,670	\$865,000
Percent Change								
FY11-15	-5.49%	24.14%	57.16%	14.40%	90.95%	-1.48%	26.83%	12.34%

*budgeted

Though the town’s enrollment at Hampshire RSD has declined slightly in recent years, other member towns have seen more significant decreases in enrollment over these years. This leaves Southampton as by far the largest member town in the district and more than four times larger than the next largest member. As such, the town is responsible for almost 59 percent of any district spending over the FY2015 minimum required contributions. By comparison, as recently as FY2010, Southampton’s enrollment constituted less than 54 percent of Hampshire’s foundation enrollment.

The need to treat the Hampshire and Northampton Smith assessments as non-discretionary spending items forced the town to reduce budgets within its control such as the Norris School budget by more than \$300,000 in FY2015. Other departments such as the public works department were cut deeply in FY2015 as well. Winter road wages and expenses in the public works department were reduced by about \$84,000 below FY2014 spending levels, a gamble that the upcoming winter will be a mild one.

Conclusion

Several factors have likely contributed to the town's budget problems over the last few years. Large increases in school costs caused significant dislocation in other budgets and put a great deal of pressure on town officials to spend down reserves. The retirement of the long serving town accountant, who had historically played a lead role in town finance, may have added to the difficulty. Frequent turnover among finance committee members, including those charged with putting together budget spreadsheets for the committee, negatively impacted committee engagement and morale as well. In at least the last two years, the finance committee has been unable to prepare a balanced budget or submit a report of its recommendations to town meeting. For the FY2015 budget, the committee voted to allow the new town administrator to present the budget at town meeting since she was more familiar with the budget details.

Given the fiscal environment, crafting solutions to the town's budget problems going forward will require a more concerted, coordinated effort on the part of all town officials. Budget planning should start earlier, involve the selectmen, finance committee and school committees and utilize long-term revenue and expenditure forecasting to provide the context. Operating budgets should be structurally balanced with recurring revenues and, when available, reserves should be retained for capital or unforeseen purposes.

The town administrator and finance team will prepare projections and a draft balanced budget, but town policymakers must resist pressure to increase budgets. With very limited prospects for reserve balances going into the FY2016 budget process, town officials will need to demonstrate, and sustain over the next several fiscal years, a strong commitment to fiscal discipline. It is only through consistent adherence to a fiscal plan, and clear communication of that plan to residents, that citizens will develop confidence in the town's ability to manage its budget.

Recommendations

1. Empower the Town Administrator to Lead the Budget Process

We recommend that the selectmen vest the town administrator with the formal authority to lead the budget process and serve as the focal point for communication and coordination around budget issues. To codify the role of the administrator in this regard, we recommend that the selectmen draft a bylaw that establishes the town administrator's authority. Currently, town bylaws are sparse and only refer briefly to an old administrative assistant's position that reports to the selectmen. Establishing the authority of the town administrator in bylaw serves to elevate the importance of the position and makes this a more lasting improvement to the town's government structure.

The bylaw should assign the town administrator and finance team responsibility to prepare revenue and expenditure projections and a long-term forecast to begin the process each year. We recommend that

the town consider using a three to five year horizon for these projections and use a maintenance budget approach to forecasting expenditures in most cases. With a maintenance budget approach, the expenditure side is based on what it will cost to provide the same level of services going forward given contractual obligations and/or inflation. Since this approach does not build in new or expanded services, it provides a solid baseline for fiscal planning and provides important context for communicating the town's fiscal position to local officials and residents.

2. Formalize and Expand the Finance Team

We recommend that the town establish a finance team, to be led by the town administrator, to assist with the budget process, coordinating financial operations and overseeing other aspects of financial management. The new town administrator has worked effectively with the town accountant and treasurer around FY2015 budget issues and we recommend that this financial team approach be expanded and formalized as part of the above bylaw on the town's budget process. We also recommend that the financial team include the assistant assessor. The assessors' office is best positioned to provide the most current information around new growth and overlay estimates for the budget process.

