



Town of Hardwick

Review of the Sewer Enterprise Fund

Division of Local Services / Technical Assistance Section

July 2014



July 17, 2014

Board of Selectmen
Town of Hardwick
PO Box 575
Gilbertville, MA 01031

Dear Board Members:

It is with pleasure that I transmit to you the enclosed Review of the Sewer Enterprise Fund completed by the Division of Local Services for the Town of Hardwick. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

As a routine practice, we will post the completed report on the DLS website, www.mass.gov/dls, and forward a copy of the report to the town's state senator and representative.

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".

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Ms. Sherry Patch, Town Administrator
Senator Stephen M. Brewer
Representative Anne M. Gobi

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Introduction

The Hardwick Board of Selectmen requested that the Department of Revenue's Division of Local Services (DLS) complete a review of the town's sewer enterprise fund. The selectmen initiated the request to ensure the development and implementation of best financial management practices with regards to the administration of the enterprise fund.

In completing this review, we interviewed and received information from the selectmen, town administrator, town accountant, treasurer, town collector, former treasurer & collector, assessor, sewer superintendent, former sewer superintendent, and private auditor. We examined documents such as town meeting warrants and minutes, budget information, bylaws, and audit reports. We also reviewed sewer-related financial, rate setting, commitment/collection and capital asset materials.

In the report that follows, we provide an overview of the department, identifying various issues impacting operations and offer a series of recommendations. Our recommendations are designed to improve overall management of the enterprise fund and provide guidance to the town when formulating overall strategies going forward.

Overview

Once a mill town, Hardwick is a residential and rural community that is divided into four villages, Gilbertville, Hardwick Center, Old Furnace and Wheelwright. The community is over 38.6 square miles and has a population of 2,995 persons (2012 Census Bureau estimate). The town's 2012 equalized property value (EQV) per capita is \$82,256, which is more than half of the 2012 EQV per capita for all Massachusetts communities of \$146,805. Based on the most recent data available, Hardwick's 2011 DOR Income Per Capita is \$13,903, which is well below the \$35,206 average for all communities.

Hardwick has a sewer department that operates two separate service areas, one is in Gilbertville and the other in Wheelwright. The department was organized in 1949 when the town purchased existing sewer lines (along with the Hardwick Center fire protection water supply system) from the Hardwick Water Company (Chapter 478 of the Acts of 1949). According to officials, when Hardwick acquired the system, the Gilbertville service pipes flowed directly into the Ware River while the Wheelwright lines flowed into filter beds. These systems were in place until the 1970s when Hardwick was placed under a federal consent decree to correct these environmental hazards.

The Gilbertville water pollution control facility and pumping station were built by 1974. The town installed mains to connect these new structures to the existing sewer lines. The Gilbertville service area has nearly five miles of pipe. The older lines, some dating back to the early 1900s, are predominantly vitrified clay (VC) and newer lines are polyvinyl chloride (PVC) pipe. The Wheelwright water pollution control facility and ejector station were constructed by 1978. About 1.7 miles of acrylonitrile butadiene styrene (ABS) truss pipe were installed and the original sewer lines were retained for stormwater only. Both construction projects were funded with 90 percent grants (75 percent federal funding and 15 percent state aid), leaving ten percent to be financed by the town through debt.

A three member elected board of sewer commissioners oversees the sewer department. In total, the sewer department serves about 300 users near the Gilbertville and Wheelwright village centers and includes roughly 20 percent of the parcels in town. The sewer department has two staff, the superintendent and his assistant. The superintendent oversees the daily operations (e.g., wastewater treatment facilities, the collection system, and laboratory testing), directs his assistant, and reports to the elected board. The sewer commissioners meet at least monthly at which time they examine the superintendent's status report, receive project updates, consider abatement requests, review the budget reports and approve department spending. On behalf of the commissioners, the town administrator manages the US Department of Agriculture (USDA) Rural Development grants, prepares the annual commitment authorized by the commissioners for the town collector, and performs clerical duties.

