



Town of Hadley

Review of Highway and Water Departments

May 2007

INTRODUCTION

At the request of the Hadley Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a limited scope review of the town's highway and water departments. The selectmen made their request as a follow-up to recommendations that were made in a similar review conducted by DLS in February 2007 for the town's sewer commission.

We have based our findings and recommendations on a site visit by two members of the Division's Municipal Data Management and Technical Assistance Bureau as well as on data gleaned from subsequent correspondence with town officials. Our site visit included a meeting with the town administrator and a member of the board of selectmen. We also met with highway department and water department managers and toured the highway maintenance facilities. DLS staff examined department records and documents, relevant town by-laws, job descriptions, budget information, and other reports.

During this review, DLS staff focused on: (1) the responsibilities and staffing of the department; (2) the degree of coordination and communication that exists with other town boards, officials and staff; (3) the budget, capital planning process, and other financial management-related activities; and (4) the performance of the highway and water departments' operations in such a way as to maximize resources and minimize costs. Our report presents observations, conclusions, and recommendations relative to the general efficiency and effectiveness of this operation.

We encourage the selectmen and other town officials, when formulating overall strategies for improving the town's services, to consider the observations, analyses, and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various town boards, committees, and officials.

EXECUTIVE SUMMARY

Hadley is a western Massachusetts town of 23.3 square miles with 4,822 residents situated along the Connecticut River in the Pioneer Valley. It is a community with a strong agricultural history that continues to have many acres of active farmland. However, the abundance of open land combined with its location between the much larger communities of Northampton (population: 28,715) and Amherst (34,047) to the west and east, respectively, provides opportunities for both residential and commercial development. Hadley is bisected by Route 9, a significant commercial corridor which, in addition to connecting Northampton and Amherst, also provides convenient access to I-91.

The executive branch of government in Hadley is headed by a board of selectmen, which appoints a town administrator to act as their agent by overseeing day-to-day operations and providing professional support. The legislative branch functions are reserved for an open town meeting and the voters, generally. As with other similarly sized communities, the town government provides a variety of services to residents. Most of these services are funded through property taxes, state aid and other local receipts. Additionally, the town has two utility services (water and sewer), which are funded primarily through user charges. Though the two utility services are related and often share resources, the water service is managed by a highway/water superintendent, who reports to the board of selectmen, while the sewer service is managed by a sewer chief operator, who reports to a separately elected sewer commission. Because these are utility services, the town adopted the state's general enabling enterprise accounting legislation ([M.G.L. c. 44, §53F½](#)) in 1994 for both water and sewer operations.

Capital projects are considered by a capital improvements committee. At present, major focus is being given to a new water treatment plant that was approved by town meeting partly as a response to the costly mitigation of perchlorate contamination at the town's main well in 2004. The plant is expected to come online in late 2007. Study and design costs for the facility (approximately \$400,000) were funded from the water fund's retained earnings, which reduced reserve levels. Debt service for the facility is funded 50% from the water rate and 50% from the tax rate.

The highway department is currently considering facility upgrades at its four acre yard on South Middle Street. Simultaneously, the sewer department has started to explore the possibility of constructing a garage facility on the same site. While the articulated needs for both buildings are similar, they are nevertheless moving forward independently because of the institutional separation created by having both a sewer commission and a board of selectmen.

Conclusion – As a general observation, the highway and water departments run well. The town has demonstrated an ability to maintain and improve its transportation and water service infrastructure within current resource constraints. A conservative approach to water revenue projections and efforts to build retained earnings are also regarded as management strengths. To build on these positive elements, we offer the following recommendations:

1. Consider a Single Maintenance Facility for the Highway and Sewer Departments
2. Adopt Formal Water Reserve Policy & Rebuild Fund Balance
3. Develop Multi-Year Revenue and Expenditure Forecasting
4. Pro-Rate Indirect Charges & Settle Actual Costs at Year-End
5. Consolidate Highway, Water & Sewer Departments
6. Consider Further Consolidating Like-Functions
7. Codify Town By-Laws

This report, not unexpectedly, mirrors our prior review of the Hadley sewer department, which was released in February 2007. As such, it will be apparent that DLS has made similar, and in some cases identical, findings, conclusions and recommendations. The report focuses primarily on helping the highway and water departments employ institutional changes designed to enhance the delivery of services.