Including the assessors' office in the financial team will also help ensure that the town's financial policies as set out in the budget are carried forward to the tax rate recapitulation sheet. Since some components of the revenue budget such as new levy growth and local receipts may change during the fall as actual figures become known, it is important that these are tracked and updated prior to setting the tax rate. Absent this close coordination in FY2014, the town's tax levy was set about \$95,000 under its maximum levy limit and \$371,778 in free cash was appropriated the night before the tax rate was set. Better coordination regarding these moving parts would have enabled the town to access most of the additional \$95,000 in available tax revenue, thereby reducing the amount of free cash necessary to balance the budget by a corresponding amount.

We also see value in including the school business manager in the financial team as well. Engaging with the schools will open up lines of communication between the town and its schools so that each is fully aware of the challenges facing the other party.

3. Enhance Accountability in Town Government

In our earlier financial management review of Southampton completed in March of 2005, we recommended that the town establish the town administrator as the central management authority, with responsibilities including "executing town goals, to take initiatives to improve operations and to establish clarity of expectations in the day-to-day administration of town business." We advised the town to consolidate appointment authority in the town administrator in a way that clearly establishes town-wide accountability. Under this structure, all department heads are appointed by and report to the administrator.

Close to ten years later, the town has a town administrator position, but the position possesses limited authority with regard to town department heads. For example, the new town administrator introduced some administrative changes designed to streamline payroll procedures and tighten up controls around town spending. A uniform timesheet was introduced to departments and the town began processing payroll using the Softright financial package. This eliminated duplicative data entry of payroll in the accountant's office that had previously been necessary to bring payroll spending into the accounting records. A new purchasing system was instituted as well. Departments are now required to submit a purchasing requisition so that prior to the purchase the town accountant can check the availability of funds and the town administrator can verify that proper purchasing procedures were followed. While most departments have complied with these new procedures, other departments have resisted.

We recommend that the selectmen support the work of the town administrator in closely managing town finances and increasing the level of accountability across government. To begin to foster departmental accountability, we suggest that the selectmen designate the town administrator to work with department heads to establish goals and objectives for their respective departments as part of the annual budget process. The selectmen should set the tone for this dialogue by establishing some town-wide priorities under which all departmental goals should align. These goals and objectives will then serve as the basis for evaluating the performance of department heads. The town administrator, as the day-to-day management presence in town hall, should also have input into department head evaluations completed by the selectboard.

Given the growth in the town's population and budget, however, it has clearly reached a point where the town's existing decentralized government structure is not as effective as it should be. Obviously, careful, coordinated management of town finances is a priority and departments need to operate as efficiently as possible in this context. These will likely be elusive goals if the town decides to continue the status quo. Therefore, we recommend that the selectmen advocate for a fully empowered town administrator's position with appointment authority and supervisory responsibility. We understand that this will not happen immediately, but strongly believe that the selectmen should chart a course to improve the town's structure by moving in this direction over the next few years.

4. Address Governance Issues at Hampshire Regional School District

Southampton has faced large increases in its assessment to Hampshire Regional School District in recent years. In FY2014 in particular, the town's assessment to Hampshire increased by more than \$470,000, substantially more than the total increase in the town's property tax levy allowed under Proposition 2 1/2. Consensus among town officials was that these assessments are largely out of the town's control, even though the town is, by far, the largest member community in the Hampshire District. In fact, a review of FY2015 foundation enrollment data revealed that the town has almost 59 percent of Hampshire's total enrollment. Southampton's FY2015 foundation enrollment of 442 pupils

is more than four times the enrollment of the next largest member town (Westhampton with 101 pupils or 13.5 percent of enrollment).

When we reviewed the Hampshire Regional School District agreement, we found that the apportionment of regional school committee membership does not conform to the legal requirements for a regional school committee. Under the equal protection clause of the Fourteenth Amendment to the United States Constitution, elected bodies such as regional school committees need to be proportionate to the number of citizens they represent. This provision is referred to as the “one person - one vote” principle. This concept as it relates to regional school governance was affirmed by a federal appeals court decision in 1986 (*Kelleher v. Southeastern Regional Vocational Technical School*). Subsequent to this decision, in 1988, the state legislature enacted MGL c.71, §14E which requires that an elected regional school committee membership be apportioned based on population.