Since FY2005, the town has accounted for the sewer service in an enterprise fund (G.L. c. 41, §53F½). It gives a community the flexibility to account separately for all financial activities

associated with a particular service. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities, enabling the enterprise to retain its operating surplus and its investment income. An enterprise fund does not grant additional powers to the department, as the service is still subject to ordinary municipal finance procedures.

Annually, town meeting appropriates the sewer enterprise budget that is funded with sewer-related revenues. The sewer budget includes department salaries, general operating expenses and supplies, capital outlay and debt service. In addition, there are indirect costs attributable to the sewer enterprise fund that are appropriated in the general fund and reimbursed by the sewer enterprise fund, which include retirement, health and life insurance, Medicare, general liability insurance, a portion of the accountant's, treasurer's, and collector's salaries, and an expense line-item for the treasurer.

The sewer budget is supported predominantly by user charges, which are annually reviewed and adjusted after considering other revenue sources. These include leachate receipts from private landfills, connection fees and investment income, all of which fluctuate annually. As seen in the table below, the sewer enterprise fund budget is self-supporting with its own revenues and is not subsidized by the general fund.

	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>
User Charges	119,327	135,000	137,800	195,000	223,251	233,515	246,372	264,575	280,294	352,800	391,583
Other revenues	77,289	146,974	122,502	233,694	136,175	79,547	148,979	49,707	71,223	58,362	64,648
Retained Earnings	0	0	62,149	212,245	0	82,000	71,625	65,000	85,200	83,441	0
Estimated Revenues	196,616	281,974	322,451	640,939	359,426	395,062	466,976	379,282	436,717	494,603	456,231
Salary & Wages	85,280	96,174	102,262	108,606	108,597	105,887	133,340	116,205	119,896	136,728	130,002
Expenses	111,336	139,347	188,040	152,333	190,830	204,994	259,283	213,924	247,109	253,589	253,567
Capital Outlay	0	46,453	0	380,000	60,000	0	0	0	0	45,924	0
Indirect costs*	0	0	0	0	0	52,181	52,728	49,153	29,712	58,362	72,662
Prior year costs	0	0	32,149	0	0	32,000	21,625	0	40,000	0	0
Budget	196,616	281,974	322,451	640,939	359,426	395,062	466,976	379,282	436,717	494,603	456,231
General Fund Subsidy	0	0	0	0	0	0	0	0	0	0	0

* Prior to FY15, stipends for the accountant, collector and treasurer were budgeted in the sewer department's salary and wages. At DOR's suggestion, these amounts were added back the appropriate department's general fund budget so that indirect cost allocations may be done uniformly going forward.

Source: Massachusetts Department of Revenue, Division of Local Services, Tax Recapitulation Sheet Schedule A-2 (Enterprise Funds) and town meeting votes

While the sewer commissioners have tried to stem the growth of the sewer budget through austere operating budgets, the use of retained earnings, and by deferring maintenance, costs have continued to increase. The recently adopted FY2015 sewer enterprise operating budget is \$456,231. This is more than double the FY2005 budget of \$196,616 just ten years ago. More importantly, the sewer user fee, which provides the greatest recurring financial support for the enterprise, also has grown

substantially. The FY2015 sewer user fee is projected to be \$698.01, which is more than three times the amount set in FY2005 as shown in the table below.

	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015*</u>
Fee/EDU	199.24	242.62	245.05	369.16	531.13	475.00	475.00	475.00	527.91	630.00	698.01
Increase \$		43.38	2.43	124.11	161.97	(56.13)	-	-	52.91	102.09	68.01
Increase %		21.8%	1.0%	50.6%	43.9%	-10.6%	0.0%	0.0%	11.1%	19.3%	10.8%
* Preliminary rate											
Source: Hardwick sewer budget documents											