HIGHWAY AND WATER DEPARTMENTS

In the Town of Hadley, highway and water operations are combined and managed by a single superintendent, who has been with the town for 33 years (22 years as department head). Most staff are assigned to the highway department, with several employees dedicating a portion of their time to water department operations. Funding for these positions is drawn proportionally from general fund for highway purposes and water enterprise fund for water purposes. The combined full-time staff compliment consists of a highway foreman, a water resources coordinator, a secretary, a mechanic, an assistant mechanic, a facilities maintenance employee, and five driver/laborers. There is also a temporary driver/laborer. The departments fall under the authority of the board of selectmen, who also act as the town's water commissioners.

Highway Department - The town's highway foreman reports to the highway/water superintendent. In addition to assisting the superintendent, he also supervises the daily activities of employees in the highway department. The department's general fund operating budget is \$553,305 in FY2007. There are 84.5 public road miles in Hadley, approximately 67 miles of which are maintained by the town. The highway department is also responsible for the maintenance of all town buildings. Operations are primarily run out of a small complex on South Middle Street where facilities consist of three building structures and two office trailers.

In June 2006, the Pioneer Valley Planning Commission published a pavement management report evaluating the integrity of the town's roadways. The Commission's report stated that the condition of roads was relatively good according to its pavement condition index (PCI) analysis. The system-wide evaluation also divided all town roads into 142 individual segments, which can be utilized by management as well as the selectmen, finance committee, and capital planning committee and other town officials when considering future infrastructure needs.

Water Department - Hadley approved an enterprise fund budget of \$621,133 in FY2007 to provide public water service to about 75 percent of the town. The water resources coordinator reports to the highway/water superintendent and oversees all activities related to the water service. Drawing upon usage data and expense trends from prior years, he develops a comprehensive cost analysis in advance of recommending rates for the ensuing fiscal year.

Acting as the water commissioners, the selectmen have adopted a tiered user rate schedule, which is intended to fairly distribute costs based on levels and type of usage. In other words, low-end users are charged a lower rate because they use less of the resource whereas higher-end users pay at a higher rate because their demand is greater on the system.

The water department has been replacing older and/or problematic meters and installing radio-read units as funding and staff time are available. These newer installations, mostly in the commercial structures and some in residences, are designed to emit a radio frequency that enable the town to collect readings wirelessly, which could then be transmitted to the collector's office electronically.

Conclusion – Overall the two departments function well under a single manager. Basic services are delivered in a professional and effective manner. As a result of our analysis, our recommendations focus on improving facilities, enhancing organizational structure, and elevating the level of financial planning and reporting.

RECOMMENDATION 1: CONSIDER A SINGLE MAINTENANCE FACILITY FOR THE HIGHWAY AND SEWER DEPARTMENTS

We recommend that the town evaluate the benefits of a single facility to meet the needs of the highway and sewer departments. In addition to the needs of the highway department, the sewer department has no facility to house and protect their tanker and two trucks. Initial discussions have begun on a separate sewer garage, but it is our understanding that the capital planning committee has shown interest in addressing the facilities needs of the two departments through a single project. We agree that they should.

On our site visit to the aged highway garage, there were 11 vehicles in a space built for a much smaller fleet. Vehicles are parked at odd angles and, while management has been effective in protecting them from the elements, many cannot exit the garage without moving other vehicles. Additional machinery is housed in a nearby shed, including the recently purchased bi-directional tractor. There is also a gas island and a salt dome on the premises. With respect to office space, highway management currently uses a trailer that is adjacent to the highway garage. There are three computer work stations, however none are connected via network to the town hall. The sewer department has no facility to house and protect their tanker and two trucks. The water department typically uses vehicles and equipment housed at the highway garage.

The economies of scale inherent in a single building approach are obvious both in terms of construction and on-going expenses. The notion of two separate buildings suggests that there will be duplicate expenses for every rudimentary element required for such facilities (e.g. labor, construction materials, HVAC systems, etc.). Once operational, two buildings would generate two heating bills, two electric bills, two maintenance schedules, etc. For a community looking to address needs and reduce costs through efficiencies, exploring how a single facility might be constructed makes sense.

RECOMMENDATION 2: ADOPT FORMAL WATER RESERVE POLICY & REBUILD FUND BALANCE

We recommend that Hadley adopt a formal policy for use of retained earnings in the water enterprise fund. The combination of competing spending priorities and an aversion to higher service rates make building reserves a challenging task. Often depending on the fiscal circumstances facing the town, it can also be difficult to preserve existing reserve balances. However, communities in Massachusetts have been able to build and maintain reserves through fiscal restraint, conservative

revenue estimates, and current year cost containment. Having a formal reserve policy in place helps communities overcome unexpected challenges moving forward.