The Hampshire School Committee membership is not a function of members’ populations, but is based on a fixed apportionment of members with additional members added as enrollment grows above certain thresholds. Another provision in the agreement states that once additional committee members are added in a particular town, the additional member is never lost regardless of enrollment declines. When we reviewed Southampton’s representation on the Hampshire School Committee, we found that the town has 6 of the total 17 members, constituting 35 percent of the committee. In contrast, the town’s 2012 population constitutes more than 48 percent of the total district population.

We recommend that Southampton pursue amendment to the Hampshire Regional School agreement to bring school committee membership in line with the one person – one vote principle. Amendments to the agreement can be proposed by a majority of all members of the committee (9 of 17 members) or proposed by a petition signed by 10 percent of the registered voters of any one of the member towns. Whether initiated by the district or Southampton, apportionment of committee membership should be addressed so that Southampton, as by far the largest member town, has a more proportionate voice in determining annual budgets and assessments.

5. Establish a Formal Budget Timeline

We recommend that the town modify its budget process and adopt a formal budget calendar working back from its annual town meeting date. We recommend the town adopt budget policies that contain the following components:

Early start - The budget process should begin early in the fall with a budget calendar agreed to by the town administrator, the selectmen and the finance committee with deadlines that all parties agree to. In the next step, revenue and expenditure projections are developed by the town administrator and her financial team. We expect that to arrive at estimates, she would work with the other financial management team members, as well as department heads whose offices generate revenue. The finance committee chair should also be advised of, if not involved in, the process.

Consensus - We recommend that the town administrator present revenue estimates and projections of fixed costs (e.g., health insurance, pension obligations, debt service, etc.) to a joint meeting of the selectmen, finance committee and school committees (both Norris and Hampshire). To foster sustainable budgets and facilitate long-term thinking, a multiyear forecast should be produced. A consensus accepting the projections should be recorded. If possible, an agreement should be reached on how future increases in revenue projections will be divided. Budget guidelines should emerge from this process and be circulated to department heads with a request for appropriation needs.

As adjustments occur to state aid or other revenues, if any, the town administrator should communicate and confirm to the selectmen, finance committee and school committees the previous consensus on the allocation of the additional revenue.

Linear Process - Once department requests are received, a linear budget process should follow. Typically, the town administrator would meet with department heads to review requests and would then develop a budget for presentation to the selectmen. The selectmen would review, with the town administrator, her budget recommendation. If desired, they would meet with managers of major town departments only. Subject to any changes, the selectmen would approve the town budget and forward it to the finance committee. Once the finance committee completes its review of the line item budget and other articles, and incorporates its changes, if any, the budget would be made ready for town meeting. As the guardian of town's financial interests, the finance committee should prepare its written recommendations on the budget to be presented to town meeting.

Communication - Necessary to the process is a high level of communication. Joint meetings serve this purpose. The exchange of information should be on-going among the town administrator, the selectmen, finance committee, school committees and the town's financial officers, particularly as they get deeper into the process. In this way, town leaders can present a unified budget position at town meeting which will go far to build public confidence in the process and the persons involved.

Follow-up - To ensure that the adopted budget is kept on track, the accountant should distribute monthly expenditure reports and periodic revenue reports. With this information, the town administrator will be able to monitor revenues and expenditures to make sure the budget is on target, or to prepare corrective action if it is not. If problems appear, she should inform the selectmen and finance committee chair. Department managers should be held accountable to manage within their budgets.

6. Resist Supplementing Departmental Budgets after Annual Town Meeting

We recommend that the town refrain from supplementing departmental budgets during the course of the fiscal year or from adopting an out of balance budget at annual meeting and hoping additional revenue materializes. The practice of supplementing, often through the appropriation of reserves or year-end transfers, creates an expectation among department heads that they do not have to live within their budget as adopted by annual town meeting. On the contrary, they should be advised firmly that the

annual town meeting is where their budgets will be set and not to expect any additional funding during the year. The selectmen as chief executive officers of the town should firmly support this effort.

The town should also avoid adopting an unbalanced budget at annual town meeting with an expectation that the budget can be balanced with free cash that has yet to be certified. Either way, the town should plan to create a structurally balanced budget at annual town meeting representative of the amount of town spending that can be supported by recurring revenues.