In Hardwick, the sewer rate is calculated by taking the gross sewer budget (direct and indirect costs) and reducing it by retained earnings appropriated and other estimated departmental receipts (e.g., investment income, connection fees, and leachate revenue). The net budget is then divided by the total equivalent dwelling units (EDUs) connected to the town's sewer system, resulting in a flat user fee per EDU. Each residential property (e.g., single family home, condominium unit, and apartment) is one EDU. For non-residential property, a parcel with metered Hardwick water is assigned an EDU figure based on the quarterly water usage while a parcel without a town water meter is assessed one EDU for every ten employees rounded up to the next whole number. While this approach is easy to administer and based on the best available information, it is not perceived as fair. The rate is not based on usage and each household pays the same flat rate regardless of the number of individuals residing there. In addition, with the rising sewer rate, users, especially those with small households or limited incomes, are finding it increasingly difficult to afford their sewer fees.

The largest sewer user fee increase occurred in FY2008. The selectmen, who served as the sewer commissioners, set the sewer user rate at \$369.16, which was an increase of more than 50 percent from the previous rate of \$245.05. The increase was necessary to accommodate expanding operating costs and to fund capital improvements, which included a broken pipe that was dumping raw sewage into the Ware River. Some residents tied into the town's sewer service thought this increase was excessive. As a result, residents voted at the spring 2008 annual town meeting to rescind a 1968 vote to have the selectmen serve as the commissioners and established the separately elected Gilbertville-Wheelwright Sewer Commission. The new board was elected in the spring of 2009.

Overall, the sewer enterprise is best characterized as a nearly breakeven operation. As seen in the tables on the next page, Hardwick has not always reached its revenue estimates and, when it does, it is not by a sizable margin.

Results of Revenue Budget User Fees Only			
	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>
FY2008	\$195,000	\$173,949	(\$21,051)
FY2009	\$223,251	\$233,516	\$10,265
FY2010	\$233,515	\$238,742	\$5,227
FY2011	\$246,372	\$246,956	\$584
FY2012	\$264,575	\$262,938	(\$1,637)
FY2013	\$280,294	\$283,393	\$3,099
FY2014	\$352,800	n/a	

Source: Massachusetts Department of Revenue, Division of Local Services, Databank Reports.

Results of Revenue Budget All Revenues Except Retained			
	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>
FY2008	\$428,694	\$310,158	(\$118,535)
FY2009	\$359,426	\$359,044	(\$382)
FY2010	\$313,062	\$364,956	\$51,893
FY2011	\$333,351	\$310,218	(\$23,133)
FY2012	\$314,282	\$334,257	\$19,975
FY2013	\$351,517	\$351,616	\$99
FY2014	\$411,162	n/a	

Source: Massachusetts Department of Revenue, Division of Local Services, Databank Reports.

The town bills users annually in the fall and payments are due semiannually on November 1st and May 1st. Historically, the collector uses a series of Excel spreadsheets for each fiscal year to manage sewer billing and collections. When the town administrator prepares the commitment spreadsheet, she produces the annual mailing by using the mail merge function, pulling the data from the spreadsheet into a Word billing template. When a payment is made to the collector, she posts the payment and date in the appropriate fiscal year spreadsheet. Generally, the collector keeps duplicate spreadsheets so she can monitor outstanding accounts, add late interest charges to unpaid balances, send out demand bills, and produce the amounts to be liened on the real estate tax bill by parcel. As seen in the table below, the sewer outstanding receivable balances have grown.

Outstanding Sewer Receivable Balances						
	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/13</u>
Outstanding Receivables	\$47,530	\$91,957	\$115,025	\$129,074	\$140,654	\$154,610

Source: Massachusetts Department of Revenue, Division of Local Services, Databank Reports and Audit Financial Statements

Because managing the sewer billing and collection system in Excel was time consuming and potentially problematic, the town appropriated stabilization funds to acquire a new software program to handle sewer as well as real estate, personal property and motor vehicle excise billing and collections. Recently, the town entered into a contract with Patriot Properties Inc. to purchase and install the CollectPro billing and collection system, converting the existing records, and providing training and user support. The collector will begin using the new system during FY2015.