While both the town administrator and the water resources coordinator have indicated their intention to build reserves, nowhere is that goal stated or rationalized in a formal written policy. Furthermore, beyond the need to spend money during emergencies, it is unclear for what other purposes Hadley would intend to use reserve funds. These issues should be debated, decided and articulated in a written policy statement endorsed by majority vote of the board of selectmen.

We further concur with the town administrator's recommendation that water fund retained earnings be rebuilt. According to water enterprise fund statistics reported to DLS, Hadley's fund balance at the close of FY2006 was 33.1% of water fund revenue. The balance is low in comparison with water funds of similar size, which average 75.3%. The water fund's depleted reserve position is primarily attributable to expenses incurred to address unanticipated events in 2001 (leak mitigation) and 2004 (perchlorate contamination). The town also used reserve funds to both study and design the new water treatment plant. While each circumstance represents an example of the appropriate use of reserves (i.e. one-time sources for one-time uses), the current slim reserve level could make it difficult to respond to future unforeseen events or emergencies. As such, Hadley has made building reserves a management priority by conservatively projecting water fund revenue. Therefore, we expect to see improvement over the next several fiscal years. Options for addressing water fund reserves are identical to those previously presented by DLS for the sewer fund reserves:

1. *Build up retained earnings.* Based on conservative revenue estimating practices and turnbacks of unexpended appropriations, the retained earnings of the enterprise fund could be built up. This revenue source could be used to fund unanticipated costs, one-time expenditures, and/or to make up any shortfalls in the projected revenue estimates. Reserves, or any non-recurring revenue source (e.g., connection fees), should not be used to regularly fund operating expenses unless provisions are made to replenish the reserves. A reserve is intended to allow a community the flexibility to review and correct its problems over the long run.
2. *Establish a finance committee water enterprise reserve fund.* Appropriations to this reserve fund should be made annually as a part of the budget process. This reserve should be used to fund unanticipated costs only. Following the same guidelines for the general fund reserve fund (M.G.L. c. 40, §6), the enterprise reserve fund would be transferred by finance committee action rather than having to wait for the next scheduled town meeting. At the close of the fiscal year, any remaining balance in this reserve fund would close to the enterprise fund balance, which will translate into retained earnings and could be used to address long-term capital needs of the community.

3. *Establish a special water enterprise stabilization fund (M.G.L. c. 40, §5B).* Once established, certified water enterprise fund retained earnings and/or amounts raised in the annual budget process for this purpose may be transferred into the water stabilization funds by a two-thirds vote of town meeting. This will enable the community to build up this savings to fund/help offset equipment replacements, new acquisitions, and/or capital improvements. It should be noted that, while the purpose of a special stabilization fund may be changed by town meeting, it is DOR's legal opinion that because the source of the funding is restricted that water fund contributions would continue to be restricted to water department uses, which would not apply to general fund revenues appropriated to this fund. Though Hadley may choose the option of establishing a special stabilization fund for water, it is probably unnecessary if the balance in retained earnings is deemed to be sufficient for reserve purposes.

RECOMMENDATION 3: DEVELOP MULTI-YEAR REVENUE AND EXPENDITURE FORECASTING

As in our earlier report on the sewer operation, we again recommend that the town develop multi-year revenue and expenditure forecasts for both the general and enterprise funds. Currently the water resources coordinator conducts an annual costing analysis for water operations as part of the budget process. However, there is no multi-year budget forecast. Furthermore, though our review focuses primarily on the highway and water departments, the entire budget process would benefit from such forecasting practices.

Financial forecasting is important because it will show future revenue projections and provide guidance for town spending. Analysis of the ongoing relationship between Hadley's revenue and expenditure trends will help decision-makers plan the financial future of the town in an informed and thoughtful way. Forecasting also allows the town to quantify the long-range fiscal impact of proposed policies and initiatives before final action is taken on them.

To assist in developing multi-year budget forecasts, we direct the town administrator to the Department of Revenue's new Revenue and Expenditure Forecasting Tool on the Technical Assistance website (www.mass.gov/dls). It contains detailed information and pre-set calculation tables that can help communities customize revenue and expenditure assumptions to produce multi-year financial projections. It is a powerful tool that is easy to use and comes complete with an online user's guide.