7. Assign Town Administrator to Prepare Draft Budget

We recommend that the town administrator and the financial team prepare the first draft of the town's budget. The administrator and finance team are best positioned to have critical information such as employee pay rates, benefit details and most current data on fixed costs. Assigning the finance team the task of preparing a balanced first draft of the budget provides much needed support for the finance committee. It frees up the committee to focus more on its role as the fiscal advisor to town meeting. More support also allows that committee to concentrate on important big picture elements of town finance such as the appropriate mix between operating and capital costs, policies intended to build and maintain reserve levels, maintaining a healthy bond rating and strategies to address long-term obligations such as Other Post-Employment Benefits (OPEB). The finance committee would then be better equipped to perform traditional tasks such as conducting hearings with department heads, determining desired modifications to the draft balanced budget and formulating its recommendations to town meeting in the finance committee's report.

8. Budgeting for Enterprise Funds

In the town's budget presentation, the total appropriations for the water and trash enterprise funds appear to include both the direct enterprise appropriations and those indirect appropriations that already appear in the general fund. To avoid double counting these appropriations, the indirect costs must be deducted from the total enterprise appropriations before they are reported on the tax recap sheet. To avoid this issue in the future and to provide a clearer presentation for town meeting, we recommend that the enterprise fund budget clearly state that the indirect costs are already appropriated in the general fund. This will make it clear to the town clerk that only the direct costs of the enterprise should appear in the appropriations on page four of the tax rate. The enterprise provides for these direct and indirect costs by raising enough revenue to cover both, with a transfer of enterprise fund revenue to the general fund to cover the indirect costs appropriated in the general fund.

9. Budgeting for State and County Charges

In the FY2015 budget, we noted that the town included appropriations for various state assessments such as school choice and charter assessments, state air pollution charges, Registry of Motor Vehicles surcharges and the regional transit authority assessment. These assessments were included in the warrant and appropriations were made at annual town meeting. However, appropriations for these costs

are not necessary since these assessments are already included among the town's cherry sheet assessments. By law, the town's assessors are required to raise the cherry sheet assessments in the tax rate, so appropriating them at town meeting as well means that the town has provided for them twice. We recommend that the town cease the practice of appropriating the above state and county charges or assessments.

10. Avoid Using Reserves for Operating Expenses

We recommend that the town resist appropriating reserves such as free cash or the stabilization fund for operating expenses. It is important for those involved in the budget process to understand that the town should strive for a structurally balanced budget; in other words, recurring operating expenses should be balanced within the town's recurring revenue sources. The town did not follow this approach in the FY2014 budget and used a significant amount of newly certified free cash to balance the budget in December. This set up a fiscal cliff for FY2015 when little free cash was available and certain budgets had to be cut deeply when the override question failed. Going forward, the prospects for replenishing free cash are not positive based on initial reports from the accountant. This is likely the result of departments spending their limited budgets, the town's practice of backfilling deficit accounts from other line-items with surplus balances at year-end and town revenue collections not exceeding revenue estimates.

We recommend that the town adopt policies to guide decisions about reserves. The combination of competing spending priorities and limited revenue options make building reserves a challenging task. Dependent on the fiscal circumstances facing town meeting, it can be difficult to preserve or build a sizable reserve balance. However, given the town's exposure to large education cost increases, maintaining healthy reserve levels takes on added importance. Through the adoption of policies, the town should commit to raise and maintain reserve balances based on the following:

- Use all or portions of free cash either as a funding source for stabilization or as an outlay for one-time capital projects. Do not use it at fall town meetings to supplement the annual operating budget passed earlier that spring or to balance an out of balance budget.
- If free cash must be used to support the operating budget, restrict its use to a limited amount for the ensuing fiscal year's budget.
- Consider establishing a special purpose stabilization fund for education costs to be funded with free cash in years when these costs are relatively stable and then appropriated in years when these costs increase.
- Restrict the use of unexpected, non-recurring revenue, or surplus revenue, to one-time costs.
- Restrict the use of the stabilization fund to non-recurring expenditures and only in an amount above a certain dollar threshold.

We recommend that the town adopt a formal policy that defines adequate reserve levels based on the community's needs. Reserves in a municipal context typically include free cash, as well as general and special purpose stabilization fund balances. A formal reserve policy should reflect a consensus between the selectmen and finance committee that defines target reserve levels as part of a broader financial plan.