Generally, the town uses sewer retained earnings, similar to the free cash certified by the Director of Accounts, for capital and non-recurring expenditures. However, Hardwick also has used this non-recurring revenue source to support the operating budget, which is not a best business practice.

Retained earnings are net assets that are the year-end operating surplus. When retained earnings are used, they cannot be replaced unless there is an operating surplus at year's end. With a breakeven approach to budgeting the sewer operation and growing outstanding receivable balances, the likelihood of generating a surplus diminishes. As seen in the table below, Hardwick's sewer retained earnings have declined over the last few years. Without retained earnings, the community would experience difficulty investing in the capital needs of the operation and responding to emergencies or unanticipated expenditures. More importantly, the continuation of this trend places the town at risk of having an enterprise fund retained earnings deficit, which must be reported and funded in the subsequent fiscal year's tax rate.

Certification, Uses and Unappropriated Balances of Sewer Retained Earnings

	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13
	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
Retained Earnings (RE) Certified	\$137,217	\$199,428	\$140,949	\$71,623	\$36,475
Used for the current year	\$21,625		\$40,000	\$10,200	\$28,963
Used for the subsequent year	\$50,000	\$65,000	\$35,000	\$54,478	
Balance of Unappropriated RE	\$65,592	\$134,428	\$65,949	\$6,945	\$7,512

Source: Massachusetts Department of Revenue, Division of Local Services, Databank Reports

As a result of the limited sewer resources and tight budgets, there has been little sewer capital improvement planning. Generally, new construction, system enhancements and infrastructure replacements have been addressed when a problem arises or grant funding becomes available. The town upgraded the Wheelwright plant in 2009 because a large tank used to process the wastewater was at risk of falling apart due to corrosion. Soon after in 2012, Hardwick upgraded the failing Gilbertville pump station. Hardwick has some inflow and infiltration (I&I) problems due to clean groundwater and rain entering the sanitary system that adds stress to the treatment facilities and increases operating costs. It is a significant problem in the Gilbertville plant due to the older clay pipes and a lesser issue for the Wheelwright facility. To help address the problem, Hardwick has secured community development block grant (CDBG) funding that has enabled the town to replace roughly 15 percent of the older clay pipe. Unfortunately, the use of these funds is restricted to the Gilbertville village.

Currently, Hardwick is moving forward with two construction projects. The first is an estimated \$5.8 million proposal to upgrade the Gilbertville wastewater treatment facility. The upgrades are critical to address inoperable, failing and/or out-of-date systems, comply with the Massachusetts Department of Environmental Protection requirements, and meet future National Pollutant Discharge Elimination System (NPDES) permitting requirements. Fortunately, USDA Rural Development offered Hardwick grants for 30 percent of the full project cost (divided into two phases) or about \$1,743,000 based on the initially designed proposal, which would reduce the amount of debt the town will pay back over 40 years.

The second project is a three-mile extension of the Gilbertville service up Route 32A to the Eagle Hill School, a college preparatory boarding school. By special act, Hardwick is authorized to enter into a contract with Eagle Hill whereby the school would pay an estimated \$4 million to have an extension built that complies with state construction and bidding laws (Chapter 161 of the Acts of 2014). Eagle Hill would finance the whole project, but would be entitled to a credit against its future user fees to recoup a portion of the costs incurred over the negotiated figure of \$2 million. As an added benefit to the town, the contract requires that connection stubs be installed for the 45 abutting properties (five of which are town-owned structures) so they may elect to tie into the sewer service, thereby increasing the sewer user base. With access to sewer service, the town could reduce development restrictions that could lead to potential new growth on the abutting properties.

Hardwick officials are concerned about the sewer enterprise fund. The sewer operation is a critical service for the Gilbertville and Wheelwright village centers. It is essential that this utility have the resources to run and maintain existing plant and equipment, to invest in capital needs, and to address unforeseen costs. To a degree, there are expectations that the service is self-supporting. However, given local demographics and the limited number of users tied into the service, there is equal concern whether the average user can afford increasing annual fees. As a result of these combined factors, the selectmen requested a review of the sewer enterprise fund, which will provide guidance so that best business practices are developed and implemented going forward.