RECOMMENDATION 4: PRO-RATE INDIRECT CHARGES & SETTLE ACTUAL COSTS AT YEAR-END

As in our earlier report on the sewer operation, we again recommend that the town accountant charge the water enterprise fund for indirect costs on a pro-rated basis during the year and settle any budget-to-actual variance at year-end rather than assessing the lump-sum amount at mid-year. This will distribute these charges proportionately over the year (e.g., quarterly or monthly) and better reflect

the year-to-date expenditures for the water department. Any excess/shortfall in the budgeted charges would be applied/reversed during the year-end closing process.

RECOMMENDATION 5: CONSOLIDATE HIGHWAY, WATER & SEWER DEPARTMENTS

As in our earlier sewer enterprise report, we again recommend that the town consolidate the highway, water and sewer departments into a unified department of public works. The prospects for greater accountability in government as well as the potential for increased efficiency, can be improved when departments performing similar duties are subject to uniform policies and management practices. In Hadley, a consolidated policy direction for public works is particularly relevant at present since the town is considering the construction of multiple facilities to house highway and sewer department operations. If the departments were merged into a DPW, the discussions would, without question, focus on a unified approach to facility development. Furthermore, because the water, sewer and highway operations already share resources to some degree, the town could find efficiencies in the assignment of personnel, the use of equipment, and in expenditures if a single DPW were to oversee the duties of all the functional areas.

Implicit in this consolidation is that the sewer commission would discontinue its function, and that the board of selectmen either act as or appoint a DPW Board. Although not required by statute, the town would further benefit if the department head were a registered engineer.

Making such a change will require either a special act of the legislature or adoption of a home rule charter. If the consolidation is to be accomplished through a special act, town meeting must vote to authorize the selectmen to file a petition with the general court. Should the town decide to investigate the adoption of a charter, DLS provides substantial information about charters on its website (www.mass.gov/dls).

RECOMMENDATION 6: CONSIDER FURTHER CONSOLIDATING LIKE-FUNCTIONS

We recommend that the town consider what efficiencies could be gained by consolidating other activities normally associated with a public works department. In the same way that a divergent management structure can lead to inefficiency, so too can duplicative operations. Whether by tradition or expediency, town departments often find themselves performing public works-type duties as part of their operations. Such redundant activities come about in spite of the fact that such functions typically fall outside the primary focus of the department. Furthermore, when two or more departments perform the same duties, inefficiency often results.

In Hadley, activities that might typically be identified as public works-like functions are performed by the school department, cemetery commission and municipal solid waste.

Building & Grounds (School Department) - School departments specialize in education while management of facilities and campuses is incidental to their core mission. Simultaneously, various

town departments also have facility needs which, unlike the schools, are serviced by an employee in the highway department and coordinated by the highway/water superintendent and town administrator. Therefore, combining overlapping activities, equipment and workers between the town and school is conceptually intuitive. Public works departments by nature are familiar with various maintenance processes whether they be procurement related or simply managing a maintenance workload. Consolidating operations in this area may save on costs between the town and schools while shifting the maintenance function in the direction of a more appropriate institutional unit.

Cemetery Care - The cemetery commission is a working board whose members care for cemetery grounds on a volunteer basis. However, this may not always be the case. Anticipating a time when citizens no longer choose to volunteer their time in this way, the town should consider incorporating cemetery care into a department of public works.

Transfer Station - Hadley's solid waste transfer station is operated through a contract with a private company (Solid Waste Solutions). While this arrangement may have benefited Hadley in the past, some communities in Massachusetts have found success maintaining their own transfer stations in-house by generating off-setting revenue. The responsibility would typically fall under the DPW.

The list above is not intended to be all inclusive. Nor is it the intent of DLS to recommend immediate action in the stated areas. Our intention is merely to encourage the town to begin considering ways to enhance accountability, improve efficiency in the allocation of resources and, possibly, save money. Further examination by town officials may reveal additional opportunities not listed. As the next logical step, the board of selectmen should work with other appropriate board/committee members and department heads to appoint a taskforce that will examine potential areas for consolidation.

RECOMMENDATION 7: CODIFY TOWN BY-LAWS

We recommend that the town clerk propose, and the town support, a plan to codify the town by-laws. Currently, town meeting and other records are maintained in a hard copy form in a file cabinet at the town clerk's office. While our review focused primarily on the operations of public works, we found it difficult to navigate the records of town meeting actions. Because conforming to town meeting's wishes is essential under Hadley's form of government and institutional knowledge relies primarily on staff longevity, codification of records is an important part of ensuring the continuity of compliance with town meeting votes.

ACKNOWLEDGEMENTS

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