11. Engage Residents in the Town's Future

There is value in understanding how residents perceive town government, view the services they receive and rank their priorities for the town's future. In Southamptton, residents have told the town repeatedly that they will not contribute more tax dollars to operate government, but it would be helpful to collect information on exactly why they feel this way. It may be that they feel that the town does not do a good job of financial planning and budgeting and, as a result, they are not confident that additional money will be used effectively. Perhaps the lack of accountability in town government has contributed to a basic distrust of the ability of town officials to properly manage additional spending. To give town officials a better sense of the community's priorities, we recommend that town officials design a survey to gauge resident sentiments on the performance of town departments, where their priorities lie and what action the town should take to improve its financial outlook.

In other areas, it is important that the town continue to be as transparent as possible regarding the conduct of town business and the dissemination of financial and other information. The town has done well to post tapes of the selectmen's meeting on its website. However, the sound on the tapes is often inaudible making it very hard for interested residents to hear audience questions or, at times, even the discussion among selectmen. The town should examine ways to improve the audio quality of these broadcasts so there is a more complete record of these meetings.

We also believe that town residents need access to more timely information regarding the town's financial situation. Consequently, after the town administrator and finance team present their long-term projections to a joint meeting of the selectmen, finance committee and school committees, this information should be posted on the town's websites. Many other towns prepare this type of information for residents or town meeting well in advance of town meeting as it helps set the stage for the budget discussion that follow. Sharing this information early and often will demonstrate that town leaders are focused on addressing the issues and have a well-conceived plan to do so.

12. Commit to Funding a Capital Plan

The town's capital planning committee has been dormant in recent years and the town has largely eliminated capital spending from its budget. While we understand that capital items are typically the first items cut when budgets need to be balanced, we believe that this approach is shortsighted and will contribute to higher costs in the future. We understand that the town has attempted to resurrect the capital planning committee and encourage the town to make capital spending a priority.

We understand the town cannot transition to a fully funded capital budget and plan in one year, but suggest that the town move incrementally to increase the amount spent on capital each year. There is also value to presenting the town's capital budget and plan to town meeting each year, regardless of its ability to fund the capital budget. It serves to educate citizens about necessary items that cannot be funded within available revenues.

In a related area, the town should begin to maintain an inventory of fixed assets on an ongoing basis. The capital budget can serve as a good starting point for new additions to this inventory. The reason fixed asset accounting is important is that these asset values, less annual depreciation, are required by generally accepted accounting principles to be reflected in the town's government-wide financial statements. Over time, changes in the town's financial position are revealed through these statements.

The fact that the town lacked this information led the town's auditors to express an adverse opinion regarding whether these statements fairly presented the town's financial position. These statements provide potential investors and other interested parties with uniform and comparable data over time that can be analyzed to see if the town is maintaining its assets. Failure to invest regularly in the town's infrastructure and capital assets results in these assets decreasing in value from year to year due to depreciation.

Other Recommendations

13. Clarify Town Meeting Warrants and Reconcile Minutes

When we reviewed recent town meeting warrants and minutes, we found that it was often hard to determine the fiscal year to which a given appropriation applied. We suggest that going forward, the town state clearly the fiscal year to which an appropriation applies in both the warrant and meeting minutes. Once town meeting adjourns, we recommend that the town clerk and the town accountant meet to reconcile the approved appropriations and funding sources to make sure that they agree on the final actions of town meeting.

14. Assess Interest Charges on Delinquent Water Bills

As recommended by the town's audit firm, the town transferred collection responsibilities for water receipts to the treasurer/collector in March of 2014. Prior to this, these receipts were collected by the town clerk. When water charges are delinquent, the town charges a flat \$25 demand fee. In reviewing year-end receivables for the last few years, we noticed that the water receivables appear to be greater proportionately than the property tax receivables. After the \$25 demand fee is assessed, delinquent rate payers have no incentive to pay and it appears that some prefer to let this charge stand until it is eventually submitted to the assessors as a water lien.