Recommendations

1. Consider Alternate Sewer Rate Structure

We recommend that the town consider pursuing an alternate sewer rate structure. The current sewer user fee is inequitable because it is a flat amount for each EDU and is not based on usage. For those with limited incomes, it has been difficult to pay timely, resulting in increasing outstanding receivable balances at year's end.

One option for the town would be to approach the water districts in town for usage data. While only a small number of properties on the sewer service have Hardwick town water service, the vast majority of the other sewer users receive metered water service from the Gilbertville Water District or the Wheelwright Water District. With access to metered water usage by parcel, sewer charges could be based on the water consumption. The town would then be able to formulate a tier/step rate structure in which greater equity would result. Low-consumption water users who discharge less into the sewer system would be charged a lower rate, and higher-consumption water users, who release more, placing greater demands on the service, would pay a higher rate. We encourage the town officials to meet with the districts' representatives and work towards an agreement to obtain water meter readings going forward.

The town also could consider installing magnetic flow meters for larger residential, commercial and industrial properties. Installing magnetic flow meters would enable the town to measure the flow from a property into the sewer system. The town plans on having a flow meter installed at the Eagle Hill School, so the amount of discharge is measured and user fees can be assessed accordingly. Installing a flow meter in apartment buildings and non-residential properties would provide measurable discharge data for developing user rates. The disadvantage would be the cost of installing the devices, getting access to structures, and being able to periodically inspect to make sure each is functioning properly.

2. Develop an Indirect Cost Allocation Policy

We recommend that the town develop an indirect cost allocation policy and review it annually during the budget process. The absence of a policy also was raised in the town's FY2012 management letter by the private auditor.

The sewer budget is comprised of direct and indirect costs. While direct costs are specifically associated and identified to a particular service, indirect costs are incurred for a common or joint purpose, benefiting more than one department or service and generally cannot be readily assigned to a particular activity. Direct costs include sewer employees' compensation and recurring department expenses. They also may include identifiable costs paid by the town for debt service, employee benefits, and property liability insurance. The enterprise, or department, also is responsible for indirect costs. As a general rule, indirect costs are appropriated outside of a service's budget and are

reimbursed to the general fund to account for the time other town employees devote to enterprise activities. Most towns base the indirect amounts on a pre-determined percentage or portion of the treasurer's, collector's, and accountant's salaries, among others, as well as their benefits and office expenses.

An indirect cost allocation policy should be a written statement that municipal officials understand and agree on. It should identify shared administrative and other expenditures appropriated as a part of the general fund operating budget that support the enterprise service. It also should provide the method(s) by which indirect costs are calculated and establish the extent to which the indirect costs are charged to the service. The intent is that these indirect costs should be assessed fairly and consistently.

There are various ways indirect costs are calculated.

- Actual cost – Often, specific schedules provide documentation of indirect costs attributable to a service or program. Generally, these include debt service, and life, health and property insurances.
- Transaction-based – This is calculated based on the number transactions attributed to a service as a percentage of the whole. An example would be the number of bills issued by the collector for sewer service as a percentage of the total bills issued. In Hardwick, this is about 8.7 percent¹ in FY2014. This percentage would be applied against the collector's total budget as well as the health and life insurance, Medicare, retirement and worker's compensation attributable to her department.
- Estimate of support – A department may be able to provide a reasonable estimate of the time spent, on average, to support a particular service. For example, the town administrator estimates that she spends about four hours of her time, or 10 percent, on sewer-related activities (e.g., board meetings, sewer commitment/billing, administration of USDA grants and clerical tasks). Any office expenses related to sewer activities are charged directly to the sewer budget.
- Proportional – This is a simple calculation of the sewer department's direct budget (net of debt) as a percentage of the gross general fund (net of debt) and enterprise fund (net of debt) budgets. This percentage would be applied against a town department's budget, including employees' benefits, that provides support to the sewer department.

Once the indirect costs are calculated, local officials would then determine the amount or level to be charged to the enterprise fund. In the past, the sewer was charged 100 percent of the indirect costs.

¹ Based on FY2014 data, there are 302 accounts that are paid semiannually or 604 sewer bills annually. In addition to the sewer bills, there are 1,493 property accounts paid semiannually or 2,986, 3,310 excise accounts paid annually, and 25 water accounts paid annually, resulting in 6,925 total bills.

However, given the increase in the sewer user flat rate and the limited user base, the town could choose to charge a smaller percentage of the indirect costs, thereby subsidizing the sewer enterprise fund with general fund revenues.

Whatever method(s) officials decide to use to calculate indirect costs and the portion charged to the enterprise fund are local policy decisions that should be documented. Again, the goal is to reasonably allocate indirect costs to the sewer service in a manner that is easy to repeat from year-to-year.

3. Preform Inter-fund Transfers Monthly

We recommend that inter-fund transfers for indirect costs be done monthly. At DOR's suggestion, town meeting appropriated the full accountant's, collector's, and treasurer's salary amounts in their respective general fund budgets. This will enable the cost allocation methodology outlined above to be uniformly applied to each going forward. As services are provided by other departments, these indirect expenses would be determined and then reimbursed to the general fund through inter-fund transfers from the sewer enterprise fund. Ideally, inter-fund transfers should be done monthly so the enterprise fund expenses are tracked and its financial position is accurately reflected.

4. Provide for Abated Amounts

We recommend that the town budget for abatements. The sewer budget is based on a 100 percent collection for the current year. When an abatement is granted by the commissioners based on a documented property vacancy, the user's account is credited. In the last two fiscal years, the town has granted between \$6,600 and \$6,900 in abatements, or 2.25-2.5 percent of estimated user charges. Unfortunately, this results in an unbalanced operating budget. To avoid a potential revenue shortfall or spending in excess of available revenues that would impact the sewer enterprise fund balance and eventual certified retained earnings, the town should base its budget on less than 100 percent of the committed amount.

5. Establish Sewer Reserves and Policy

We recommend that Hardwick establish a sewer reserve policy. A formal written policy that establishes guidelines for funding and maintaining reserve(s) would help the community sustain operations during difficult economic periods. Reserves would be used to finance unforeseen or emergency needs, to hold money for specific future purposes, to help offset long-term borrowing costs of major projects, and, in limited instances, to serve as a revenue source for the annual budget.

As options, the town can create any or all of the following:

- 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 appropriated to fund unanticipated costs, one-time expenditures, and/or to make up any shortfalls in the sewer's 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.

- Establish a finance committee sewer enterprise reserve account. Appropriations to this reserve account 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 (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 account would close to the enterprise fund balance.
- Establish a special sewer enterprise stabilization fund (G.L. c. 40, §5B). Once established, amounts raised in the annual budget process for this purpose may be transferred into the sewer stabilization fund 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 capital improvements. Two things should be noted. First, any special stabilization fund is maintained with the town's trust funds along with the other stabilization fund(s) and not in the enterprise fund. And second, while the purpose of a special stabilization fund may be changed by town meeting, it is DOR's legal opinion that when money transferred to the special sewer stabilization fund originates from the enterprise fund, it is restricted to sewer-related purposes. The restriction would not apply to general fund revenues appropriated to this fund.

6. Develop a Multi-year Capital Replacement Plan

We recommend that the town develop a comprehensive, multi-year capital replacement plan and an annual capital budget for all departments. A capital planning committee (CPC) has been established by bylaw. The CPC reviewed the capital needs, prepared a report of items for consideration, and suggested methods for financing them in the spring of 2013, but town meeting did not approve them. The CPC should revisit the needs of all departments, including sewer, prioritize them, and prepare a multi-year plan for presentation at town meeting that provides proposed method of payment (e.g., current revenue, retained earnings, debt, or debt excluded from the limits of Proposition 2½) for each project. Regardless of funding ability, annual presentation of a capital budget to town meeting has merit. It serves to inform citizens of the essential capital needs that may be deferred due to financial constraints. For more information on the capital planning process, we direct you to the [Developing a Capital Improvement Program](#) workbook on our website.