We recommend that the town adopt a bylaw consistent with MGL c. 40, § 21E to establish due dates for water charges and assess interest charges on delinquent water bills for as long as they remain outstanding. The interest rate may not exceed the 14 percent rate charged on delinquent tax bills.

15. Eliminate Finance Committee Sign-off on Personnel Forms

Whenever any department wants to change the pay rate or hours of an employee or propose a new position, it requires sign-off by the finance committee. The reason for the finance committee sign-off is apparently to confirm that adequate funds are available to accommodate the change. We see this as the responsibility of the town accountant, who is best positioned to determine adequacy of funding in relation to amounts already spent. This is also something that we would consider to be an administrative function of government and, as such, is not generally within the recommended purview of a finance committee. We recommend that the finance committee be relieved of the administrative task of approving personnel change forms and requests to hire forms.

16. Budgeting for Triennial Revaluation

Every three years, the town's assessors need to plan and budget for the revaluation of real and personal property in order to receive state certification of its values. Southampton is next scheduled for state certification in FY2017. Without a successful revaluation and state certification of values for FY2017, the town will not be able to send out actual tax bills until certification is granted.

The town has traditionally appropriated about one-third of the total revaluation cost each year in the assessors' operating budget. However, at year end, regular operating budget appropriations are required to be closed out, so that the funding is no longer available for future revaluation costs. In FY2015, the revaluation appropriation did not survive in the final budget, setting up a situation where the town will have to provide two years of funding in FY2016 to catch up. We support the approach where the town sets aside a third of this cost each year and suggest that a special article appropriation each year represents a better approach to budgeting for the upcoming FY2017 revaluation. With a special article, the funds remain available into subsequent years until such time as the purpose of the appropriation is satisfied. We suggest something like the language below for the annual special article:

To see if the town will vote to raise and appropriate, or transfer from available funds, a sum of \$XXXX to fund appraisal services necessary to complete the town's FY2017 revaluation as required by MGL c. 40, § 56.

17. Prioritize Professional Development for Finance Officers

Without question, the roles of the town's finance officers have become increasingly complex due to a rapidly changing legal and regulatory environment, the integration of new technologies and the overall growth of the town. Though Southampton's fiscal situation has not allowed it to fund departmental requests in full, we advise the town to prioritize ongoing professional development for its finance

officers. Often, these professional development opportunities give finance officials exposure to new legislation, regulations or otherwise focus on new or emerging finance issues that may impact the performance of their duties significantly.

18. Consider Appointing Various Town Officials

In our previous reports (2005 and an update in 2007), we suggested that the town look at its various elected offices to determine if any should be converted to appointed positions. We suggested appointment for offices that exercise little or no policy discretion and that require professional experience and qualifications for success. In particular, we noted that the town should consider making the treasurer/collector, town clerk and board of assessors appointed positions. We suggested that these offices be reviewed with the goal of enhancing the level of accountability to the recommended town administrator.

Though the town has moved forward with hiring a town administrator, the position is not currently vested with the authority needed to supervise department heads or otherwise hold them accountable. We strongly believe that the town's best course of action is to enhance the level of accountability to the town administrator. Without this, town departments are likely to continue to do what they feel is best, without considering how their actions fit into the overall best interests of the town. Careful and coordinated management will be elusive goals for the town if it does not move to strengthen its organizational structure to promote accountability.

In conducting this review, we discovered another issue that has likely contributed to a lack of continuity on the finance committee. There appears to be little interest on the part of town residents to run for the finance committee positions. At the 2014 annual town election, there were no candidates for two of the three open finance committee seats. Going forward, if this issue is not resolved by providing the finance committee with additional support, we suggest that the town transition to a finance committee appointed by the town moderator.

ACKNOWLEDGEMENTS

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Edward Cauley, Vice-Chair, Board of Selectmen

John Martin, Board of Selectmen and former Finance Committee Chair

David McDougall, Board of Selectmen

Heather Budrewicz, Town Administrator

Vicki Leigh Moro, Town Accountant

Donna Whiteley, Treasurer/Collector

Jennifer Day, Assistant Collector

Robin Richard, Assistant Treasurer

Janine Domina, Town Clerk

Anna Pac, Chair, Board of Assessors

Gary Swanson, Board of Assessors

Lori Stewart, Assistant Assessor

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