For its part, the sewer department has an inventory of fixed assets, including information on the age, condition, and an estimated replacement cost. It also has recommended timeframes for replacing all the equipment within its two plants, pump station and ejector station. When the Gilbertville plant is

upgraded, a number of items currently on the list in need of replacement would be addressed and the inventory data would be revised. As for the pipes, the Wheelwright lines are newer and some of the Gilbertville mains have been replaced as grant funding has been available. Hardwick will have to remap its infrastructure, a condition of the NPDES permit requirements from 2012, which would provide current data on the extent of any problem areas and what should be prioritized.

7. Prepare and Present Monthly Enterprise Revenue Reports

We recommend that the accountant prepare and present monthly sewer enterprise revenue reports. The accountant provides monthly expenditure reports only. The availability of monthly revenue reports would provide useful management information for the sewer commissioners. These reports provide essential data to monitor the financial performance of the enterprise fund, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to make necessary mid-course budget adjustments.

8. Re-establish the Selectmen to Serve as the Sewer Commissioners

We recommend that the town vote to have the selectmen once again serve as the sewer commissioners. Establishing the separately elected commissioners was in response to the increasing sewer user rates. In recent years, there have been vacancies on the sewer commission so each of the selectmen has run and been elected to fill the sewer board. Recognizing that the same individuals are filling both boards, the town should vote to have the selectmen once again serve as the sewer commissioners. The town would then be able to reduce the sewer budget by the amount for the commissioners' stipends, about \$2,800.

9. Consider Special Act for Property Outside of Hardwick on the Sewer Service

For any property connected to the sewer service that is located in an adjacent community, we recommend that Hardwick consider seeking a special act to be able to lien the property in the event the sewer charges are not paid timely. A property located in New Braintree is connected to the Hardwick sewer service. Currently, Hardwick has a court order for the property owner to pay, but the account remains outstanding and will be turned over to town counsel to take further action. Because this could be a repetitive problem, the town could pursue special legislation. In the special act, if there are unpaid charges and fees, then Hardwick would be allowed to impose a lien upon the parcel that would be added by the New Braintree Assessors when preparing the real estate commitment pursuant to G.L. c. 40, §58. Upon the receipt of tax payment that includes charges and fees authorized, the act also would provide for the transfer of the funds to the Town of Hardwick. The details and the mechanisms to accomplish this would be set out in an agreement between the two towns. In Chapter 484 of the Acts of 2004, Natick and Wellesley entered into a similar arrangement.

Acknowledgements

This report was prepared by the
Department of Revenue, Division of Local Services:

Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs

Frederick E. Kingsley, Bureau Chief,
Municipal Data Management and Technical Assistance Bureau

Zack Blake, Director, Technical Assistance Section

Melinda Ordway, Senior Financial Management Analyst, Technical Assistance Section

Deborah Wagner, Field Representative, Bureau of Accounts

For this review, DLS staff interviewed and/or received information from the following local officials:

Harry T. Comerford, Selectman and Sewer Commissioner
Richard V. Kmiec, Selectman and Sewer Commissioner
Kenan P. Young, Selectmen and Sewer Commissioner
Sherry Patch, Town Administrator
Richard Kusmierczak, Sewer Superintendent
Thomas Collett, former Sewer Superintendent
James Shanahan, Town Accountant
Ellen Whitney, Town Collector
Sara Hunter, Town Treasurer
Kristen Noel, former Town Collector and Treasurer
Jennifer Kolenda, Assessor
Patrice Squillante, CPA, Melanson Heath & Company, PC